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PLANNED PROJECT ACTIVITIES
1999-2000

Since document EB 99/68/R.35 was dispatched to Executive Board Directors, five additional projects have reached a sufficiently advanced stage of preparation to warrant inclusion in the Annex A portion of the document. The relevant project summaries are attached.

ANNEX A

Region: Africa I	Country: Benin
Programme Name: Roots and Tubers Development	Per capita GNP¹: 380
Programme Cost (USD million): 19.0	Population (million)¹: 6.9
IFAD Loan (USD million): To be determined	Leading External Financier²: IFAD
Proposed Terms: Highly concessional	Cofinanciers: Discussions ongoing with the Danish International Development Assistance (DANIDA), the West African Development Bank (BOAD) and the World Bank
Present Status: Under formulation	Appraising Institution and Loan Administrator: IFAD and to be determined

Programme Objectives

Benin enjoys a comparative advantage in the cultivation of roots and tubers with cassava and yam contributing significantly both to overall agricultural output and family food security. While contributing to the diversification of national export earnings – which are heavily dominated by cotton, now facing now major marketing constraints – the overall objective of the proposed programme is to alleviate poverty by sustainably increasing incomes of the more vulnerable categories of the rural population through improvements in the production, processing and marketing of roots and tubers. Special attention will be paid to the activities of women, who represent over 90% of the processors of roots and tubers. Thus the programme will assist the Government of Benin in launching a national effort to rationalize the cultivation, processing and marketing of roots and tubers in collaboration with other programmes and thereby contribute to the creation of synergies within the subsector.

Programme Beneficiaries

This nationwide programme will initially cover four agro-ecological areas in the centre of the country, where natural resources are the most suitable for the cultivation of roots and tubers. The four areas cover 51 of the country's 67 rural subprefectures, 72% of its territory, 64% of its population and 74% of the population classed as poor or vulnerable to poverty. Over 70% of the total population, estimated at 3.9 million persons, is rural and relies on agriculture for its living. The number of rural households in 1999 is estimated at 400-450 000, over 80 000 of which belong to the target group of resource-poor smallholders. The project will generate direct benefits to approximately 22 000 small farmers, 17 400 women processors and 2 900 young school leavers in 725 villages. At least as many other small farmers and processors are expected to benefit indirectly. Given the major role of women in the subsector, the programme will strengthen women's organizations and facilitate their access to labour-saving technologies, training and credit. Employment opportunities for youth will be created through jobs as service providers to local producers and as instructors and trainers in literacy and managerial skills. By adopting a comprehensive, community-based approach, the programme will strengthen local capacity to undertake and manage development actions.

^{1/} 1997 data; gross national product (GNP) in United States dollars.

^{2/} The external financier that, at the request of the Government, takes the lead in project design, preappraisal processing and the mobilization of external resources.



Programme Components

(a) Support to Root and Tuber Farming Systems

The component will seek to: (i) raise productivity and introduce improved and sustainable practices for the cultivation of roots and tubers; (ii) develop a sustainable system for the multiplication and distribution of improved planting materials; and (iii) strengthen and expand research on and development of improved varieties and technologies with a view to enhancing productivities and reducing in-field losses. A corps of 51 technicians (one per subprefecture) will provide advisory services and support to farmers.

(b) Support to Processing and Marketing

The component will seek to: (i) reduce costs and improve the quality of processed roots and tubers through the introduction of labour-saving technologies, supported by training and by assistance in obtaining credit from existing microfinance institutions; (ii) strengthen and expand ongoing technology development and testing programmes; and (iii) lay the groundwork for removing marketing constraints by undertaking national/international market studies, establishing storage networks, facilitating access to price information and creating village-level marketing associations. Nine technicians (one per operational unit) will provide support and advice.

