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**IFAD**

**INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT**

**Executive Board – Eighty-eighth Session**

Rome, 13-14 September 2006

**REPORT AND RECOMMENDATION OF THE PRESIDENT**

TO THE EXECUTIVE BOARD ON A PROPOSED

**GRANT UNDER THE COUNTRY-SPECIFIC GRANTS WINDOW**

TO THE

**ANURADHAPURA PARTICIPATORY DEVELOPMENT FOUNDATION**

FOR THE

**MICROFINANCE AND INSTITUTIONAL CAPACITY DEVELOPMENT PROJECT  
IN SRI LANKA**

**For: Approval**

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## **Note to Executive Board Directors**

This document is submitted for approval by the Executive Board.

To make the best use of time available at Executive Board sessions, Directors are invited to contact the following focal point with any technical questions about this document before the session.

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**CURRENCY EQUIVALENTS**

Currency unit	=	Rupee (Rs)
US\$ 1.00	=	Rs 102.04
Rs 100.00	=	US\$ 0.98

**WEIGHTS AND MEASURES**

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m <sup>2</sup> )	=	10.76 square feet (ft <sup>2</sup> )
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres

**GOVERNMENT OF DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA**  
**Fiscal Year**

1 January – 31 December

**RECOMMENDATION FOR APPROVAL**

The Executive Board is invited to approve the recommendation for a grant under the country-specific grants window to the Anuradhapura Participatory Development Foundation for the Microfinance and Institutional Capacity Development Project in Sri Lanka as contained in paragraph 25.

**REPORT AND RECOMMENDATION OF THE PRESIDENT  
TO THE EXECUTIVE BOARD ON A PROPOSED  
GRANT UNDER THE COUNTRY-SPECIFIC GRANTS WINDOW  
TO THE  
ANURADHAPURA PARTICIPATORY DEVELOPMENT FOUNDATION  
FOR THE  
MICROFINANCE AND INSTITUTIONAL CAPACITY DEVELOPMENT PROJECT  
IN SRI LANKA**

I submit the following report and recommendation on a proposed grant to the Anuradhapura Participatory Development Foundation in Sri Lanka for US\$552,000 to help implement the Microfinance and Institutional Capacity Development Project for a three-year period.

**I. BACKGROUND**

1. In 1996, IFAD initiated the North-Central Province Participatory Rural Development Project (NCPPRDP),<sup>1</sup> in Anuradhapura District in Sri Lanka, which ran until December 2003. The project included components for social mobilization, irrigation and agro-well development, crop and livestock extension, upland development, credit, marketing and social activities.
2. The social mobilization component, initially financed by the Swedish International Development Cooperation Agency (SIDA), applied an approach developed previously by SIDA, based on small groups and “social mobilizers” at the village level. Social mobilizers were selected from among the target group population and were trained by the project to promote the establishment of small groups of five to ten members at the village level. Member self-selection was based on affinity and trust. Although no specific effort was made in terms of gender by the project, women represented 80-90% of the members.
3. Small groups were encouraged to initiate saving mobilization programmes according to modalities developed by the members. The resulting common funds were then used for internal lending. Because demand for such loans was strong, maturities were kept short – not exceeding six months – to allow a high fund turnover and a larger number of members to benefit. Interest rates were decided by group members with the condition that such rates were market-oriented.
4. Group members were supported in their income-generating activities, mostly through skill and management training but also by providing market information and creating market opportunities. Health and education activities were also promoted through the groups and women were empowered to participate effectively in household and village matters.
5. In most villages, several small groups came together in a new forum, the village organization, which was usually composed of five to seven small groups. The village organization fulfils the same functions as the small groups but on a larger scale. With the increasing number of small groups and village organizations, the need was felt for representation at the division level, the lowest

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<sup>1</sup> See Appendix I.

administrative level. Division federations of village organizations were established in all 15 divisions covered by the project. The federations provide training for group members and village organizations. On the basis of funds provided by the project and their own resources, these federations provide larger loans to members and also to village organizations for on-lending to members.

