Document:	EB 2021/133/R.6
Agenda:	4(c)(ii)
Date:	4 August 2021
Distribution:	Public
Original:	English

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Investing in rural people

Inclusive Rural Finance Policy

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Executive Board — 133rd Session
Rome, 13-16 September 2021

For: **Approval**

Contents

Abbreviations and acronyms

CABFIN	Improving Capacity-Building in Rural Finance
CBFO	community-based financial organization
CGAP	Consultative Group to Assist the Poor
CGIAR	Consultative Group on International Agricultural Research
FAO	Food and Agriculture Organization of the United Nations
FSP	financial service provider
IRF	inclusive rural finance
RFP	Rural Finance Policy
SAFIN	Smallholder and Agri-SME Finance and Investment Network
SDG	Sustainable Development Goal
SO	strategic objective
MSME	micro, small and medium-sized enterprise

Recommendation for approval

The Executive Board is invited to approve the Inclusive Rural Finance Policy.

I. Introduction

1. For over four decades, IFAD has made significant investments to promote inclusive rural finance (IRF) in more than 100 developing Member States, reaching an estimated 13.8 million voluntary savers and 11.95 million active savers and borrowers in 2019.[1] IFAD has also led and supported the production of a large body of IRF knowledge and evidence; contributed to several global and regional policy processes; and participated in key partnerships such as the Consultative Group to Assist the Poor (CGAP) and the Improving Capacity-Building in Rural Finance (CABFIN) project. Over the past decade, this work has been guided by the 2009 Rural Finance Policy (RFP).

2. Assessments of IFAD's IRF activities by the Independent Office of Evaluation of IFAD and Management[2] concluded that while the Fund's 2009 RFP remains relevant and continues to reinforce IFAD's corporate policies and strategies, rapidly emerging IRF innovations, lessons learned over the past decade, IFAD's evolving business model and the introduction of new IFAD strategies and policies warrant an update of the policy.

3. This document constitutes the new IFAD IRF policy, which supersedes the 2009 RFP. It applies to all IFAD operational and non-operational work supporting and promoting IRF, including IFAD investments using sovereign and non-sovereign financial instruments, knowledge, technical advice and assistance, policy and partnership activities, and efforts to crowd in IRF financing. This new policy includes three important changes from the 2009 RFP. First, it puts greater emphasis on the financial needs of beneficiaries than those of the financial sector. This is key to catalysing market-building interventions that improve the livelihoods and resilience of rural poor people. Second, it recognizes that promoting IRF requires working with a wide range of distribution channels and building stronger partnerships with conventional and emerging actors from the public and private sector, including fintechs, impact investors and public development banks. Third, it places greater emphasis on IRF as a means to: support and promote climate change adaptation and mitigation for rural poor people; and build their resilience to shocks. The IRF policy will not be implemented in isolation, but is aligned with and complements several other IFAD strategies and policies.[3] This IRF policy also includes an updated lexicon (see annex I), which captures emerging concepts in the rapidly evolving domain of IRF.

II. Setting the stage for the new inclusive rural finance policy

A. Relevance of IRF to IFAD's mandate and the Sustainable Development Goals

4. A growing body of evidence demonstrates that a diversity of credit, savings, payments, insurance and other financial services can help rural poor people as they

[1] IFAD's cumulative IRF portfolio is estimated at US$3.9 billion, while its active portfolio stands at USD 1.1 billion. See IFAD at a Glance.
[2] IFAD, Inclusive Financial Services: Portfolio Stocktaking (Rome, 2021).
[3] These include the Private Sector Engagement Strategy (2019–2024), Information and Communication Technology for Development (ICT4D) Strategy (2019); Regular Grants Policy (2021), IFAD Strategy and Action Plan on Environment and Climate Change (2019–2025); IFAD's Rural Youth Action Plan (2019–2021); Gender Mainstreaming in IFAD10; Revised Operational Guidelines on Targeting; Anti-Money Laundering and Countering the Financing of Terrorism Policy; and Policies and Criteria for IFAD Financing.

build livelihoods and confront economic, environmental and social challenges.[4] When financial services are inclusive – i.e. accessible, useful and affordable – and are embedded in clear strategies for improving livelihoods, they support rural people in investing in their households, farms and non-farm enterprises. Such investments enable them to increase their incomes, improve their families' nutrition, address economic needs and help to mitigate stresses across economic cycles and frequent unforeseen shocks.[5] This is particularly important for traditionally marginalized groups such as women and youth. In addition, financial services can reduce vulnerability and increase resilience to climate change by supporting livelihood diversification and risk management, and providing financial buffers against unforeseen events.[6]

