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REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON A PROPOSED

TECHNICAL ASSISTANCE GRANT

FOR

MICROINITIATIVES IN RURAL FINANCE FOR THE POOR



TABLE OF CONTENTS

	Page
ABBREVIATIONS AND ACRONYMS	iii
PART I BACKGROUND	1
PART II THE PROCESS	2
PART III OBJECTIVES	2
PART IV PROGRAMME COMPONENTS	2
PART V PROGRAMME RESOURCES	4
PART VI PROGRAMME MANAGEMENT	5
PART VII EXPECTED BENEFITS AND LINKS WITH THE CORPORATE STRATEGY	5
PART VIII RECOMMENDATION	6
 ANNEX	
 HIGH-LEVEL STRUCTURE OF THE GHANA WORKSHOP	 7



ABBREVIATIONS AND ACRONYMS

AFRACA	African Regional Agricultural Credit Association
APRACA	Asia-Pacific Rural and Agricultural Credit Association
CGAP	Consultative Group to Assist the Poorest
CIRAD	International Cooperation Centre on Agrarian Research for Development
DSE	German Foundation for International Development
GTZ	German Agency for Technical Cooperation
IFPRI	International Food Policy Research Institute
NENARACA	Near East-North Africa Regional Agricultural Credit Association
NGO/ECP	Non-Governmental Organization/Extended Cooperation Programme
SDC	Swiss Development Cooperation



**REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD
TO THE EXECUTIVE BOARD ON A PROPOSED TECHNICAL ASSISTANCE GRANT
FOR MICROINITIATIVES IN RURAL FINANCE FOR THE POOR**

I submit the following Report and Recommendation on a proposed technical assistance (TA) grant of USD 610 000 to finance a programme of activities relating to the operational follow-up of the IFAD-supported international workshop on “Innovations in Microfinance for the Rural Poor — Exchange of Knowledge and Implications for Policy”, to be held at Accra, Ghana, on 9-13 November 1998.

PART I — BACKGROUND

1. At the Microcredit Summit held in Washington, D.C. on 2-4 February 1997, IFAD undertook to continue providing approximately USD 125 million per annum under its lending programme in support of microfinance services and to provide grants for: capacity-building and innovation; developing novel instruments for collaboration with the private sector; and for initiatives relating to a client-government model; marketing support; donor coordination; **rural microfinance knowledge-generation and dissemination**; and a **microfinance policy**.

2. The **rural microfinance knowledge-generation and dissemination initiative** corresponds to IFAD’s vision of itself as a knowledge organization working for the eradication of rural poverty. The Fund advocates financial services (especially member-based) as a key tool for the sustainable eradication of rural poverty, in conjunction with market-based non-financial services for small farms and other microenterprises. Together with its strategic allies, the Fund has contributed significantly to the development of new, gender-responsive institutional paradigms in rapidly-evolving financial sectors in all regions of the world, and, as a result, microfinance services have become one of the Fund’s “trademark” products. IFAD has supported a number of financial services projects and was associated with the development of leading microfinance models (the Grameen Bank in Bangladesh, the P4K Project with the Bank Rakyat Indonesia in Indonesia, the Mudzi Fund in Malawi, the Peasant Development Fund in Paraguay, village savings and credit associations in The Gambia, farmers’ service associations in Benin and Guinea, etc.) It has also allocated TA grant resources to: development of new microfinance models (under the IFAD Non-Governmental Organization/Extended Cooperation Programme (NGO/ECP)); training for more effective microfinance services and the sharing of related technology (e.g., Near East-North Africa Regional Agricultural Credit Association (NENARACA), African Regional Agricultural Credit Association (AFRACA), Asia-Pacific Rural and Agricultural Credit Association (APRACA) and two workshops in West Africa); and activities that assist in developing and disseminating industry standards (Consultative Group to Assist the Poorest - CGAP). As a knowledge organization, the Fund now needs to step-up its efforts and support further innovation and the replication and upscaling of successful rural microfinance models.

3. The **initiative on microfinance policy** aims at improving access of the rural poor to financial services by reducing the barriers thereto; lowering transaction costs through innovation; and integrating the financial services sector. This policy initiative also aims at removing the emphasis from supply-led credit expansion and advocates an institutional approach to developing intermediation-based financial services.



4. While most of the activities announced at the Microcredit Summit are well integrated into IFAD's activities and are endowed with funds, to date, no resources have been allocated to either the microfinance policy initiative or the rural microfinance knowledge-generation and dissemination initiative. The proposed programme will go some way to helping IFAD meet its commitments in this regard.