6. To complete the institutional structure, the project promoted the establishment of the district federation, in which all 15 division federations are represented. The district federation is called the Anuradhapura Participatory Development Foundation. It was initially seen as the replacement of the project management unit when the project closed, but at present the district federation's strategy is to confine its activities to the continuation and expansion of a viable microfinance network before diversifying into the complete range of former project activities.

7. By the end of the project, a total of 3,930 small groups and 396 village organizations had been formed, with a membership of about 18,000 persons or 25% of the population of the project area. The institutional set-up also includes the 15 division federations and the district federation (the Anuradhapura Participatory Development Foundation). Savings mobilization amounts to about Rs 15 million. The average loan taken out by the members is about Rs 5,000 (US\$50) and repayment rates are in the range of 95-98%. Lending is for agriculture (78% of all loans), income-generation and small trade purposes. Demand for both savings opportunities and loans is high and largely unmet.

## II. RATIONALE/RELEVANCE TO IFAD

8. The implementation of NCPPRD has led to the organization of part of the target group into active small groups and village organizations that federated at progressively higher levels. This is an important achievement that needs further support to achieve full development because the establishment of the federations at the divisional and district levels was completed only in the final years of the project. For that reason, the federations could not sufficiently benefit from project support before they attained maturity, and there is an obvious need for continued external support, in spite of the impressive internal resource mobilization. At present, the Foundation is strong enough to run independently but in terms of financial resources is not yet self-sustaining because the interest income from lending to division federations is still small, and it lacks the necessary capital to expand this activity. The Government is not in a position to assist the Foundation for various reasons, including limited financial resources. The IFAD grant will fill this gap and assist the Foundation by improving its capital structure, thus allowing it to build up its operations so that it can reach maturity and long-term financial self-sufficiency. The overriding rationale of the project, therefore, is to provide the necessary resources to allow the Foundation to continue its development and expansion. The capacities of members will also be enhanced under the grant and the Foundation's income-generating activities will be promoted.

9. The proposed project is fully aligned with IFAD's country strategy in Sri Lanka as described in the 2004 country strategic opportunities paper. It is also in line with the strategic objectives of IFAD's Grant Policy. Furthermore, it will be implemented in close coordination with the IFAD-funded Dry Zone Livelihood Support and Partnership Programme. Experiences gained during the former NCPPRD in establishing the self-help groups that eventually merged into the Anuradhapura Foundation provide the framework for implementing several activities of the dry zone livelihood programme. In particular, the social mobilization of communities for priority actions and the microfinance promotion activities will largely involve scaling up some of the earlier experiences with the Foundation.

10. The ongoing Matale Regional Economic Advancement Project, which is now at mid-life, will also benefit from the proposed grant-funded project because it is preparing to refocus its own microfinance activities along the same lines as those adopted to support the emergence of the Anuradhapura Foundation. This should allow the Matale project to develop its own exit strategy more effectively.



### III. THE PROPOSED PROJECT

11. The project will contribute to the improvement of the living conditions of poor and low-income households in the Anuradhapura District. The project has two immediate objectives: (a) development and expansion of sustainable microfinance and microenterprise activities for members of the Foundation with the goal of improving household incomes; and (b) building up the institutional capacity of the Foundation to ensure its members undertake income-generating and microenterprise promotion activities effectively. The main components of the project are the following: (i) institutional capacity-building; and (ii) microfinance development.