(c) Support to Grass-Roots Institutions

The programme will support the establishment of ten operational units to be charged with coordinating and animating the programme's partnerships with grass-roots institutions, including groups of farmers and women processors, marketing groups and community organizations. Responsibility for the operational units will be entrusted to service providers through annually renewable contracts. The service providers will recruit and deploy a total of 37 animators, who will reside in the villages to work closely with grass-roots institutions. Provisions for training include courses to upgrade the skills of the animators and supervisors in stimulating participation and the training of four young people per village, who will in turn organize literacy and managerial skills training at the village level. A Village Investment Fund will be created to remove infrastructural blockages to roots and tubers development, and village groups will be assisted in gaining access to credit from existing decentralized financial systems.

(d) Programme Management

Financing will be provided for the establishment of a Programme Management Unit (PMU) and a decentralized Regional Directorate in the north; and for the monitoring and evaluation of the programme and the roots and tubers subsectors.

Programme Implementation

Overall responsibility for implementing this seven-year programme will rest with the Ministry of Rural Development through its Directorate for Programming and Planning. A Steering Committee will be set up to ensure coordination at the national level, with six decentralized committees at the departmental level. The PMU will be responsible for day-to-day implementation, including coordination with other ongoing projects/programmes and close supervision of the service providers running the operational units.



Important Features

In a context in which food security is assured but poverty persists, the issue is no longer how to produce more, but rather how to improve productivity and raise incomes by reducing production costs. The programme will meet this challenge by gearing the rationalization of production and processing to the opportunities offered by the markets. Another innovative feature is that services will be delivered through a temporary structure charged with responsibility for fostering self-sustaining local institutions. This approach is suitable to the present situation in Benin, in which the extension services have been disbanded and a replacement organization has yet to be created. Further, the programme envisages a strong role for the private sector, including but not limited to NGOs. The formulation mission held two participatory workshops in which over 90% of the participants were villagers, the majority of whom were women. Logframes initiated during these workshops indicated the need to strengthen the programme's focus on marketing constraints.

Main Issues

During appraisal, the following issues will be addressed: (a) synergies and complementarities with ongoing programmes/projects and the establishing of coordination mechanisms; (b) alternatives for ensuring that microfinance systems are available to service the programme; and (c) policy dialogue with all stakeholders on the marketing and exporting of cassava to ensure that small producers will benefit from the development of the roots and tubers subsector.

Previous IFAD Operations

Six projects (two cofinanced and four IFAD-initiated) have been approved for a total of SDR 50.65 million. Three projects are currently under implementation.

ANNEX A

Region: Africa I	Country: Burkina Faso
Project Name: Community-Based Rural Development (<i>Projet National de Gestion des Terroirs, PNGT II</i>)	Per capita GNP¹: 250
Project Cost (USD million): 103.5	Population (million)¹: 10.0
IFAD Loan (USD million): To be determined	Leading External Financier²: IDA
Proposed Terms: Highly concessional	Cofinanciers: IFAD, the Government of Denmark, the Government of The Netherlands and other bilateral donors
Present Status: Under appraisal	Appraising Institution and Loan Administrator: The World Bank (with IFAD participation) and the World Bank

Project Objectives

Agriculture and livestock activities have put tremendous pressure on the country's already fragile natural resource base, especially in the historically most densely populated region, the Central Plateau. The proposed project has been conceived as the first phase of a programme that will contribute to reducing poverty and promoting sustainable development in rural areas by breaking a spiral of poverty characterized by natural resource degradation, reduced production and decreased quality of life. It aims to empower rural communities in order to bring about sustainable improvements in natural resource management, rural production and socio-economic infrastructure. It intends to achieve this through the following objectives: (a) strengthened organizational capacity of beneficiary communities (groups/organizations); (b) diversification of the rural economy and increased rural incomes; (c) stabilization of and improvement in pastoral and forest management, soil fertility and biodiversity; and (d) increased availability of basic socio-economic infrastructure. Through its capacity-building efforts, the project will also support the Government's decentralized rural development strategy and the creation of rural municipalities. It builds upon the experience gained during the implementation of the *Projet National de Gestion des Terroirs* (PNGT), which was successful in promoting the adoption of a community-based land-management approach.