5. Given the importance of IRF to achieve the Sustainable Development Goals (SDGs), particularly SDG 1 (No poverty) and SDG 2 (Zero hunger), IFAD has supported the efforts of governments, financial service providers (FSPs) and other stakeholders. This has contributed to expanding financial service access for rural poor people, resulting in an increase in the percentage of rural people in developing countries with bank accounts at formal financial institutions from 38 per cent in 2013 to 60 per cent in 2017.[7] However, these gains have not been accompanied by a commensurate increase in access to, and productive use of, various types of financial services for all socio-economic categories, notably among women, youth and other disadvantaged groups. Of the estimated US$240 billion in smallholder household demand for agricultural and non-agricultural financing, financial institutions supply only about US$70 billion.[8] This means that 70 per cent of the global demand for rural finance remains unmet.

6. To date, only 20 per cent of rural people in developing countries have accumulated savings at a formal financial institution, and access to insurance remains limited. Women, young people, people with disabilities and other marginalized groups and communities are particularly underserved by rural financial systems. The importance of IRF is especially pronounced as households and rural economies recover from the effects of COVID-19. This crisis underscores the continued challenges facing rural communities and the need to expand IRF in order to strengthen rural livelihoods and adaptive capacity.

7. IRF is expected to remain an important focus area for IFAD's interventions, as noted in IFAD's current Strategic Framework 2016-2025. IFAD's comparative advantages in this area include: expanding rural poor people's access to usable and affordable financial products and services; providing financing to pro-poor value chain programmes; catalysing private sector activity and innovation; and attracting financing to national and regional financial systems. The Fund's pioneering work to support inclusive environmental and climate financing targeting rural poor people and smallholder farmers will be instrumental for their livelihoods and resilience-building.

B. Rationale for a new policy

8. While the 2009 RFP remains broadly relevant, four trends have emerged, creating the need for a new IRF policy:

- **Better knowledge and evidence are available on rural poor people's needs for IRF and its impact, informing engagement in the sector.**

[4] See CGAP, Emerging Evidence on Financial Inclusion.
[5] Annex I contains an updated inclusive finance lexicon with detailed definitions of inclusive rural finance and related terms.
[6] CGAP, Emerging Evidence on Financial Inclusion.
[7] World Bank, Global Findex Database (Washington, DC: World Bank, 2017).
[8] ISF Advisors and the MasterCard Foundation Rural and Agricultural Finance Learning Lab, *Pathways to Prosperity: Rural and Agricultural Finance State of the Sector Report* (Washington, DC: ISF Advisors and the MasterCard Foundation, 2019).

Efforts over the last decade by IFAD, CGAP, the Food and Agriculture Organization of the United Nations (FAO), CGIAR and others[9] have led to a better understanding of rural poverty and inequality, and the diverse financial services that rural poor and disadvantaged groups such as women and youth need as they graduate through different stages in their lives and changing contexts. Evidence shows that rural poor people are increasingly diversifying their livelihoods across food systems and beyond. Moreover, improved data collection and analytical capacities are enhancing the understanding of IFAD's IRF target groups, their financial needs and the impact of different financial services on their livelihoods and resilience. Development institutions such as IFAD can leverage this growing body of knowledge and data to design, target and implement impactful interventions.

- **Innovation and technology have fostered the emergence of a wide range of inclusive products, services, distribution channels and business models.** These include a range of innovations from micro-insurance for crops and weather-based insurance micro-leasing to algorithmic data-based lending. Both public and private investors are also exploring capital-pooling innovations, including blended finance instruments to satisfy different investor return expectations and risk tolerance levels. Similarly, the growing impact investment sector presents an opportunity for IFAD to leverage private capital for projects targeting rural poor people and small producers.