#### **Institutional Capacity-building**

12. Before implementing the proposed project, the specific institutional development needs of the Anuradhapura Participatory Development Foundation will be assessed. Based on the findings of the assessment, an appropriate support programme will be implemented. It will include: (a) provision of necessary technical and management (including financial) support to the 15 division federations and their village organization or self-help group membership; (b) channelling savings that have been mobilized from members and topped up with the relevant matching grants from the IFAD grant resources to village organizations and self-help groups for on-lending purposes; (c) facilitating the linking of Foundation members to the formal banking system in the Anuradhapura District; (d) provision of the necessary means of transportation, equipment and materials; (e) construction of a simple office for the Foundation; (f) training on several aspects of microfinance management; (g) the establishment of a proper monitoring and evaluation system at the village organization and division level; and (h) the exchange of experiences and best practices among members.

#### **Microfinance Development**

13. The average loan amount borrowed by members during the course of the NCPPRD project was Rs 5,789, and much of the demand remained unmet because of shortage of funds. The proposed project will provide matching grants to the Anuradhapura Participatory Development Foundation to supplement the savings mobilized by village organizations and self-help groups, which together will be used as loanable funds for on-lending to division federations and village organizations and self-help groups on a revolving basis. The average loan size is expected to increase to Rs 10,000 during the course of project. Lending and deposit modalities are decided by the different levels of the federation with the district federation (i.e. the Foundation) ensuring overall uniformity. It is the Foundation's strategy to promote linkages between well performing small groups and village organizations and the banking sector. Therefore, on the basis of performance, it will support groups at all levels and link them to microfinance institutions and/or commercial and rural banks so that they have direct access to loan products.

### IV. EXPECTED OUTPUTS/EXPECTED BENEFITS

14. The project will focus on poor rural women in the Anuradhapura District as its target group. Increased emphasis will be put on concrete project benefits for women, both in terms of improved living conditions and in terms of greater involvement in the management of the Foundation.

15. The project will boost membership of the Foundation through deepening and extending existing village organizations as well as supporting villages that were not targeted by NCPPRD. Poverty incidence will be the criterion for selecting new villages. As a result, membership will increase to 30,000 persons and will include an additional 200 villages in six divisional secretary divisions. These are the divisions of: Galnewa, Ipalogama, Kekirawa, Nochchiyagama, Thalawa and Thambuththegama.

16. It is expected that about 20,000 persons, mainly women, will use microfinance loans productively, and will regularly deposit savings with the village organizations and division federations. Rural financial services will be available at the village level at competitive rates and members will have an effective say in the management of these services. Depending on the use to which loans are put, increases in incomes levels will vary; for instance in agriculture incomes are expected to rise by approximately 65%.

17. The Foundation is expected to become a financially sustainable microfinance institution. Diversification of activities will be undertaken according to the expressed needs and decisions of the members. The IFAD grant will help capitalize the Foundation, and this will allow it to attract other external resources. The North Central Provincial Council and its Provincial Public Service will provide their maximum support to the Foundation to help it become a legal microfinance institution. Some NGOs in the province have been able to promote their institutions to fully legal financial institutions and this experience will be used as an example. The current national legal system would encourage the ambition to convert the Foundation into a microfinance institution with full legal status.

#### V. IMPLEMENTATION ARRANGEMENTS

18. Project implementation will be the overall responsibility of the Executive Committee of the Anuradhapura Participatory Development Foundation (district federation). The General Manager of the district federation will be responsible for day-to-day implementation. This will entail preparation of the annual workplans and budgets, management of the project account with the co-signature of the accountant of the district federation, and the monitoring of implementation progress and impact. The General Manager will report monthly to the Executive Committee on the progress made and issues addressed.

19. The Executive Committee will review annual workplans and budgets, as well as the quarterly and annual reports, prepared by the General Manager and submit them for approval to the General Meeting of the district federation. The latter will also be ultimately responsible for reviewing and approving the annual financial statements.

20. Policy and implementation advice will be provided to the Executive Committee by the North Central Provincial Programme Board of the Dry Zone Livelihood Support and Partnership Programme. This Board will be chaired by the Chief Secretary of North Central Province and will include a representative of the General Manager of the district federation, the District Secretary of Anuradhapura District, a representative of the Chamber of Commerce and representatives of the community organizations. The District Programme Manager of the Dry Zone Livelihood Support and Partnership Programme will serve as the secretary of the Board. The Board will meet on the request of the Executive Committee.

