

Document:	<u>EB 2007/91/R.34</u>
Agenda:	<u>11(b)</u>
Date:	<u>16 August 2007</u>
Distribution:	<u>Public</u>
Original:	<u>English</u>

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Enabling the rural poor
to overcome poverty

President's report on proposed grants under the global/regional grants window to non-CGIAR-supported international centres

Executive Board — Ninety-first Session
Rome, 11-12 September 2007

For: **Approval**

Note to Executive Board Directors

This document is submitted for approval by the Executive Board.

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Contents

Abbreviations and acronyms	ii
Recommendation for approval	iii
I. Introduction	1
II. Recommendation	2
Annexes	
I. African Rural and Agricultural Credit Association (AFRACA): AFRACA Development Programme 2008-2012	4
II. International Fertilizer Development Center (IFDC): Programme for Extending Agro-Input Dealer Networks (EADN)	9
III. Microfinance Information Exchange, Inc. (MIX): Programme for Building Market Information to Improve Performance Monitoring in Rural Finance	14

Abbreviations and acronyms

AFRACA	African Rural and Agricultural Credit Association
EADN	Extending Agro-Input Dealer Networks
IFDC	International Fertilizer Development Centre
MFI	microfinance institution
MIX	Microfinance Information Exchange, Inc.

Recommendation for approval

The Executive Board is invited to approve the recommendations for grants under the global/regional grants window to non-CGIAR-supported international centres as contained in paragraph 10.

President's report on proposed grants under the global/regional grants window to non-CGIAR-supported international centres

I submit the following report and recommendation on three proposed grants for agricultural research and training to non-Consultative Group on International Agricultural Research (CGIAR)-supported international centres in the amount of US\$3,048,000.

Part I – Introduction

1. This report recommends the provision of IFAD support to the research and training programmes of the following non-CGIAR-supported international centres: the African Rural and Agricultural Credit Association (AFRACA); the International Fertilizer Development Center (IFDC); and the Microfinance Information Exchange, Inc. (MIX).
2. The documents of the grants for approval by the Executive Board are contained in the annexes to this report:
 - (i) African Rural and Agricultural Credit Association (AFRACA): AFRACA Development Programme 2008-2012
 - (ii) International Fertilizer Development Center (IFDC): Programme for Extending Agro-Input Dealer Networks (EADN)
 - (iii) Microfinance Information Exchange, Inc. (MIX): Programme for Building Market Information to Improve Performance Monitoring in Rural Finance
3. The objectives and content of these applied research programmes are in line with the evolving strategic objectives of IFAD and the policy and criteria of IFAD's grant programme.
4. The overarching strategic objectives that drive the IFAD Policy for Grant Financing, which was approved by the Executive Board in December 2003, are:
 - (a) promoting pro-poor research on innovative approaches and technological options to enhance field-level impact; and/or
 - (b) building pro-poor capacities of partner institutions, including community-based organizations and NGOs.
5. Deriving from these objectives and those of the IFAD Strategic Framework 2007-2010, the specific aims of IFAD's grant support relate to: (a) the Fund's target groups and their household food-security strategies, with particular reference to groups in remote and marginalized agroecological areas; (b) technologies that build on traditional local/indigenous knowledge systems, are gender-responsive, and enhance and diversify the productive potential of resource-poor farming systems by improving on- and off-farm productivity and by addressing production bottlenecks; (c) access to productive assets (land and water, a broad range of rural financial services, labour and technology); (d) the sustainable and productive management of natural resources, including sustainable use and conservation of such resources; (e) a policy framework at both the local and the national level that provides the rural poor with a conducive incentive structure to improve their productivity and reduce their dependence on transfers; (f) access to transparent and competitive input/product markets, making these work for the poor primary producers involved in remunerative small and medium-sized enterprises and value chains; and (g) an institutional framework within which institutions – formal and informal, public- and private-sector, local and national alike – can provide services to the economically vulnerable, according to their comparative advantage. Within this framework, IFAD's grant financing supports commodity-based approaches for self-targeting among the

rural poor. Finally, IFAD's grant programme fosters the establishment and strengthening of networks for pro-poor knowledge generation and exchange, which in turn enhances the Fund's own capacity to establish long-term strategic linkages with its development partners and to multiply the effect of its grant-financed research and capacity-building programmes.