  These new opportunities come with new challenges, including the need for client data protection, consumer protection to avoid over-indebtedness and stronger regulatory oversight and compliance mechanisms (e.g. anti-money laundering and combating the financing of terrorism). Moreover, many new services and delivery channels remain unproven or have yet to overcome the costs of the high volume/small size transactions typically made by poor rural people. Many approaches require new or updated financial sector policies, innovations or investments.[10]

- **Climate change and other shocks highlight the need to reconsider IRF delivery approaches and methodologies.** The risks associated with climate change and unexpected shocks such as COVID-19 fall disproportionately on rural poor people.[11] But these risks can be mitigated through resilience and adaptation measures. As a result, climate IRF (see annex I for definition) is growing, with substantial support from donors, international financial institutions, governments and impact investors. While there is increasing knowledge of climate IRF, there is a need to develop approaches for specific contexts, including fragile states, low-income countries, lower-middle-income countries and upper-middle-income countries – each with distinct rural populations and financial sector challenges and opportunities.

- **IFAD's evolving business model and strengthened capacity open new opportunities to promote IRF.** The emerging demand for IRF and IFAD's ambition of doubling its impact by 2030 create a unique opportunity to support the rural finance sector by leveraging IFAD's enhanced delivery capacity following its successful implementation of reforms over the past few years. These include: IFAD's strengthened financial architecture and strong credit rating; an expanded range of sovereign instruments including regional loans, results-based loans and reimbursable technical assistance; increasing decentralization; and the Private Sector Engagement Strategy 2019–2024,

[9] Ibid.
[10] Ivo Jenik, Global Financial Innovation Network: Not Global Yet (Washington, DC: CGAP, 2018).
[11] FAO, Addressing the Climate Change and Poverty Nexus: A coordinated approach in the context of the 2030 Agenda and the Paris Agreement (Rome: FAO, 2019).

which allows the Fund to both invest and catalyse investments and knowledge from private IRF financiers.

III. Lessons learned

9. The 2021 Inclusive Financial Services: Portfolio Stocktaking and the Evaluation Synthesis Report on Inclusive Financial Services for the Rural Poor provide valuable insights from the last decade of IFAD's IRF activities. Lessons from the experience of IFAD captured in these reports, and those of IFAD development partners, have informed the design of this policy:

- IFAD enjoys a strong comparative advantage in the expansion of member-owned and managed community-based financial organizations (CBFOs). While they often lack product diversity, CBFOs can offer appropriate financial services that lead to positive economic, social and development outcomes. Expanding CBFO outreach through products and services innovation has shown to be important for meeting the needs of women, youth, indigenous peoples and persons with disabilities.
- IFAD takes a broad view of IRF innovation that includes the growth of digital financial services. The Fund's approach is demand-led and incremental, with a view to building on existing systems rather than seeking disruptive innovations. Given IFAD's position as a leading international financial institution working in complex rural settings, this emphasis on incremental innovation should remain central to its work on IRF.
- The scale of unmet financial needs and unrealized business opportunities in rural areas requires a diversity of funding sources with different objectives and risk tolerance levels. This has led to the emergence of blended finance – structured financial instruments that combine low-cost, often subsidized capital with market-rate capital in order to catalyse private investment in rural sectors, including the financial sector. Effective implementation of blended finance instruments requires a nuanced understanding of stakeholder incentives and market dynamics. Blended IRF instruments should be used in a targeted manner to facilitate positive outcomes in private sector value chains, infrastructure and productivity interventions and to ensure that benefits accrue to the underserved target groups.
- The impacts of climate change fall disproportionately on smallholder farmers and other rural poor people. Well-designed climate IRF interventions can help them to increase the resilience of their production and enterprises, adapt and mitigate climate risk through investments in climate-smart assets such as drip irrigation, soil conservation, lower chemical-dependent (more "natural") value chains, agroecology and other sustainable production methods. Climate IRF interventions should go beyond the simple provision of credit to meet needs for insurance and savings.
- When properly coordinated, IRF interventions enhance the impact of non-financial interventions and vice versa. This is often the case when targeting ultra-poor populations through graduation programming and supporting smallholders through value chain interventions. The integration of IRF activities into value chain and enterprise programming is a growing trend within IFAD and in the broader rural finance sector, providing opportunities for IRF to support better outcomes for households, enterprises and the environment.
- The importance of networks and partnerships in sharing knowledge and expanding IRF has been demonstrated through IFAD's participation in partnerships such as CGAP and CABFIN. New types of partners active in blended finance, climate and the fintech sector are emerging and can be engaged to promote IRF for IFAD's target groups. Effective partnerships are

underpinned by a shared vision and a clear distribution of roles and responsibilities that capitalize on each partner's comparative advantages.