Project Beneficiaries

According to a 1998 household survey, the incidence of absolute poverty is extremely high (51% in rural areas and 77% for subsistence farmers). The target group of this nationwide project is the rural population at large, with particular emphasis on the most vulnerable groups, including subsistence farmers, women and youth. In 28 provinces, approximately two million people (approximately 25% of the rural population) living in 2 000 villages or 1 000 *terroirs*³ will directly benefit from project investments and activities. In the other 17 provinces of the country, the project will complement ongoing projects and programmes by supplying financial resources where needed.

^{3/} The land area of a community bound together by culture or tradition, and which can include one or several villages.

Project Components

(a) Development of Local Capacity

Support will be provided for capacity-building for communities and their organizations, with the objective of transferring key decisions for planning and execution of investments by villages (and groups of villages) to the local level. This will include: (i) village-level consultations to raise awareness and sensitize village communities to the GT (*gestion des terroirs*/land management) approach and its dissemination; (ii) structured training programmes for the strengthening of village community organizations (*Commission Villageoise de Gestion du Terroir – CVGT* and *Comite d’Action Specifique – CAS*) centred on the organization, management and technical skills required to plan, execute and maintain village projects; and (iii) technical support to community organizations for the contracting of various intermediaries/service providers (e.g., NGOs, regional project agencies or private service providers) for a wide range of community activities.

(b) Village Investment Fund

The project will finance local development projects through two funding windows: (i) microprojects whose execution will be managed directly by the village communities as “*maitres d’oeuvre*”. The annual amount available for an average territory (with a population of 3 000 people) will not exceed 9 million *communauté financière africaine* francs (CFAF) per year (about USD 15 000) for up to five years; (ii) larger community projects of up to CFAF 120 million (USD 200 000) to be executed by the project or intermediaries. All types of investments identified by the beneficiaries following a participatory needs assessment will be taken into consideration and evaluated according to an agreed upon set of criteria. The needs assessment will be carried out in the areas of: (i) economic infrastructure (rural roads and tracks, microscale irrigation, lowland development, etc); (ii) human development investments (e.g., schools, health posts, wells); and (iii) natural resource management (e.g., soil fertility, forest/pastoral/water management, tree conservation and rural energy, and biodiversity preservation).

(c) Special Investment Fund

The project will act as a financier of last resort for ongoing community-based development projects in the 17 provinces not covered directly by the project. It will support the *Cadre de Concertation Technique Provinciale* (CCTP) and its activities and enter into protocol agreements with other projects.

(d) Operational Support

Support will be provided for: (i) training programmes aimed at building up the capacity of various service providers/intermediaries contracted by PNGT II, particularly in the area of participatory approaches; (ii) coordination of operations at the CCTP level; and (iii) a pilot land-tenure subcomponent to address issues related to land insecurity.

(e) Project Management and Administration

The project will finance costs associated with a streamlined project field organization, including training, staff, building rehabilitation, logistical support, equipment and operating costs. It will also finance project overhead.



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Project Implementation

Overall implementation will rest with the Ministry of Agriculture. An interministerial steering committee, the PNGT Board, will be responsible for approving the annual programme of work and budget and supervising its execution. A semi-autonomous Project Management Agency under the Ministry of Agriculture will be responsible for the project's day-to-day implementation. Four regional offices will be responsible for the technical control of project-funded investments and for financial and monitoring and evaluation functions in their respective areas. The provincial offices (18), with highly mobile multidisciplinary teams, will have a technical role, and will gradually be responsible for establishing and supervising contracts with intermediaries (NGOs, public services, other projects, private firms, etc.) for the execution of project activities. At the provincial level, CCTP will be responsible for coordination among all field development partners.

Important Features

The proposed intervention complies with IFAD's medium-term strategy in Burkina Faso. This strategy aims to contribute to increased production and revenues by emphasizing activities related to environmental protection, soil and water conservation/agro-forestry, and the fight against desertification, while at the same time opening up non-agricultural economic activities. It also conforms with IFAD's policy in support of the Convention to Combat Desertification and will represent IFAD's first investment in support of the National Action Plan to Combat Desertification. The project illustrates the evolving convergence of World Bank and IFAD strategies in developing the rural sector of Burkina Faso and could offer an opportunity to benefit from complementary experiences and expertise. IFAD proposes to cofinance selected components (capacity development, microprojects investment fund, operational support and project management) on a *pari passu* basis.