6. The grants proposed in this document will respond to the foregoing strategic objectives and specific aims of IFAD's grant support.
7. The AFRACA Development Programme 2008-2012 will respond to specific aims (c), (e) and (g) by promoting enabling policies and legal frameworks for rural financial service development in AFRACA member countries; enhancing the management, outreach, products and performance of AFRACA's member institutions; and strengthening AFRACA's capacity to provide effective services to its members on a financially sustainable basis.
8. The Programme for Extending Agro-Input Dealer Networks (EADN) will respond predominantly to specific aims (c) and (f) by improving farmers' access to agricultural inputs and technology and thus increasing the incomes of poor farmers in remote rural areas, while specific aim (g) will be met through upgraded and extended dealer networks, the development of trade associations and increased institutional capacities throughout input supply chains.
9. The Programme for Building Market Information to Improve Performance Monitoring in Rural Finance meets both overarching strategic objectives by: (a) promoting pro-poor research to develop methods of performance monitoring in innovative delivery channels that reach the poor; and (b) building the pro-poor capacity of partner microfinance institutions. In order for microfinance providers to serve the rural poor over the long term, IFAD interventions are designed to build their capacity to monitor their own performance and then respond in ways that strengthen their institution, be it through improvements in areas such as internal systems, outreach and product development.

Part II – Recommendation

10. I recommend that the Executive Board approve the proposed grants in terms of the following resolutions:

RESOLVED: that the Fund, in order to finance, in part, the AFRACA Development Programme 2008-2012 shall make a grant not exceeding one million one hundred thousand United States dollars (US\$1,100,000) to the African Rural and Agricultural Credit Association (AFRACA) for a five-year programme upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board herein.

FURTHER RESOLVED: that the Fund, in order to finance, in part, the Programme for Extending Agro-Input Dealer Networks (EADN) shall make a grant not exceeding one million United States dollars (US\$1,000,000) to the International Fertilizer Development Center (IFDC) for a three-year programme upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board herein.

FURTHER RESOLVED: that the Fund, in order to finance, in part, the Programme for Building Market Information to Improve Performance Monitoring in Rural Finance shall make a grant not exceeding nine hundred and forty-eight thousand United States dollars (US\$948,000) to Microfinance Information Exchange, Inc. (MIX) for a four-year programme upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board herein.

Lennart Båge
President

African Rural and Agricultural Credit Association (AFRACA): AFRACA Development Programme 2008-2012

I. Background

1. The African Rural and Agricultural Credit Association (AFRACA), established in 1977, is a regional association of sub-Saharan African financial institutions that are involved in providing financial services to rural populations of the region. IFAD support to AFRACA commenced with an initial grant in 1992. On the basis of positive evaluations of the Association, IFAD has provided successive grants, including support to the AFRACA Development Programme 2004-2007. This programme is coming to an end in December 2007 and the Association is requesting a further grant from IFAD for the AFRACA Development Programme 2008-2012. The grant will contribute to development costs complemented by already existing sources of internal revenue raised from membership fees and contributions, and from existing and new support from other donors.

II. Rationale and relevance to IFAD

2. The rationale for the next 2008-2012 programme is to further develop AFRACA's services to its members; to improve the efficiency of their delivery; and to strengthen the Association's relations with a broadened range of development and commercial partners, with a view to establishing a more solid financial base for its operations. With the strong leadership of the Association, a strengthened organizational structure, new and more appropriate services and an improved operational environment for rural finance activities in many African countries, there is a much greater likelihood of achieving even more positive results and wider impact as a result of AFRACA's operations in the 2008-2012 programme.
3. The 2008-2012 programme is highly relevant to regional and national efforts, and to IFAD, in reducing rural poverty. In Africa, practically all national plans and strategies aiming at systematic action to reduce poverty identify the lack of appropriate rural credit services as one of the key causes of low production levels and inefficient production methods. Similarly, the lack of savings facilities is commonly seen to have an adverse effect on rural investment activities and on the rational planning of the household consumption patterns. With its appropriate services supporting rural finance operations and a region-wide network of members, AFRACA is in a unique position to assist member countries in reaching the objectives of poverty alleviation efforts in its different member countries in sub-Saharan Africa.
4. For IFAD, cooperation with AFRACA is a relevant part of its rural finance strategy in sub-Saharan Africa. The rationale for IFAD's support to AFRACA is derived from IFAD's strategic priorities. First, the IFAD Strategic Framework 2007-2010 makes it clear that enhancing the access of poor rural women and men to a broad range of financial services, and enabling them to develop the skills and organization they require to take advantage of them, is one of the Fund's key strategic objectives over the coming four years. To achieve this objective, IFAD will support the emergence of a vibrant rural financial sector made up of varying types of sustainable financial institutions providing a range of services to poor rural people, and will work to enhance the capacity and organization of those poor rural people to access those services and use them for their productive and household needs. Supporting AFRACA is fully in line with such an objective. Second, enhanced knowledge management is increasingly a critical element of IFAD's rural poverty reduction efforts, and its (draft) knowledge management strategy highlights the importance of knowledge sharing in and across developing countries. AFRACA is a member-driven association dedicated above all to knowledge sharing and learning; further IFAD support for a rare, successful example of such a network will thus be strongly supportive of its knowledge management strategy. Finally, support for the 2008-

2012 programme, and for AFRACA's further development, will be fully consistent with the specific objective of IFAD's grant programme of building pro-poor capacities of partner institutions.