21. The regulatory and supervisory framework within which the project's on-lending activities will take place has three main categories: (i) financial institutions regulated by the Central Bank under the Banking Act of 1988, including all commercial banks, the regional rural development banks, and savings and development banks; (ii) cooperatives, regulated by the Department of Cooperatives; and (iii) formal NGOs that operate under a "softly regulated" framework under the Societies Ordinance Act and the Voluntary Social Services Organization Act. Accordingly, the framework for the project's microfinance operations will be determined by the category of participatory credit institution to which the project entities are linked.

22. The implementation of project activities at the division federation level will be the responsibility of the Division Committee. The Division Manager will be responsible for day-to-day operations and will report monthly to the Committee. Approval of division federation workplans and

budgets, quarterly and annual reports and the annual financial statements will be the responsibility of the general meeting of the division federation.

23. The project will be supervised directly by IFAD with the support of the district programme management unit of the Dry Zone Livelihood Support and Partnership Programme.

#### VI. INDICATIVE PROJECT COSTS AND FINANCING

24. The proposed project will have a duration of three years. Project implementation will require a total financing of US\$905,000. The IFAD grant will contribute US\$552,000 or 61% of the total. The contribution of the Government of Sri Lanka and the Foundation resources – in the form of matching grants from the revolving credit fund established under the former NCPPRDP – will amount to US\$353,000 (39%).

Category	IFAD (US\$)	Government through former NCPPRDP (US\$)	Total (US\$)
Institutional capacity-building	274 400	-	274 400
Matching grants from IFAD and the former NCPPRDP revolving fund	131 500	303 000	434 500
Recurrent expenditures	135 100	27 000	162 100
Other operating costs	11 000	23 000	34 000
<b>Total</b>	<b>552 000</b>	<b>353 000</b>	<b>905 000</b>

#### VII. RECOMMENDATION

25. I recommend that the Executive Board approve the proposed grant in terms of the following resolution:

RESOLVED: that the Fund, in order to finance the Microfinance and Institutional Capacity Development Project in Sri Lanka, shall make a grant not exceeding five hundred and fifty-two thousand United States dollars (US\$552,000) for a three-year project, to the Anuradhapura Participatory Development Foundation, upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

Lennart Båge  
President



**PROJECT COSTS AND FINANCING<sup>a</sup>**

Category	IFAD					Government through former NCPPRDP (US\$)	Total (US\$)
	Year 1	Year 2	Year 3	Total in Rs	Total in US\$		
<b>Institutional capacity-building</b>							
Vehicle	3 000 000			3 000 000	29 400		
Motorcycles	1 500 000			1 500 000	14 700		
Computer set-up	1 600 000			1 600 000	15 700		
Building district Foundation	2 000 000			2 000 000	19 600		
Training and advisory services	6 000 000	7 000 000	6 900 000	19 900 000	195 000		
<b>Subtotal</b>	<b>14 100 000</b>	<b>7 000 000</b>	<b>6 900 000</b>	<b>28 000 000</b>	<b>274 400</b>		<b>274 400</b>
<b>Matching grants from IFAD and the former NCPPRDP revolving fund</b>	<b>1 565 000</b>	<b>4 650 000</b>	<b>7 200 000</b>	<b>13 415 000</b>	<b>131 500</b>	<b>303 000</b>	<b>434 500</b>
<b>Recurrent expenditures</b>							
District foundation	1 111 000	1 466 000	1 222 000	3 799 000	37 200	27 000	
Division federations	3 332 000	3 332 000	3 332 000	9 996 000	98 000		
<b>Subtotal</b>	<b>4 443 000</b>	<b>4 798 000</b>	<b>4 554 000</b>	<b>13 795 000</b>	<b>135 100</b>	<b>27 000</b>	<b>162 100</b>
Other operating costs of the Foundation	11 224 000			11 224 000	11 000	<b>23 000</b>	<b>34 000</b>
<b>Total</b>	<b>31 332 000</b>	<b>16 448 000</b>	<b>18 654 000</b>	<b>66 434 000</b>	<b>552 000</b>	<b>353 000</b>	<b>905 000</b>

<sup>a</sup> Discrepancies in totals are due to rounding up of figures.