Main Issues

During appraisal, the following issues will be addressed: (a) details of cofinancing arrangements; and (b) criteria for the utilization of the Village Investment Fund.

Previous IFAD Operations

To date, IFAD has financed six projects in Burkina Faso, two of which are ongoing, for a total of SDR 57.75 million. Five of these were IFAD-initiated. The Rural Microenterprise Support Project is expected to become effective by 31 December 1999.

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Region: Africa I	Country: Côte d'Ivoire
Project Name: Small Horticultural Producer Support	Per capita GNP¹: 710
Project Cost (USD million): 11.08	Population (million)¹: 14.2
IFAD Loan (USD million): To be determined	Leading External Financier²: IFAD
Proposed Terms: Highly concessional	Cofinanciers: none
Present Status: Under formulation	Appraising Institution and Loan Administrator: IFAD and to be determined

Project Objectives

Small or microirrigation for vegetables and horticulture has so far received very little attention in Côte d'Ivoire, as most irrigation investments have focused on large schemes to boost rice production. This has left the needs of poor farmers unattended; particularly vulnerable are women and youth, who are the principal practitioners of microirrigation. Against this background, the goal of the proposed project will be to enhance smallholder incomes, food security and agricultural productivity, particularly of poor women, youth and migrants from neighbouring countries and regions. The purpose of the project will be to enhance the institutional, organizational and technical capacities of farmers' groups, the private sector, NGOs and public agencies to develop small and microirrigation in selected regions of Côte d'Ivoire. This will be achieved by: (a) providing technical and organizational assistance to farmers' groups to solicit and oversee irrigation and related technical services from service providers; (b) enhancing the capacity of farmers and service providers to construct, operate and maintain low-cost microschemes efficiently and sustainably; and (c) establishing a fund for the provision of irrigation services to encourage competitive procurement of these services by farmers' associations.

Project Beneficiaries

Project interventions will mainly focus on the Savannah zone (Savannah and Bandama Valley administrative regions), which has the highest concentration of poverty. It is estimated that the project will directly assist 35 000 people and indirectly an additional 65 000. Women and youth will constitute the project's main target groups. Benefits will be in the form of increased and more stable incomes for targeted smallholders in the project zones, as well as strengthened capacity of grass-roots organizations to procure technical support services and manage small irrigation infrastructure. Farm-level productivity will be enhanced and the expansion of dry-season vegetable production will boost rural employment and lead to diversification of income sources.

Project Components

(a) Grass-roots Participatory Planning and Capacity-Building

Building on approaches already practiced under selected development projects in the region, project interventions will include: (i) local capacity-building to diagnose development constraints and to plan, monitor and manage community investments; (ii) group creation and strengthening focused on capitalizing on existing informal structures; (iii) sensitization related to women's groups and the



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structuring of small irrigation activities to accommodate their needs; (iv) functional literacy for women; and (v) support to strengthening of village development committees.

(b) Irrigation Development

The component will support irrigation development for valley-bottom areas (*bas fonds*) and small vegetable plots. Financing will be provided for: (i) participatory site selection and feasibility studies for the creation of small irrigation infrastructure and rehabilitation of that existing; and (ii) construction of infrastructure through the contracting of local artisans and civil works companies.

(c) Provision of Related Services

The aim of this component is to improve the economic and social environment in ways that enhance the effectiveness of the production-level and group-development investments outlined above. To this end, the project will support: (i) agricultural extension support for irrigation management, vegetable production and marketing; (ii) creation of linkages with existing microfinance institutions; (iii) vegetable-subsector strengthening in the form of assistance to the emergence of professional organizations of vegetable producers; and (iv) creation of a Village Development Fund to support village-level investments that enhance agricultural production potential and improve well-being (eligible investments will include feeder-road rehabilitation and repair, potable water supply, storage facilities and purchase of processing equipment).