5. Additionally, with its broad membership – covering central banks, commercial banks, cooperative and development banks, as well as microfinance institutions – AFRACA provides a valuable instrument in efforts to bring together different players and develop a systemic approach to rural finance service development in African countries. The Association is in a good position to assist IFAD in developing its rural finance strategies, and in designing and implementing its programmes in the region. In the 2008-2012 programme, a separate component will focus on partnership building with other rural finance development programmes, especially the ones supported by IFAD in the region.

III. The proposed programme

6. The overall goal of the 2008-2012 programme is to enable the rural poor to overcome poverty by improving their access to financial services.
7. The specific objectives for the programme period are to:
 - Promote enabling policy and legal frameworks for rural financial service development in AFRACA member countries;
 - Enhance the management, outreach, products and performance of AFRACA's member institutions;
 - Strengthen AFRACA's capacity to provide effective services to its members on a financially sustainable basis.
8. The programme will be of a five-year duration and will comprise the following seven components:
 - Policy development and advocacy
 - Best practice and product development
 - Information services
 - Capacity-building services
 - Sustainability drive
 - Partnership programmes and networking
 - Strengthening of the secretariat

IV. Expected outputs and benefits

9. The 2008-2012 programme aims to produce the following key outputs:
 - Improved policy environment for rural finance operations in place in AFRACA member countries;
 - Innovative rural finance practices and products developed through AFRACA initiatives, and adopted and mainstreamed by member institutions;
 - Skills of the staff of member institutions developed through capacity-building programmes and events;
 - Members and the wider public reached with AFRACA information services;
 - Partnership programmes implemented with regional and international organizations;
 - Membership of AFRACA increased in a balanced manner over countries and among central banks, commercial banks, cooperative and development banks, and microfinance operators;

- Fund-raising strategy successfully implemented;
 - AFRACA governance and management systems streamlined and made more efficient.
10. The immediate beneficiaries of AFRACA's activities are – and will continue to be – its member institutions: central banks, development banks, commercial banks and microfinance institutions (MFIs). AFRACA interventions aim to assist in creating a supportive policy framework in the member countries in which the rural financial institutions can successfully operate. At the same time, AFRACA services aim to improve the capacity of the member institutions to manage their operations professionally and efficiently, and to provide a growing number of rural clients with a full range of appropriate rural finance services.
11. The ultimate beneficiaries of AFRACA services are the client households of the member institutions. With improved, appropriate and sustainable services from AFRACA's member banks and MFIs, these households would be expected to gain economic and welfare benefits. While the exact magnitude of benefits from AFRACA activities is difficult to estimate, various factors would indicate that such benefits could be significant:
- With its rapidly growing membership, AFRACA reaches more financial institutions directly, which creates a basis for reaching a larger number of rural households with appropriate rural financial services;
 - Increased understanding by African governments about the importance of financial services in rural development improves the opportunities for AFRACA to support appropriate policy design in its member countries;
 - New approaches in rural microfinance, which AFRACA advocates, have helped AFRACA member banks and MFIs to set up promising, financially sustainable rural finance schemes. Chances for replicating them by other members and in other AFRACA member countries during the 2008-2012 period are obvious;
 - Recently, AFRACA members have shown substantial capacity to organize independently various AFRACA training events and exchange programmes, which increases the outreach of these services as well as their potential impact;
 - Partnership programmes with other international and African institutions and development programmes increase the potential audience for AFRACA services as well as the potential ultimate benefits from the AFRACA operations.

V. Implementation arrangements

12. The management and implementation of the 2008-2012 programme will be the responsibility of the permanent leadership and management structures of AFRACA. As is current practice, the AFRACA Executive Committee will meet twice a year to provide policy guidance and to ensure that programme activities are implemented according to plans and budgets. The responsibility for day-to-day management and coordination of activities will be with the AFRACA secretariat.
13. In particular, AFRACA will continue current management practices that have proven to work well in the previous programmes, including preparation and presentation of annual workplans and budgets supported by periodic technical assistance and review missions to AFRACA. To assess overall programme achievements, and especially the impacts on AFRACA members and their capacity to serve rural populations, AFRACA will commission internal participatory evaluations three times during the 2008-2012 programme. The evaluations will serve to (re)direct resources so as to match

activities with outputs to achieve the best results and impacts among the target group.