## APPENDIX II

## DESCRIPTION OF THE PROJECT

## A. General

1. The IFAD-funded NCPPRDP was implemented from 1996 to 2003. Its objective was to improve incomes of poor rural households to exceed the poverty line and to address the issue of malaria incidence, the main cause of ill health and low labour productivity. The project, with a total cost of US\$19.5 million, had seven components, namely (i) social mobilization (22% of total costs); (ii) water resource development (45%); (iii) agriculture development (8%); (iv) storage, processing and income generation (2%); (v) rural finance (13%); (vi) health and nutrition improvement (3%); and (vii) project management (7%). The project area included 15 divisional secretary divisions in the Anuradhapura District. An IFAD loan of US\$8.5 million financed 44% of total costs. Other external cofinanciers included the Swedish International Development Cooperation Agency and the World Food Programme.
2. The project adopted a participatory village planning approach and in that framework undertook an important programme of social mobilization. Small groups of five to ten members, co-opted on the basis of affinity and trust, were established for the purpose of participatory village planning as well as for savings mobilization and internal lending to members. By the end of the project, a total of 3,930 small groups had been formed with a membership of about 18,000 persons. Women represent 80-90% of members. Several small groups in the same village combined to form the village organization: a total of 396 have been set up. These groups and organizations have now been in place for three years. The project promoted the establishment of 15 division federations of village organizations and of a District Participatory Development Foundation, set up in 2003. The structure of small groups, village organizations and federations thus represents the interests of the project beneficiaries.
3. According to a project impact assessment carried out in May 2003, about 25% of all village households in the project area and over half of the target group households had become members of small groups. The proportion of the poor in the total membership varies between small groups and village organizations but averages less than half of all members. This is the result of the initial approach of savings mobilization: although the poor do save, the problem is often the group requirement to save on a regular basis.
4. By the end of 2003, the savings mobilization efforts had resulted in a total amount accumulated by the small groups of Rs 12.5 million and of about Rs 3 million at the level of the village organizations. In addition, the project had provided revolving village development funds of Rs 25,000 to each village organization. The second most important result was the opportunity to arrange labour exchange for agriculture. Small groups and village organizations also provided opportunities for women to assume leadership roles, although men were over-represented in these positions.
5. Amounts borrowed directly from the small group funds usually do not exceed Rs 1500-2000; whereas loans from the village organization or the division federation can amount to Rs 10,000, although the average amount borrowed is about Rs 5,200 (US\$52). Borrowing has been mostly for crop and livestock production (78% of the number of loans); the remaining loans were taken out for income-generating activities and small trade. Although most loans are taken out by female members of small groups, the use of loan funds for agriculture is often managed by their husbands. Repayment rates range between 85% and 98%.
6. Division federations provide several services, including the promotion of improved nutrition and sanitation. Most federations also provide individual life and disability insurance against payment of a fee.

## APPENDIX II

**B. Structure**

7. Members of small groups elect their chairperson and treasurer, and can also become individual members of village organizations against the payment of an entry fee of Rs 100. The general meeting of the village organization appoints the office bearers, who include the chairperson, treasurer and secretary. In addition, the village organization appoints a village manager and a social mobilizer, who are responsible for member training, awareness raising and implementation of village development activities. These officials are not paid; they perform a voluntary service for the benefit of their own community.