- IFAD's efforts to expand IRF through conventional financial institutions have had uneven results. The reasons for this include insufficient analysis of the financial needs of the poor, risks to rural poor lending, cost efficiency, and competing investment opportunities. More precise market analysis of the demand and risk appetite among rural poor people illustrates the market potential for commercial partners such as FSPs and rural businesses. Without their participation, designing incentives for action on both the supply and demand sides is challenging.

- Despite considerable development over the last decade, an enabling policy and regulatory, as well as financial infrastructure, environment for IRF can still create considerable constraints to the expansion of IRF in many countries. Targeting specific regulatory barriers has shown to be effective for IRF expansion, particularly if the inclusive financial and broader regulatory and financial infrastructure ecosystem are largely operating along good practice lines.

- IFAD IRF interventions have been particularly successful when managed and supervised by individuals with substantial finance and private sector experience. The Inclusive Financial Services: Portfolio Stocktaking report and the Evaluation Synthesis Report on Inclusive Financial Services for the Rural Poor found that IFAD's internal private sector resource capacity and knowledge at the corporate and country levels constrained IRF design and the effectiveness of oversight. However, the stocktaking report concluded that a modest investment in IRF knowledge and capacity-building had influenced achievements on a number of recommendations related to the 2009 RFP, including expansion of savings and encouraging innovation.

IV. The IRF policy

A. Overall vision and objective

10. The vision for this policy is to create inclusive and sustainable food systems in which rural poor people benefit from accessible, affordable and useful financial products and services – to achieve food security, economic prosperity and resilience that leaves no one behind. The policy's objective is to contribute to doubling IFAD's impact by 2030 by guiding the Fund's IRF interventions in order to strengthen: (i) poor rural people's productive capacities; (ii) the benefits they received from market participation; and (iii) the resilience of their economic activities to climate change and other shocks.

11. This policy's objective and approach support IFAD's Strategic Framework objective of inclusive and sustainable rural transformation, and the overarching goal of rural people overcoming poverty and achieving food security through remunerative, sustainable and resilient livelihoods. The policy supports strategic objective (SO) 1: increase poor rural people's productive capacities. This SO cites IRF as a key factor to expanding rural poor people's assets and ability to engage in sustainable production and entrepreneurship. It also supports SO2: increase poor rural people's benefits from market participation, by attracting investment resources into: the financial system; micro, small and medium-sized enterprises (MSMEs); and smallholder on- and off-farm enterprises, particularly by guiding complementary support to value chain development and the crowding in of public and private finance. Finally, the prominent role of climate IRF in this policy supports SO3: strengthen the environmental sustainability and climate resilience of poor rural people's economic activities.

12. The policy's vision and objective do not entail drastic changes to IFAD's existing IRF practices and activities, but demand a greater focus on:

- **Expanding the variety of accessible, useful, innovative and affordable financial products and services,** with an emphasis on CBFOs and graduation programming;
- **Increasing the effectiveness of IRF integration into other programming,** particularly value chain-focused programmes;
- **Increasing the adaptability, flexibility and innovation of IRF** through the expanded use of challenge, innovation and outreach funds, investments and targeted non-sovereign interventions, and by favouring catalytic market-building over sector-building;
- **Improving the use of subsidies to foster long-term sustainable outcomes** of IRF activities and attract investment capital;
- **Improving market intelligence for design and implementation** to ensure accessible, useful and affordable financial products, along with appropriate incentives for private sector and government participation; and
- **Building IFAD's programme management capacity to support IRF goals,** including through knowledge- and information-sharing, and partnerships.

B. Theory of change

13. The theory of change for this IRF policy demonstrates that expanding IRF outreach, products and services meets the needs of rural poor people, resulting in increased resilience and improved livelihood opportunities.