VI. Indicative programme costs and financing

14. The total 2008-2012 programme budget is estimated at US\$4.24 million. The budget will include US\$1.74 million (or 41 per cent) funded by AFRACA internal revenue and US\$0.31 million (or 7 per cent) funded by AFRACA member contributions to events and staff training programmes. Of the donors, the Food and Agriculture Organization of the United Nations (FAO) and the Technical Centre for Agricultural and Rural Cooperation ACP-EU – comprising the Africa, Caribbean and Pacific Group of States (ACP) and the European Union – will contribute US\$0.43 million (or 10 per cent); and AFRACA is negotiating with other donors to contribute US\$0.66 million (or 16 per cent). IFAD will contribute US\$1.10 million (or 26 per cent). The details of the IFAD contribution are shown below. This will be the final financial contribution of this nature by IFAD to AFRACA. Hence the US\$1.10 million will be progressively reduced in amounts of US\$320,000 for 2008, to US\$90,000 for 2012. In anticipation of IFAD's withdrawing substantial financial support, AFRACA has begun pursuing other, public and private, sources of funding, including endeavouring to raise contributions from new members from financial institutions both within and outside of Africa.
15. The programme will be supervised through field missions undertaken by the IFAD Eastern and Southern Africa Division. Supervision activities will be financed by IFAD's internal administrative budget, in close collaboration with the Rural Finance Desk of the Technical Advisory Division.

Summary of budget

(United States dollars)

<i>Type of expenditure</i>	<i>IFAD</i>
Capital/equipment	15 000
Capacity-building (studies, workshops and training)	415 000
Personnel	300 000
Publications	240 000
Technical assistance/backstopping	130 000
Total	1 100 000

Logical framework

	Narrative Summary	Key Performance Indicators	Means of Verification	Important Assumptions
Overall Goal	<ul style="list-style-type: none"> To enable the rural poor to overcome their poverty by improving their access to financial services. 	<ul style="list-style-type: none"> Increases in the number of rural low-income people provided with appropriate rural finance services by member institutions. 	<ul style="list-style-type: none"> Periodical performance reports of member institutions and assessment on performance of member institutions. 	<ul style="list-style-type: none"> Members' and development partners' confidence in and support to AFRACA continues.
Objectives	<ul style="list-style-type: none"> Promote enabling policy and legal frameworks for rural financial service development in member countries. Enhance the management, outreach, products and performance of member institutions. Strengthen capacity to provide effective services to its members on a financially sustainable basis. 	<ul style="list-style-type: none"> No. of countries introducing new rural finance policies. No. and outreach of new rural finance products and schemes implemented. No. of improved management systems. No. of capacity building programmes implemented and the number of member staff participating in the courses and exchange visits. No. of publications finalised and the numbers of publications distributed to the members and other stakeholders. No. and volume of new partnerships established. Developments membership and internal revenue collection. 	<ul style="list-style-type: none"> Programme semi-annual reports, periodical review mission reports, events reports and periodical performance reports of members. 	<ul style="list-style-type: none"> Political instability and insecurity do not constitute a major obstacle for AFRACA operations in Kenya and in member countries.
Programme Outputs	<ul style="list-style-type: none"> Improved policy environment, Finance practices and products, Skills, Public reached with information services, Partnership and membership. 	<ul style="list-style-type: none"> Data on advocacy events and workshops, Product development, Training courses and exchange visits, Information services programme, Membership development and partnership, Internal revenue collection, Materialised external funding, Accounts and reports. 	<ul style="list-style-type: none"> Programme semi-annual reports, periodical review mission reports and accounts. 	
Programme Activities				
Component 1: Policy Dev. & Advocacy	<ul style="list-style-type: none"> General Assembly, workshops and meetings. 	<ul style="list-style-type: none"> No. of events. 	<ul style="list-style-type: none"> M&E reports, semi-annual reports, periodical review mission reports and internal and evaluation report. 	The financing programme, especially concerning external donor grants, will materialise as planned.
Component 2: Best Practice & Product Dev.	<ul style="list-style-type: none"> Support to innovative development projects of member organisation. 	<ul style="list-style-type: none"> No. of project supported. 		
Component 3: Member Staff Capacity Building	<ul style="list-style-type: none"> Member staff exchange programme. 	<ul style="list-style-type: none"> No. of participants. 		
Component 4: Information Services	<ul style="list-style-type: none"> News items, website, e-newsletter and library. 	<ul style="list-style-type: none"> No. of items. 		
Component 5: Sustainability Drive	<ul style="list-style-type: none"> Increase membership and new public and private donor funding. 	<ul style="list-style-type: none"> No. of news members and contributions. 		
Component 6: Partnerships & Networking	<ul style="list-style-type: none"> Joint projects, research and partnerships. 	<ul style="list-style-type: none"> No. of events with other organisations No. and type of materialised partnership events with other organisations. 		
Component 7: Strengthening of Secretariat	<ul style="list-style-type: none"> Evaluations, training and technical support. 	<ul style="list-style-type: none"> Internal evaluation every two years. Annual courses for staff. Minimum one international review and technical assistance mission per year. 		