8. The chairpersons of the village organizations located in a division constitute the general meeting of the division federation. The meeting appoints the Division Committee, which includes the federation chairperson, treasurer and secretary. Similar to the village organizations, the federation has at least one staff function of federation manager.

9. At the district federation, all 15 division chairpersons constitute the Executive Committee, which elects from its own members the district chairperson, treasurer and secretary. At present, the district has a staff that includes a general manager and several managers for fields such as social mobilization, monitoring and evaluation, accounting and resource development. An external Advisory Board includes specialists in community development.

**C. Strategy**

10. NCPPRDP had not been designed with a clear exit strategy and the role of the Foundation at the end of the project had not been fully taken into account. Initial strategy options considered for the Foundation focused on the continuation and follow-up of all project activities, while also emphasizing the need for institutional and financial sustainability of the institution.

11. The strategic focus therefore had to be narrowed down on the basis of two essential considerations:

- The membership structures, such as small groups and village organizations were initially constituted for the purpose of initiating savings mobilization and micro-loan programmes, and member selection was on the basis of affinity and trustworthiness and not necessarily on participation in one or more other project activities. Although the Foundation has been successful in implementing the microfinance programme with project assistance, it is not yet technically and financially sustainable and therefore it should strengthen its initial function as a microfinance agency before diversifying into other former project activities;
- If the Foundation is to become a sustainable, representative institution that promotes the interests of the poor rural households in the district, it has to become a sound and financially independent agency. Microfinance represents a sector where financial sustainability is in principle attainable. This is not the case with other former project activities such as crop demonstrations, infrastructure maintenance, tank rehabilitation and agro-well construction or health and nutrition advisory services. This is not to undervalue the importance of each of these activities, but rather to emphasize that their implementation requires budget-spending agencies rather than financially autonomous institutions. For the sake of financial sustainability, the Foundation should therefore focus on the microfinance sector.

APPENDIX II

12. On this basis, the essential elements of the Foundation's strategy are as follows:

**Goal**

13. The activities of the Foundation will contribute to the improvement of the living conditions of poor and low-income households in the district.

**Immediate Objectives**

14. In its activities, the Foundation will pursue two immediate objectives:

- that a sustainable microfinance network is in place and is expanding;
- that the membership is effectively undertaking income-generating activities and microenterprises with the aim of improving household income.

**Strategy**

15. To achieve the immediate objectives, the Foundation will implement a strategy that is based on the following overall considerations:

- **Focus on the poor.** Only about half of the present membership is poor and membership is based on affinity and trust rather than income criteria. The Foundation will therefore ensure that its operating modalities and criteria will correspond to the capacities and resources of poor households and it will actively promote the poor to become members;
- **Focus on women.** Women represent 80-90% of the membership and the Foundation will actively promote the further participation of women. Particular focus will be on the use of loan funds for women's own income-generating activities; the promotion of women in key positions at all levels in the Foundation, commensurate with their proportion in the overall membership; and support to empowerment through the small groups.

16. The Foundation seeks to develop microfinance and microenterprise activities of its members, while at the same time strengthening its own institutional structure. For these three main fields of activities, it will apply the following specific strategies:

**Microfinance**

17. Microfinance development will remain based on the establishment of small groups of mainly women members, self-selected on the basis of trust and affinity. A fair representation of the poor will be promoted. Small groups will initiate compulsory saving mobilization programmes according to modalities agreed by the group members. Variation in modalities between groups, according to member capacities, will be part of the strategy. Using the group common fund, internal group lending will be promoted according to modalities defined by the members. Small-group members will be encouraged to become active members of the relevant village organization. Small-group members will be eligible for individual loans from the division federation; and the group as a whole will also be able to obtain refinancing from the division federation according to modalities established by the district federation members. Part of the Foundation's strategy is to promote linkages among well performing small groups, village organizations and the banking sector. Training of group members and staff at all levels in microfinance techniques, accounting and management will be provided.