(d) Project Coordination

The project will support the contracting of a small cadre of professional staff; transport, office equipment and materials; short-term technical support; and the establishment of a monitoring and evaluation system.

Project Implementation

The Ministry of Agriculture will be responsible for the overall implementation of this seven-year project. Coordination will be ensured by a light and semi-autonomous Project Coordination Unit (PCU) based in Korhogo (capital for the Savannah region). The PCU's role will be to provide strategic guidance, subcontract operations to service providers and perform standard administrative aspects of project implementation.

Important Features

In line with IFAD's medium-term strategy for Côte d'Ivoire, this intervention promotes a household-food-security approach: it will help increase and stabilize food supplies and incomes of the rural poor in one of the country's poorest zones. The project will contribute to increasing female participation in development and arresting the exodus of rural youth to the cities. Project design has drawn extensively on IFAD experience with small irrigation projects carried out elsewhere in Africa. In addition, IFAD will assist the country in developing a national strategy for small irrigation in the context of the recently formulated National Food Crop Regeneration Programme. The project will build on participatory approaches developed under the ongoing Marketing and Local Initiatives Support Project (419-CI). During the first three years of implementation, a pilot approach will be followed. A mid-term evaluation in the fourth year will provide input in orienting the expansion phase over the remaining implementation period.



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Main Issues

During appraisal, the following issues will be addressed: (a) definition of mechanisms and procedures for the creation and implementation of the proposed Village Development Fund; (b) preparation of an indicative list of villages potentially eligible for project interventions; (c) further refinement of the analysis of land-tenure issues and appropriate ways of ensuring an adequate degree of tenure security during and after the project, particularly as it relates to the land access of vulnerable groups; and (d) determination of research needs, if any.

Previous IFAD Operations

IFAD has so far financed six projects in Côte d'Ivoire (five IFAD-initiated and one cofinanced) for a total of SDR 41.3 million. Three are currently under implementation.

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Region: Africa I	Country: Ghana
Programme Name: Rural Financial Services	Per capita GNP¹: 390
Programme Cost (USD million): 16.0	Population (million)¹: 18
IFAD Loan (USD million): To be determined	Leading External Financier²: IFAD
Proposed Terms: Highly concessional	Cofinanciers: Discussions ongoing with AfDB, GTZ and the World Bank
Present Status: Formulation completed	Appraising Institution and Loan Administrator: IFAD/World Bank (joint appraisal) and the World Bank

Programme Objectives

Although Ghana's financial sector has undergone significant reforms during the last decade, the rural and microfinance institutions have received very little support. During the participatory poverty assessment in Ghana, access to rural financing was recognized by many farmers as critical to efforts to increase farm output and incomes. Thus the proposed programme will assist government efforts to deepen and broaden rural financial intermediation in support of its strategy for accelerated rural development and poverty reduction. It will also encourage the development of an appropriate policy and institutional framework for increasing access of rural poor communities to financial resources, which will enhance the productivity of farming systems, promote rural enterprise development and empower local groups and associations providing savings and credit services in rural areas. To achieve these objectives, the programme will: (a) support the development, training and empowerment of informal financial institutions and rural groups in order to deepen outreach and expand services to a large number of rural clients, including rural women, many of whom are among the poorest; (b) strengthen the overall capacity of rural banks for effective intermediation through technology enhancements, human resource development, and the development and testing of innovative instruments best suited to the changing financial needs of rural dwellers; (c) given the unit nature of Ghana's rural banking system, support the development of an apex institution, which will enable rural banks to address generic technical and institutional constraints limiting their full potential and impact on rural economic development; (d) strengthen intramural bank linkages for more efficient information transmission, knowledge sharing and cost-effective provision of services; and (e) enhance the Bank of Ghana's supervision of rural banks.