PART II — THE PROCESS

5. The process leading to the final design and start-up of the proposed programme will include the aforementioned Ghana workshop, which the Fund supports together with the Bank of Ghana, the German Foundation for International Development (DSE) and the International Food Policy Research Institute (IFPRI). The German Agency for Technical Cooperation (GTZ) and the International Cooperation Centre on Agrarian Research for Development (CIRAD) are also supporting the workshop and are members of the steering committee. The objective of the workshop is to bring together about 75 microfinance practitioners, policy makers, researchers and rural development funding agencies for the purpose of: (a) exchanging experience and knowledge related to innovations in microfinance for the rural poor; (b) establishing strategic partnerships; (c) identifying implications for policy and research; and (d) drawing up a plan of action for operational follow-up, based on the Workshop Declaration articulated by the participants themselves. The workshop programme structure is shown in the Annex.

6. In addition, on 28-29 September 1998, IFAD held a workshop to improve the implementation of rural microfinance activities in IFAD-supported projects in China, with the participation of Chinese counterparts involved in implementation. The results of that workshop will form part of IFAD's contribution to the Ghana workshop.

7. The Ghana workshop will formally launch the process of mobilizing knowledge on global microfinance and assuring an operational focus for Africa, and is expected to culminate in the preparation of a Workshop Declaration and a plan of action. Within the workshop, a forum on follow-up, chaired by IFAD, will finalize the design of the programme and initiate the selection of implementing organizations. The final report of the forum will be available by the end of the workshop.

PART III — OBJECTIVES

8. The specific objective of the programme is to ensure that participants in the Ghana workshop undertake small, strategic initiatives that will enhance access of the rural poor to market-based microfinance services. The proposed IFAD grant will constitute seed money to support such microinitiatives. However, over time, these initiatives may need to be sustained with the participants' own resources (part of which may be obtained from other donors).

PART IV – PROGRAMME COMPONENTS

9. The proposed TA grant will be used to provide seed money for a number of highly-motivated organizations participating in the Ghana workshop to support their efforts to implement the workshop plan of action, and for the following tentative range of activities, the consistency of which will be secured by the Workshop Declaration and by IFAD's programme coordinating role:

- **Network establishment (USD 50 000).** With a view to ensuring effective flows of information among participants, for the entire duration of the programme, IFAD will support follow-up activities relating to networking initiatives started during the Ghana workshop. This will not necessarily require the establishment of a further network, but will consist in ensuring greater



participation in, and the linking-up of, existing networks.¹ The grant will, *inter alia*, provide participating grass-roots organizations with small amounts of resources to enable them to link up to the network — a key element in programme sustainability. AFRACA² is expected to play a useful role in this respect. The publication of a newsletter is also foreseen.. The funds will consist of seed money to establish links or strengthen networks that will later need to be sustained by the network members themselves from their own resources (part of which may be obtained from other donors).

- **Process support consultancies (USD 50 000).** The proposed grant will also finance short-term technical assistance to help participating organizations to articulate their requirements, especially in terms of institutional re-engineering and the adoption of more cost-effective rural finance technologies and industry standards.
- **Action-research at the grass-roots level (USD 330 000).** With a view to supporting follow-up action with regard to the Ghana Workshop Declaration, the TA grant will also provide the participating organizations with seed money to fund a number of field-level activities (approximately 11). These activities will consist in action-research (with emphasis on “action”) at the grass-roots level and include:
 - (a) rapid participatory financial services assessments or local studies, e.g., on the demand for financial services from small farms and other microenterprises;
 - (b) policy initiatives - e.g., with regard to agricultural credit, loan guarantees, spread requirements, formal-informal linkages - in the wide range of financial sector policy environments that characterize the Africa region;
 - (c) “re-engineering support” for providers of rural finance services that are planning both to develop a corporate vision and to look into their own management/work-systems and business processes to secure greater “client-centredness”;
 - (d) modular on-the-job training programmes; and
 - (e) microinitiatives to enhance and deepen the outreach and sustainability of informal and member-based organizations involved in providing rural finance to the poor.

During this phase, the rural “clients” (the beneficiaries) will contribute directly to the process. The result of the action-research will consist in further innovation and inputs for national-level workshops. IFAD will seek to mobilize supplementary resources (including, for instance, TA grant programmes or projects supported by the Fund) for a wider range of such activities.

- **National knowledge-sharing workshops (USD 90 000).** In order to ensure replication, the programme will include about three operational workshops at country level, the objective of which will be to share the results of action-research and to pursue the implementation of the Workshop Declaration at country level. The Fund will seek to mobilize supplementary resources (including, for instance, IFAD-supported TA grant programmes or projects) for a wider range of

¹ This includes networks covered by the World Bank-funded and Swiss Development Corporation (SDC)-supported “Action-Research for Building Networks for Improved Delivery of Financial Services to the Poor” in six anglophone African countries. Staff in charge of this programme will contribute to the Ghana workshop’s Infomarket.