Figure 1
Theory of change

Impact	
Improved livelihoods and strengthened resilience of rural poor people enabled by IRF solutions and interventions.	
Outcomes	
Greater use of useful and affordable IRF products and solutions by rural poor people, rural MSMEs and smallholders to strengthen resilience to climate change and other shocks.	Increased investment by rural poor people, rural MSMEs and smallholders in their households, farms and non-farm opportunities that translate into increased income and benefits from markets.
Key outputs	
Rural poor people, rural MSMEs and smallholders have greater awareness, capacity and protection in using IRF products and services.	
An expanded range of accessible, affordable and useful IRF products and services is offered to rural poor people, rural MSMEs and smallholders by conventional and non-conventional FSPs.	
The policy and institutional environment for the delivery of IRF products and services is more enabling, stronger and better coordinated.	
Action areas and inputs	
Promote differentiated IRF interventions that address demand-side constraints and reflect the diversity of beneficiary populations and needs.	
Deliver impact-driven market-building interventions that utilize both catalytic financial instruments and non-financial capacity development to conventional and innovative FSPs.	
Catalyse and strengthen enabling environments for IRF.	
Development challenges	
Rural poor people, rural MSMEs and smallholders are unable to take advantage of opportunities within food systems to improve their livelihoods and strengthen their resilience because of a lack of affordable and useful IRF products and services.	

C. Guiding principles

14. This policy relies on three principles to guide IFAD's work on IRF. These principles address key challenges and opportunities specific to the expansion of the Fund's

IRF target group while encouraging a more targeted approach to IRF programme design and favouring catalytic market-building over sector-building.

C.1. Guiding Principle 1: People-centric IRF

15. IFAD will promote IRF that contributes to improved livelihoods and strengthened resilience among its IRF target group. A differentiated approach to IRF will reflect the diversity of beneficiary populations, country contexts and constraints, the unique demand for financial products and services, and non-financial support services among the target group, and the protection of their rights and data.

16. **Recognize the diversity of IFAD's IRF target group.** IFAD's efforts to promote IRF will recognize the: diversity of rural households and enterprises; their evolving financial needs; and the unique social and economic constraints faced by vulnerable groups including women, youth, indigenous peoples and persons with disabilities. IFAD's work on IRF will acknowledge its beneficiaries' diverse needs – whether they operate in large and well-organized value chains or smaller and less-organized value chains. The Fund also recognizes the diversity of rural economic activities including farming, non-farm labour, pastoralism, fishing, and other activities. Implementing this policy requires greater efforts from IFAD to: (i) document and understand the needs of IRF target beneficiary groups; (ii) develop targeting strategies that prioritize improved livelihoods and strengthened resilience; and (iii) engage proactively with FSPs and other stakeholders, including governments, to understand the constraints they face and assist them in designing interventions and incentives that serve IFAD's target group for IRF.

17. **Support a diversity of financial products and services that rural poor people need.** IFAD will promote a range of financial services from a wide spectrum of providers, with an emphasis on leveraging IFAD's expertise with CBFOs. Access to safe, liquid, accessible and interest-bearing savings in structured and unstructured accounts will remain a priority for IFAD's IRF target group. Other services matched to households' needs include: remittances; payment services and loans; on- and off-farm enterprise investment (e.g. working capital and asset loans, equity); and risk-mitigation services (e.g. guarantees, risk-sharing facilities, insurance and savings plans). In addition, IFAD will promote IRF interventions that support climate adaptation and mitigation strategies, including inter alia savings plans, insurance, remittance savings and investment plans, and climate-resilient investment programmes.

18. **Enable a diversity of support services to address demand-side constraints.** Enabling access to – and productive use of – financial services for rural poor people often requires complementary non-financial services. This support may be directly related to the financial services, such as financial literacy and business plan development for credit applications. Other support is indirect, such as enhancing value chain participation, market access and capacity for production or business management. If well coordinated, such indirect support can improve beneficiaries' access to IRF.

19. IFAD will aim to establish linkages among financial services provision and non-financial support to achieve impact at scale, particularly for very low-income and other vulnerable populations – for whom financial services can be bundled with asset transfers, social safety nets, and other graduation programming. Since most financeable climate adaptation strategies are relatively new, non-financial interventions such as the provision of drought-resistant seeds, soil and water conservation, and technical assistance may be required to enhance rural poor people's and MSMEs' capacity for utilizing climate IRF. IFAD will employ asset subsidies, matching grants, technical assistance on production and market access, value chain development, public and private infrastructure development, and other interventions to develop sustainable climate IRF markets in developing Member States.

20. **Empower and protect rural poor people's financial interests and rights.** A people-centric approach to IRF requires the participation of rural poor people, smallholders and their organizations, and other stakeholders in the design and implementation of IRF interventions to ensure fair, transparent, needs-driven interventions. It is crucial to consider the unique needs of women, youth and other disadvantaged groups in the design, implementation and monitoring of IRF interventions, particularly including product and service design, in order to ensure sustainability and impact. Protecting the rights of rural poor people also requires: the promotion of consumer awareness; the use of good practices in financial service provision; transparency; and the adoption of national and international consumer and data protection protocols.