Programme Beneficiaries

While the programme will be national in scope, interventions will concentrate on rural areas, which account for more than 70% of national poverty. By enhancing the efficiency of rural financial intermediation and increasing the accessibility and availability of financial services to poor rural households, including women, the programme will have a positive impact on improving the rural economy and incomes. It will greatly empower a broad segment of Ghana's rural population to participate in formal financial intermediation, and help spur growth and reduce poverty by generating productive rural investments. Because women in rural Ghana are more active in the formation and operation of informal financial groups, support to them under the programme will be significant and broad-based (women constitute over half of the rural population and account for about 70% of food

production). More than 40% of rural households are female-headed. Approximately 39% of the rural population is expected to benefit from the programme. Interventions will also result in significant indirect benefits in the areas of institutional and capacity-building.

Programme Components

(a) Strengthening Informal/Formal-Sector Linkages

The aim of the component is to strengthen the operational, informational and technical linkages between informal and formal microfinance entities. This will be achieved by: (i) mobilizing, training and developing cohesive rural savings and credit groups and financial services associations of manageable size – sensitizing, developing and empowering informal groups to form more effective partnerships with traditional rural banks; (ii) inculcating savings habits among group members; (iii) providing training to develop group liability or peer pressure as a substitute for collateral and to instill credit discipline principles; (iv) supporting NGOs in group development through the provision of social and support services; and (v) financing the provision of associated technical assistance. The programme will also promote initiatives under which informal institutions (such as *susu* collectors) operate as formal agents of rural banks for rural savings and retail credit.

(b) Capacity-Building of Rural Banks

The programme will support: (i) human resource development; (ii) strengthening of internal control systems for greater transparency and accountability, enhanced operational efficiency between rural banks and their savings mobilization agencies; (iii) strengthening the capacity of rural banks for rural project appraisal; and (iv) testing innovative instruments that facilitate effective financial intermediation. It will also support the restructuring of weak rural banks provided they satisfy certain selection criteria.

(c) Institution-Building

Support will be provided for the establishment of an apex structure for the network of 132 rural and community banks. The programme will finance technical assistance, training and equipment related to the start-up of the apex body. In addition, associated equipment will be financed, including a communication network, for more efficient intrarural bank connectivity, for exchange of information and knowledge.

(d) Support to Bank of Ghana

Support will be provided for the strengthening of appropriate agencies of the Bank of Ghana regarding timely oversight and monitoring of the microfinance sector and development of microfinance strategies. This will enable them to guide the transition of rural banks to an apex structure. Funds will be provided for training, computers, equipment and studies.

(e) Programme Management and Monitoring and Evaluation

Funds will be provided to meet incremental costs of project implementation; equipment, vehicles and logistics; and a first-year baseline survey, monitoring studies and independent financial audits.

Programme Implementation

The Bank of Ghana will be responsible for the implementation of this six-year programme. Within the bank, the Rural Finance Inspection Department will have overall responsibility for programme management and coordination. Day-to-day coordination and management will rest with an independent Programme Management Unit (PMU). PMU will be responsible for monitoring and evaluation of programme-supported activities. A Programme Coordination Committee will provide policy guidance on programme implementation and periodically review the implementation progress. Community groups and associations will play an important role in implementation.

Important Features

With the exception of the World Bank-financed Rural Finance Project (closed in 1995) and IFAD operations in various parts of the country, no comprehensive assistance has been provided to strengthen the country's 132 rural and community banks. The programme will assist in filling a critical institutional gap by adopting a holistic approach in support of Ghana's rural and microfinancial institutions. The design of the programme fully incorporates the lessons from previous donor-funded interventions in the rural financial sector and from other IFAD-funded projects in Ghana (Upper-East Region Land Conservation and Smallholder Rehabilitation Project, Rural Enterprises Project, Upper West Agricultural Development Project) and Benin (based on IFAD's financial services associations). Also, the completion evaluation lessons from the IFAD-funded Smallholder Credit, Input Supply and Marketing Project as a rural bank intermediary, will be internalized. Implementation of the programme will be phased to complement ongoing activities supported by the Village Infrastructure Programme, the Upper-East Region Land Conservation and Smallholder Rehabilitation Project and the Root and Tuber Improvement Programme targeted at the poorest segments of the population. Women's participation and gender issues will be significant since *susu* culture and group formation is strong among rural women. The participatory techniques proposed should ensure that the poor and their microfinance institutions, networks or NGO representatives effectively participate in policy dialogues on the development of informal-sector activities. Innovative operational features of informal microfinance services will be proposed that remove the gender-specific barriers to women's access to financial resources.