**Microenterprise**

18. Members will be supported in the implementation of their microenterprise activities. For that purpose, the Foundation will provide vocational and management training. The Foundation will also actively promote market linkages, broker contracts and provide market information.

**Institutional Development**

19. Regarding institutional development, the Foundation strategy is based on the following considerations:

- The essential responsibility of apex institutions in the divisions and the district is to serve the interests of the members in the small groups and the village organizations. They will remain small and cost-effective;
- Women will be promoted to key positions, commensurate with their proportion (80-90%) in overall membership;
- Voluntary commitment to the organization will be encouraged. However, several essential staff positions that require full-time commitment will gradually become remunerated. Staff contracting will be on fixed-term basis, no permanent contracts will be provided and performance incentives will be applied;
- Cost-effective staff training will be made available at all levels when required;
- The Foundation will mobilize appropriate internal and external resources to become a financially viable agency serving the interests of its members. Once this has been achieved, it may consider diversifying its activities according to demands from the membership;
- When the Foundation considers it has sufficient management capacities, it may act as a service provider for Government or donor agencies on the basis of precisely defined programmes, contracts and remuneration schedules.

**LOGICAL FRAMEWORK**

<b>Objectives</b>	<b>Indicators</b>	<b>Means of Verification</b>	<b>Assumptions</b>
<p><b>Goal</b></p> <ul style="list-style-type: none"> <li>◇ Improvement of living conditions of poor and low-income households in the district</li> </ul>	<ul style="list-style-type: none"> <li>◇ Household income data</li> <li>◇ Nutrition data by gender</li> <li>◇ Education and health household data by gender</li> </ul>	<ul style="list-style-type: none"> <li>◇ Household surveys</li> <li>◇ Evaluation and impact studies</li> <li>◇ Statistics</li> </ul>	
<p><b>Purpose</b></p> <ul style="list-style-type: none"> <li>◇ Development of microfinance and microenterprise activities of the members of the foundation</li> <li>◇ Building up the institutional capacity of the foundation</li> </ul>	<ul style="list-style-type: none"> <li>◇ No. of borrowers by gender</li> <li>◇ Loan recovery rates</li> <li>◇ Profitability and efficiency indicators</li> <li>◇ No. and type of microenterprises by gender</li> <li>◇ Turnover and profitability</li> <li>◇ Member income levels</li> <li>◇ Expenditure on nutrition, education and health</li> <li>◇ Social status of women, leadership functions assumed by women</li> </ul>	<ul style="list-style-type: none"> <li>◇ Household surveys</li> <li>◇ Evaluation and impact studies</li> <li>◇ District and division statistics</li> <li>◇ Foundation annual reports</li> </ul>	<ul style="list-style-type: none"> <li>◇ Macroeconomic environment remains positive and conducive to growth</li> <li>◇ Security situation consolidated</li> <li>◇ Market demand for income-generating activity output keeps expanding</li> <li>◇ Increased household incomes used for improved living and social conditions rather than for conspicuous consumption</li> </ul>