² IFAD’s Africa I and II Divisions are currently supporting capacity-building for AFRACA. This includes work on: AFRACA’s vision for the future, broadening its membership structure, a better definition of future services to be provided to its members, and its sustainability. AFRACA is scheduled to participate in the Ghana workshop.



such national activities in order to ensure the replication and upscaling of programme efforts. Together with the networking initiative, this will constitute a cornerstone of programme replicability.

- **Programme completion workshop (USD 90 000).** In order to have a degree of leverage on the results of action-research and the findings of national-level workshops, the programme will conclude with a regional workshop in Africa, the objective of which will be to share the results of national follow-up activities and disseminate the Workshop Declaration for action throughout Africa. This activity will also constitute IFAD's final evaluation of the programme. To secure the successful outcome of this activity, the process support consultancies will be deployed in such a way as to ensure that the results of the grass-roots and national-level activities can be compared for learning purposes.

PART V — PROGRAMME RESOURCES

10. The total cost of the programme amounts to USD 860 000, of which USD 610 000 (or 88%) is proposed to be covered by the TA grant. This amount does not, however, take account of contributions-in-kind from CIRAD and GTZ, or of additional resources that IFAD will seek to mobilize for a wider range of national activities. For this reason, funding agencies and the Popular Coalition to Eradicate Hunger and Poverty (Popular Coalition) will participate in the Ghana workshop and particularly in the follow-up forum. Any additional resources mobilized will be allocated, on a priority basis, to further field-level action-research or policy initiatives. To date, cofinancing covers 12% of the programme costs. Every effort will be made to pursue a matching-funding approach for the allocation of seed money provided under the proposed TA grant. This matching approach will be tailored to the capacity of each participating organization and will constitute a key element in programme sustainability.

PROGRAMME COSTS AND FINANCING PLAN

	Costing			Financing Plan			
	NUMBER	UNIT COST	TOTAL COST	DSE	IFPRI	IFAD	OTHERS
International workshop	1	200 000	200 000	82 000	18 000	100 000	a
China workshop	1	50 000	50 000			50 000	
Network establishment	l.s.	50 000	50 000			50 000	t.b.d.
Process support consultancies	l.s.	50 000	50 000			50 000	t.b.d.
Action-research at the grass-roots level	11	30 000	330 000			330 000	t.b.d.
National knowledge-sharing workshops	3	30 000	90 000			90 000	t.b.d.
Programme completion workshop	1	90 000	90 000			90 000	t.b.d.
Total			860 000	82 000	18 000	150 000 610 000	

a A number of other agencies such as GTZ, CIRAD, CGAP, etc., are expected to participate in the international workshop at their own expense. These costs have not been incorporated.

Note: l.s. = lump sum

t.b.d. = to be determined.

11. The grant will be disbursed over a period of two years starting in December 1998. About 29% of total programme resources will be used to finance the workshop and activities related thereto, 61%



for field-level action-research and other related activities, and 10% for programme completion workshop activities.

PART VI — PROGRAMME MANAGEMENT

12. The grant will be administered by IFAD. Activities funded by the grant will be executed by organizations — mainly African — that have mandates relating to microfinance and that work at the grass-roots, national or regional levels. The grant will be disbursed in various tranches (approximately 15) to local, national and regional organizations responsible for implementing the programme.

13. IFAD will be responsible for reviewing and approving individual microinitiatives, disbursing the grant resources, monitoring progress, reviewing financial reports and accountability statements, and animating the network of participants to ensure that there is a continuous sharing of experience. IFAD's management of the grant will also ensure effective links — on a demand-driven basis — both with other IFAD loan- and, especially, grant-funded activities (e.g., grants to regional agricultural credit associations; the two rural finance workshops organized by IFAD in francophone West Africa; and to the Popular Coalition for the international loan guarantee scheme); and with the activities of other agencies (e.g., the World Bank-funded, SDC-supported “Action-Research for Building Networks for Improved Delivery of Financial Services to the Poor” in six anglophone African countries).

14. IFAD will follow the same procedures for procurement, disbursement, accounting, reporting and auditing as in the case of grants provided under the NGO/ECP.