Main Issues

During appraisal, the following main issues will be addressed: (a) further fine-tuning of programme activities and stakeholder validation; (b) finalization of implementation arrangements; (c) cofinancing with the African Development Bank, GTZ and the World Bank; and (d) other relevant issues, including the legal status, rights and constraints of women to organize themselves for socio-economic activities (individual or group). Also, in addition to looking at the rural banks, the programme will focus on the broad array of institutions downstream of the rural financial continuum and the regulatory framework in the rural, informal financial sector, given their strong interlinkages and interdependencies.

Previous IFAD Operations

Ghana has had nine projects approved (two cofinanced and seven IFAD-initiated) for a total of SDR 76.2 million. Two of these projects were jointly financed with the Special Programme for Sub-Saharan African Countries Affected by Drought and Desertification (SPA). Two projects were fully financed through the SPA. Four projects are currently under implementation. The Upper-East Region Land Conservation and Smallholder Rehabilitation Project is expected to become effective by the end of December 1999.

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Region: Asia and the Pacific	Country: India
Project Name: National Microfinance Support	Per capita GNP¹: 370
Project Cost (USD million): 131.2	Population (million)¹: 962.3
IFAD Loan (USD million): to be determined	Leading External Financier²: IFAD
Proposed Terms: Highly concessional	Cofinancier: United Kingdom Department of International Development (DFID)
Present Status: Under appraisal	Appraising Institution and Loan Administrator: IFAD and UNOPS

Project Objectives

In spite of the concerted efforts made by the Government of India to provide financial services to the poor through the development of a vast network of formal financial institutions (FFIs), access of the poor to institutional credit has remained limited, reaching less than 20% of the rural poor, hence restricting investments both in small farms and the microenterprise sector. In response to the failure of the FFIs to meet the credit needs of the poor, the past two decades have seen the emergence of a wide range of semi-formal-sector microfinance initiatives, largely initiated by NGOs. But these initiatives have been slow to expand. Compared with the experience and scale of the sector in other countries of the region, India is a latecomer to the microfinance field. Microcredit is an important tool for sustainable social and economic progress and a key instrument both for alleviating poverty and creating a sustainable future. Recognizing this, the overall goal of the proposed project is to expand the horizontal and vertical outreach of microfinance institutions and programmes and mainstream them, in terms of their access to resources available in the financial sector, so as to enhance the access of the poor to microfinance services. To achieve that goal, the project will contribute to the development of a more formal, extensive and effective microfinance sector on a national scale. The sector will thus be better able to serve poor women and men and assist in the evolution of an appropriate enabling environment for the development of sustainable microfinance institutions, which will contribute to increasing income and employment, eliminating poverty and empowering the poor and their communities.

Project Beneficiaries

The project expects to bring about positive changes in the microfinance sector in India. It will also be instrumental in alleviating poverty by enabling the poor to undertake microinvestments that have a high return and by contributing to their social empowerment. The target group will embrace all strata of the poor in rural and urban areas in need of microfinance services (approximately 1.3 million women and men). IFAD funds, however, will be restricted to rural and semi-rural areas. About 540 000 persons are expected to be direct borrowers of the credit funds provided by Foundation for Microcredit (SFMC) to the Microfinance Institutions (MFIs)/FFIs. The remaining 800 000 will be receiving loans from members' savings or benefiting from the savings facilities through the MFIs Self-Help Groups (SHGs). Of these, about 70% should be women and 80% from among the poor. Targeting will be ensured through the establishment of ceilings on loan sizes and self-selecting procedures that impose discipline among self-help groups.