Objectives	Indicators	Means of Verification	Assumptions
<p><b>Output 1</b></p> <ul style="list-style-type: none"> <li>✧ Federations have capacity to cover increasing number of villages and poor clients more effectively</li> <li>✧ Members effectively trained by federations and social activities undertaken</li> <li>✧ Women increasingly assume leadership positions</li> </ul>	<ul style="list-style-type: none"> <li>✧ No. of members by gender; no. of small groups and village organizations</li> <li>✧ % of division population covered</li> <li>✧ poverty incidence among members by gender</li> <li>✧ field presence federation staff</li> <li>✧ staff costs per loan</li> <li>✧ No. of staff and members trained by gender</li> <li>✧ No. training sessions, participants by gender</li> <li>✧ Post-training follow-up advisory services</li> <li>✧ Education and health status members</li> <li>✧ Women in leadership positions in village institutions and federations</li> </ul>	<ul style="list-style-type: none"> <li>✧ Household surveys</li> <li>✧ Evaluation and impact studies</li> <li>✧ District and division statistics</li> <li>✧ Foundation annual reports</li> </ul>	<ul style="list-style-type: none"> <li>✧ Staff motivation remains high</li> <li>✧ Equipment used efficiently</li> </ul>
<p><b>Output 2</b></p> <ul style="list-style-type: none"> <li>✧ Federations, village organizations and small groups meet effective demand for microfinance loans and other financial services</li> <li>✧ Loan resources are effectively revolving and keep their real value</li> </ul>	<ul style="list-style-type: none"> <li>✧ No. and amount of loans by gender</li> <li>✧ Repayment rates by gender</li> <li>✧ Volume of deposits by gender</li> <li>✧ Insurance activities</li> <li>✧ Share of village organizations and federations in rural microfinance market</li> <li>✧ Aggregate and incremental loans financed</li> <li>✧ Real value assets</li> </ul>	<ul style="list-style-type: none"> <li>✧ Household surveys</li> <li>✧ Evaluation and impact studies</li> <li>✧ Microfinance sector studies</li> <li>✧ District and division statistics</li> <li>✧ Foundation annual reports</li> </ul>	<ul style="list-style-type: none"> <li>✧ Market interest rates and inflation remain acceptable</li> </ul>

Objectives	Indicators	Means of Verification	Assumptions
<p><b>Output 3</b></p> <ul style="list-style-type: none"> <li>✧ Services provided to village organizations and small groups</li> <li>✧ Annual audits for federation accounts carried out and results acceptable</li> <li>✧ Federation delivery costs remain low and profitability increases</li> </ul>	<ul style="list-style-type: none"> <li>✧ Frequency and timeliness of audit reports, auditor opinions</li> <li>✧ Profit and loss accounts, federation balance sheets</li> </ul>	<ul style="list-style-type: none"> <li>✧ Evaluation and impact studies</li> <li>✧ District and division statistics</li> <li>✧ Foundation annual reports</li> <li>✧ Audit reports</li> </ul>	<ul style="list-style-type: none"> <li>✧ Finance available in a timely manner</li> </ul>

**KEY ASSUMPTIONS IN FINANCING PLAN AND PROJECT COST ESTIMATE FORMULATION**

**Division Federation**

- **Membership.** Number increases from 1,150 at present to 4,000 and remains stable thereafter. The proportion of members saving and borrowing with the federation increases from 25% to 75%, reflecting increasing demand for larger loans.
- **Social mobilizers.** The density of social mobilizers decreases over time, assuming that the members are increasingly capable of taking on some of the mobilizers' functions.
- **Interest rates.** The current interest rate structure reflects the need for capitalization at the district and division levels. The deposit rate is relatively high, rendering the federation's own resources costly. It has been assumed the rate will decline over time to 3% per annum. The interest structure should be reviewed once financial viability has been achieved.
- **Average loan size.** Taking into account strong demand, it has been assumed that average loan size will increase to Rs 10,000. The loan ceiling has been set at Rs 20,000.
- **Deposits.** Average deposits by all members are expected to rise from Rs 500 to Rs 1,500. It has been assumed that a federation will keep 20% of its deposits in reserve and use up to 80% for lending purposes. Loanable funds required in excess of the division federation's own funds and deposits will be borrowed from the district federation.
- **Staff.** Levels have been maintained at a minimum. Remuneration for full-time staff has been introduced through a two-year phasing-in period to avoid financial overburdening. As soon as profits are realized, 12.5% will be used for staff incentives.

**District Federation**

- **Division federations.** The number of division federations remains at 15.
- **Training.** The district federation implements the project training activities and maintains a limited annual training programme.
- **Staff.** The same assumptions have been made as for division federation staff.

ORGANIZATIONAL CHART