C.2. Guiding Principle 2: Impact-driven, catalytic market-building instruments

21. IFAD will promote products, services, and distribution channels by building on its comparative advantage and business models along with innovations in the sector – especially technology-based solutions and blended finance.

22. **Impact driven.** The Fund will prioritize IRF interventions with evidence-based potential to deliver positive outcomes and impact to rural poor people. In doing so, it will prioritize proven IRF business models and solutions – particularly those that leverage its comparative advantage in support to CBFOs – to improve these organizations' effectiveness and integration into the formal financial sector (linking them to emerging digital market channels). IFAD will also leverage its value chain experience to expand IRF through a broader range of value chain financing.

23. With an impact-driven focus, IFAD will support the expansion of IRF through innovations that: (i) improve FSPs' cost-effectiveness and capacity to serve IFAD's IRF target group; and (ii) enable the emergence of new players and business models, resulting in better access, affordability and impact for rural poor people. Approaches with proven catalytic potential will be prioritized, including challenge and innovation funds, and blended finance.

24. **Catalytic market-building instruments.** IFAD will support a range of incentives to stakeholders on a performance, co-ownership basis, with a focus on catalytic interventions in which the Fund brings clear added value and additionality. Support will be based on robust market intelligence – involving data collection and analytics to identify viable and sustainable market opportunities. A range of non-financial incentives will be considered for FSPs and other stakeholders in the areas of: market identification; product and service development; technical assistance in management and governance; and support for compliance and reporting systems. IFAD's support will be linked to expanded access and use of IRF among its target group.

25. IFAD's approach will also entail providing catalytic instruments that address market-, beneficiary- and sector-specific challenges. For example, IFAD may temporarily fill gaps in capital provision for IRF financiers and investors if required to catalyse product and service provision to its target group (provided that a long-term sustainability plan is in place). Lines of credit also will be considered if institutional liquidity is a proven constraint, while guarantees or other risk mitigation and reduction instruments will be employed if risk reduction mechanisms such as improved market information and technical are insufficient or unavailable.

26. IFAD's work on IRF will promote public and private sector efforts to build and strengthen climate-related IRF markets aimed at improving rural poor people's resilience. To this end, IFAD will support a range of financial services including: (i) climate adaptation asset loans (entailing a transition to agroecological or other sustainable production practices); (ii) indexed-based and other types of insurance, risk reduction and mitigation instruments; and (iii) non-financial support such as technical assistance and market and product development support.

27. The Fund will work with a range of IRF financiers and investors to: pool blended financing for climate IRF; improve knowledge of climate IRF; and contribute to country and global policy processes.[12] IRF activities could generate private sector investment opportunities in rural production and enterprise through sovereign programmes supported by FSPs and value chain development initiatives. The IRF sovereign programmes will complement IFAD's non-sovereign private sector investments (and in some cases lower the associated risks) by improving rural poor people's participation in the markets and value chains in which investees operate.[13]

C.3. Guiding principle 3: Enabling environment to promote change at scale

28. IFAD recognizes that sound enabling and policy environments are a prerequisite for expanding IRF. When consistent with IRF interventions' objectives and market maturity, IFAD will provide support to strengthen enabling environments for IRF, including market-building policies and financial market infrastructure activities. Making the most of its limited resources, IFAD will prioritize enabling environments linked to targeted IRF intervention outcomes through the inter alia use of regulatory sandboxes and strengthening monitoring and supervision capacity. Recognizing the potential of emerging digital innovation, IFAD will also seek to promote good practices for supporting digital public goods, including the adoption of Principles for Digital Development.[14] Technical assistance and capacity-building incentives will also be provided for governments and other stakeholders to support IRF expansion.

29. Sound financial infrastructure is critical to expansion of IRF. IFAD will support the provision of public and private sector infrastructure initiatives linked to IRF country-level objectives, and seek to foster sustainability among all stakeholders. IFAD's support to financial infrastructure will involve apex organizations (financial and non-financial), national, regional and international knowledge networks, and developers of interoperability systems.