Project Components

(a) Capacity-Building of the Microfinance Sector

The aim of the component is to create adequate institutional capacity and understanding of microfinance among the various actors within the sector. To this end, support will be provided to: (i) MFIs to achieve institutional viability and financial self-sufficiency through the provision of technical assistance, training and operational support during the build-up to a viable volume of business (Through these operational support grants, the project expects to help MFIs expand to new sites/clients by financing the recruitment of additional staff, new equipment, upgrading of infrastructure and other essential expenditures.); (ii) MFI clients at the grass-roots level through training in credit management; and (iii) formal FFIs by building their capacity through tailored, specific technical-assistance packages to help them mount or expand microfinance programmes. Small Industries Development Bank of India (SIDBI)/SFMC will also consider equity support on a pilot basis to some MFIs. The project will promote ratings development through organizing capacity-building workshops involving national and international experts.

(b) Credit-Funds for Microfinance Programmes

The project will provide a line of credit (approximately USD 99 million) to SFMC for on-lending to MFIs and FFIs initiating microfinance programmes that will provide credit to about 540 000 borrowers. SFMC will also explore the possibility of providing credit funds to FFIs such as urban cooperative banks (UCBs), regional rural banks (RRBs), non-banking finance companies (NBFCs), credit unions, etc., for on-lending to MFIs/SHGs and other partner institutions or through direct lending.

(c) Policy, Advocacy and Action Research

In order to promote a better enabling environment for the microfinance sector, the project will support studies, debate, advocacy and dissemination of ideas both directly and through support to the growing number of microfinance networks within the country. It will also sponsor action research and pilot testing of new financial products and credit-delivery methodologies.

Project Implementation

The project will be implemented over a seven-year period, divided in two phases, within the framework of the flexible lending mechanism. SIDBI will be responsible for project execution. SFMC will be responsible for project implementation. It will initially act as an autonomous division within SIDBI but will eventually be set up as an independent institution.

Important Features

This will be the first loan to India in which the borrower of IFAD funds will be a bank (SIDBI) against the guarantee of the Government of India. This is the second project developed in close collaboration with DFID. The partnership evolved out of a reality-check workshop in June 1998 in which IFAD presented its strategic approach for India to a group of stakeholders, UN agencies and bilateral organizations. In line with IFAD's strategy for reaching the poor, the project supports the development of grass-roots microfinance institutions through capacity-building and the provision of funds for on-lending. In fact, IFAD's funding will be primarily for on-lending. DFID will finance the capacity-building component on a grant basis. DFID has already approved a grant of 16.5 million pounds sterling for this purpose. The remaining project costs, about USD 86.0 million or 66% of the



ANNEX A

total cost, will be borne by SIDBI. The project builds on IFAD's experience in India in terms of rural- and microfinance and also on the experience of programmes assisted by other donors, and it draws heavily on the innovations being introduced by the microfinance institutions in India. A number of innovative features include: (a) focus on institutional transformation both at the SIDBI level and that of intermediary institutions; (b) strong support for policy and advocacy to provide a more enabling environment for the microfinance sector, both directly through SFMC and indirectly through support to various networks of microfinance practitioners; and (c) enlisting of the support of SIDBI and DFID in the pursuit of policy changes and advocacy to solve the crucial issues impeding the growth of the microfinance sector. Additionally, the project has been built on the clear vision of moving towards commercialization of the sector, which traditionally has been subsidy-oriented.

Main Issues

As stated, the programme will fall under the flexible lending mechanism, with about ten triggers. While these triggers have generally been agreed with SIDBI and a note signed between IFAD, DFID and SIDBI, the Government of India may request delaying the attainment of some triggers to a later date. Furthermore, agreement on the guarantee fees payable to the Government and SIDBI is yet to be finalized although it is not expected to be a major issue. Overall, the Government's current policy emphasizes meeting conditions before negotiation rather than after, so that the projects become effective sooner.

Previous IFAD Operations

To date, IFAD has supported 14 projects (12 IFAD-initiated and two cofinanced) for a total of SDR 281.55 million. Five projects are currently under implementation. The Bihar-Madhya Pradesh Tribal Development Programme is expected to become effective in February 2000.