PART VII — EXPECTED BENEFITS AND LINKS WITH THE CORPORATE STRATEGY

15. The aim of the above-mentioned programme activities is to ensure greater access for the rural poor to sustainable financial services. To this end, the main direct benefits of the programme are expected to be:

- (a) the sharing and use of knowledge on microfinance;
- (b) a Workshop Declaration and a plan of action for operational follow-up;
- (c) concrete operational results, including:
 - (i) assessments of local financial services;
 - (ii) policy initiatives regarding the provision of market-based micro, rural and agricultural finance for the poor;
 - (iii) “re-engineered” providers of rural finance services;
 - (iv) trained field staff;
 - (v) broader and deeper outreach and sustainability of rural finance providers; and
- (d) multiplier effects generated by national and regional workshops.



16. With its objective of gathering and sharing knowledge, which is central to this particular area of IFAD's expertise, the programme is expected to contribute to establishing the Fund as a knowledge organization on microfinance services to eradicate rural poverty. In addition, the Fund's corporate scorecard sets the objective of establishing a rural finance network and following up on the Microcredit Summit. Finally, the objective of the proposed grant is consistent with the Fund's emerging strategy framework that requires grants to have backward and forward linkages with IFAD's loan-financed operations.

PART VIII — RECOMMENDATION

17. I recommend that the Executive Board approve the proposed technical assistance grant in the following terms:

- (a) having reviewed and endorsed the proposed programme design; and
- (b) noting IFAD management's approval of a grant of USD 100 000 for the International Workshop on "Innovations in Microfinance for the Rural Poor — Exchange of Knowledge and Implications for Policy" (Accra, Ghana, 9-13 November 1998), and a grant of USD 50 000 for the workshop on microfinance in IFAD-financed projects in China,

RESOLVED: that the Fund, in order to support follow-up action on the Ghana workshop, shall make a grant of USD 610 000; and that the President of IFAD shall be authorized to approve, within a maximum of USD 610 000, individual microgrants to appropriate grass-roots, national and regional organizations to enable them to carry out the proposed activities, within the ceilings established for grants under IFAD's lending programme.

Fawzi H. Al-Sultan
President

HIGH-LEVEL STRUCTURE OF THE GHANA WORKSHOP

<p>Expected Results : Exchange of knowledge on innovations in microfinance for the rural poor between practitioners, policy makers, researchers and funding agencies</p> <p style="margin-left: 40px;">a Workshop Declaration detailed policy recommendations an “independent” synthesis a tentative follow-up plan of action an executive summary (three months) and a full report on the proceedings of the workshop (12 months)</p> <p style="margin-left: 40px;">Exposure to new brainstorming methodology Spotlight on impact indicators and critical assumptions</p>				
<p>Step 1. Cross-Cutting Issues Papers <i>focusing on the demand side</i></p> <p>Plenary Session</p>	<p>Assessing the problem: What are the issues? (Four papers: Macro-policy and Regulatory Framework; Institutional Innovations (two); Multi-Country Study on Access and Demand)</p> <p>Access, demand, impact and financial systems development (Four papers: Demand for Financial Services in Africa; Savings; Credit Systems in Transitional Economies; Impact on Household Income)</p>			
<p>Step 2. Infomarket Sharing information, using a wide range of communication tools. <i>Free in open space</i></p>				
<p>Step 3. Case Studies of Institutions and Systems <i>focusing on the supply side</i></p> <p>Parallel Plenary Sessions</p>	<p>Four papers: Malawi (MRF); Cameroon (CCEI Bank and MF Network), Ghana (two)</p> <p>Four papers: Gambia (VISACAs) and Benin (FSA); Bangladesh (ASA); China (credit projects); Bolivia (FIE)</p>			
<p>Step 4. Round Table Six policy views and calls for action: Macro-Economic and Regulatory Environment (two); Outreach and Sustainability; Agricultural Finance; An IFI’s View; Microfinance and Food Security Plenary</p>				
<p>Step 5. Working Groups with Report to Plenary:</p> <p>Sectoral Issues</p>	<p>A. Savings</p> <p>A. Collateral Substitutes</p>	<p>B. Food Security</p> <p>B. Member-based Institutions</p>	<p>C. Agricultural Finance</p> <p>C. Regulating Microfinance Institutions</p>	<p>D. Subsidies</p> <p>D. Welfare Versus Sustainability</p>
<p>Step 6. Working Groups with Report to Plenary:</p> <p>Policy Recommendations for the Workshop Declaration</p>				
<p>Step 7. Workshop Declaration Formulation of the statement of follow-up intentions Plenary</p>				
<p>Step 8. Forum on Follow-Up Planning operational follow-up to implement the Workshop Declaration Voluntary</p>				
<p>Step 9. Special Session Disseminating workshop results and action plans to a wider audience Open meeting</p>				