D. Implementing the policy

30. **Implementation procedures.** This policy supersedes the 2009 RFP and will become effective on 1 January 2022 for programmes entering full design phase during 2022. Since IFAD supports a streamlined and catalytic approach to IRF activities, it will rely on existing internal capacity, systems, strategies, policies, operational guidelines and decision tools. An action plan will be prepared by Management to support the policy's implementation by highlighting additional actions and resources needed, including knowledge generation and sharing, partnerships and capacity-building. The action plan will provide guidance on mitigation of specific risks associated with the IRF instruments and approaches noted in the policy. In addition, the action plan will support action-oriented knowledge and capacity development to ensure the adoption of the policy at all levels of IFAD.

31. **Partnerships.** IFAD will develop and rely on select targeted partnerships to support the implementation of this policy. Internal expertise, resources and innovation from the Financing Facility for Remittances, the Platform for Agricultural Risk Management, the Weather Risk Management Facility and the Smallholder and Agri-SME Finance and Investment Network will be harnessed to build on their work, networks and partnerships, and deliver a coherent programme of work. IFAD will continue to build on existing partnerships such as those with the CGAP and CABFIN, and will seek to build a stronger presence in the blended finance, climate IRF,

[12] Given concerns about concessionality in IFAD's non-sovereign private sector operations, IFAD will apply the Enhanced Blended Concessional Finance Principles for Development Finance Institutions' Private Sector Operations when reviewing private sector investment opportunities that entail blended finance.
[13] Assuming market participation overlaps.
[14] The Digital Public Goods Alliance provides guidance on the role of development funders in the creation of digital public goods. The Principles for Digital Development comprise nine guidelines for integrating best practices into technology-enabled programmes.

fintech, and related agri-fin organizations. United Nations organizations – and especially the Rome-based agencies – will remain important conduits of engagement, and knowledge- and experience-sharing, while South-South and Triangular Cooperation opportunities will be sought.

32. **Rolling out and communicating the policy.** Management will make the 2021 IRF policy available to internal and external stakeholders through several channels. Management also will sensitize stakeholders on the policy and its implications through IFAD's operational training initiatives including the Operations Academy.

33. **Reporting, monitoring and assessment of the policy.** Management will report on the results of the 2021 IRF policy using IFAD's existing core indicators, systems and tools in line with the Fund's Development Effectiveness Framework (see annex II). Established internal review, quality enhancement and assurance processes will be used to assess IRF programming for consistency with the policy. Management will also perform an independent midterm review to assess the policy's influence on IRF operations, knowledge and policy work in line with core indicators on IFAD's country-level policy impact. An independent full evaluation will be conducted 10 years after approval.

34. **Human and financial resources.** IFAD has a decentralized IRF team covering sovereign investment and non-investment activities along with partnerships. It also has a dedicated unit covering non-sovereign private sector IRF activities. Annual budgets are being dedicated to designing and implementing investment and non-investment IRF interventions, relying on internal teams and external expertise. The implementation of the policy should require minor additional financial and human resources. Any additional expertise and investment requirements will be identified in the action plan to be prepared by Management and addressed through the ordinary budget and other corporate processes.

35. **Deviations from the policy.** Any material deviations from the policy for exceptional reasons will be assessed on an ad hoc basis and submitted to the President for approval.

Updated inclusive rural finance lexicon

1. While the broad definitions of many concepts included in the 2009 RFP remain valid, some require updating due to new understanding of and approaches. The new areas of importance to IRF emerging since 2009, such as blended finance and climate IRF, merit clear definition.

2. **Inclusive finance** indicates that individuals and businesses have access to a wide range of useful and affordable financial products and services that meet their needs and are delivered in a responsible and sustainable manner, without any exclusion based on: location (urban versus rural, country income level or status of fragility); gender; age; income level; and other socio-economic characteristics.[15] Inclusive finance covers the needs of a range of individuals and businesses, ranging from credit to payment, savings, risk management and insurance.

3. **Inclusive rural finance** is a subset of inclusive finance that targets rural populations, organizations and businesses involved in agriculture (including farming, fishing and pastoralism), and non-agricultural activities. IRF beneficiaries typically work in food systems as entrepreneurs, business owners, employers or wage labourers, or are self-employed.

4. **IFAD's IRF target group** comprises poor rural individuals and households, smallholders and small-scale rural entrepreneurs, their organizations and enterprises. Consistent with IFAD's targeting policy, a variety of tools and systems will be used to ensure proper targeting of the most vulnerable groups, especially women, youth, indigenous peoples and other disadvantaged groups.[16]

5. **Climate IRF** seeks to support adaptation and mitigation actions to address climate change. A subset of climate finance, climate IRF refers to financing food system stakeholders in order to enhance resource efficiency, environmental sustainability, climate-smart approaches and the quality and safety of food systems. It also seeks to strengthen the resilience of IFAD's IRF target group and their ecosystems to the impacts of climate change. Climate IRF can include savings plans, remittance savings and investment programmes, loans for climate adaptation and mitigation, and index-based and other types of insurance. It often seeks to achieve broader systemic change through inter alia addressing climate-resilient and climate-sensitive value chain development, territorial-based soil and water conservation, and agroecological and other sustainable production approaches.

6. **Financial service providers and facilitators.** IFAD will engage with a wide range of actors providing a diversity of financial and non-financial services to promote IRF for its target group, including the following:

   - **Community-based financial organizations** are usually member-owned and managed, and can include financial cooperatives, village savings and loan associations, rotating savings and credit associations, savings groups, and other financial networks. They may be regulated or unregulated entities.

   - **Conventional financial providers** are most often regulated publicly or privately owned entities engaged in financial intermediation. They can include commercial banks, development banks, microfinance institutions and non-bank financial companies such as leasing and factoring companies, insurance companies, investment funds, payday lenders and payment or remittance service providers.

   - **Fintechs** are entities that use digital technologies to provide financial and non-financial services to FSPs in IFAD's IRF target group. Their services can cover payments, loans, transfers, financial literacy, digital extension,

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15 IFAD, Revised Operational Guidelines on Targeting (2019).
16 Ibid.

credit-risk data management, and client origination. Fintechs can be private, public or non-governmental entities. Mobile network operators often provide fintechs with digital platforms and several offer financial services themselves.[17]

- **Enterprises and businesses** can provide IRF directly to rural poor people through input credit, or indirectly by facilitating FSP's access to their producer networks (e.g. through credit distribution and collection services or producer data collection). These enterprises include offtakers, input suppliers and other value chain agribusinesses active in food systems. They can be small, medium-sized or large. Value chain financing is often delivered by these businesses.

7. **IRF financiers and investors.** While the majority of IRF credit is typically financed by savings collected and intermediated by formal financial institutions, a diversity of financiers and investors is needed to provide grant, venture, risk, equity/quasi-equity capital, debt and guarantees to support FSPs and other facilitators involved in IRF. These financiers and investors include public institutions, international financial institutions, United Nations organizations, development institutions, individual and institutional investors operating through capital markets, private commercial and impact investors, émigrées sending remittances, crowdfunding platforms and philanthropic organizations.

8. **Blended finance** refers to the strategic use of development finance to mobilize additional financing for sustainable development.[18] Blended finance can come from private investors as well as other investors such as public development banks. It relies on structured financial instruments and vehicles that combine lower-than-market return expectations and higher risk tolerance as a means to facilitate investments with social and environmental impact that might not otherwise be financeable. Blended finance can be applied in most economies and is increasingly employed to support IRF in IFAD's developing Member States.

9. **An enabling environment for IRF** includes the policies, regulation and supervision functions governing and supporting the delivery of IRF. It also includes the financial infrastructure that provides information services, expands outreach and increases capacity and coordination across the financial sector. Important actors in an enabling environment include: regulatory bodies such as central banks; financial and non-financial sector apex organizations; credit bureaux; and payment systems.

[17] See CGAP, Fintech and the Future of Banking.
[18] Organisation for Economic Co-operation and Development. Available at https://www.oecd.org/dac/financing-sustainable-development/blended-finance-principles/.

Indicative Results Management Framework

IFAD core rural finance indicators[19]

Output-level core indicators

- 1.1.5 Persons in rural areas accessing financial services (broken down by type of financial services: credit, savings, remittances and insurance).
- 1.1.6 Financial service providers supported in delivering outreach strategies, financial products and services to rural areas.
- 1.1.7 Persons in rural areas trained in financial literacy and/or use of financial products and services.

Outcome-level core indicators

- 1.2.5 Households reporting use of rural financial services.
- 1.2.6 Partner financial service providers with portfolio-at-risk below 5 per cent for 30 days or more.
- 1.2.7 Partner financial services providers with operational self-sufficiency above 100 per cent.

[19] See IFAD's Development Effectiveness Framework core indicators.