International Fertilizer Development Center (IFDC): Programme for Extending Agro-Input Dealer Networks (EADN)

I. Background

1. Poor smallholder farmers produce mainly for their own household consumption. Production systems are based on extractive practices with little or no use of inputs. The root cause of the low level of input use by poor, smallholder farmers is underperforming input and output markets. Farmer access to yield-enhancing technologies is constrained by fragmented and underdeveloped agricultural input markets that result in high transaction costs and high prices for inputs, late arrivals of inputs, an inappropriate product mix, limited dealer networks that are not in close proximity to smallholder farmer fields, poor knowledge transfer, and the absence of commercial credit for dealers and farmers. Weak output markets and the absence of well-functioning value chains have a negative impact on demand for inputs and contribute to both crop market risks and price risks for farmers. The economic returns to fertilizer use are often low and variable, thus providing smallholder farmers low incentives to use fertilizers. The constraints to input use are magnified for farmers in more remote locations. Consequently, farmers tend to increase production by expanding cultivation to marginal lands with fragile soils and by clearing forests and wildlife habitats. Poor access to inputs results in low agricultural productivity and associated poverty, while also leading to severe environmental degradation.
2. Greater use of fertilizer, improved seed, and crop protection products is crucial if Africa is to meet the call of the United Nations Secretary-General for an African Green Revolution; reach the goal of 6 per cent annual agricultural growth as set by the New Partnership for Africa's Development (NEPAD) in its Comprehensive Africa Agriculture Development Programme; and achieve the first Millennium Development Goal of halving by 2015 the proportion of people living in extreme poverty and suffering from hunger.

II. Rationale and relevance to IFAD

3. The rationale for the programme is based on the hypothesis that, in Kenya, Uganda and the United Republic of Tanzania, retail agro-input dealers are the weakest link in the input marketing chain that smallholder farmers rely on for their physical supply of agro-inputs and for their knowledge of input use. Strengthening this link in the rural marketing system will directly benefit smallholder rural poor farmers by improving access, affordability and incentives to use modern production technologies.
4. The dealers are well positioned to supplement and fill the information void for smallholder farmers. They have the direct incentive to do so through the increased sales and profit motive. Competition among wholesalers and dealers to spur market efficiency and generate competitive margins is limited to the major market centres. Agro-input transaction costs are significantly influenced by factors relating to the economy of scale. In Uganda and the United Republic of Tanzania, however, agro-input markets are relatively small, suggesting that business linkage expansion through regional collaboration may generate significant economic benefits that will directly benefit smallholder farmers. Promotion activities to introduce new technologies and stimulate demand are essentially non-existent in the case of smallholder farmers. National research organizations are responsible for research to upgrade recommendations. Inadequate funding to disseminate research findings and absence of linkages with commercial enterprises results in information not being made available to dealers and farmers.

5. The programme is relevant to IFAD at a corporate and country level. Under the Strategic Framework, one strategic objective is to ensure that poor rural men and women have better and sustainable access to transparent and competitive agricultural input and produce markets, and have developed the skills and organization they require to take advantage of, and profitably engage in, these markets. At a country level:
- In **Kenya**, there is a focus on increasing productivity through appropriate technologies, increasing smallholder livestock production, promoting off-farm income-generating activities for smallholders, and encouraging community participation with an increasing focus on rural poor people.
 - In **Uganda**, there is a focus on building the capacity of decentralized systems to identify and respond to constraints on rural poverty reduction, including increasing access of smallholder farmers to capital and technology, and improving the capacity of households and communities to access markets.
 - In the **United Republic of Tanzania**, there is a pro-poor growth strategy, combining economic and social dimensions of poverty to improve the overall livelihood systems of the rural poor by involving technological change (to improve productivity), support to poor people's grass-roots institutions (e.g. producer organizations, water users' associations, microfinance institutions and seed group associations) to enable them to influence public and private policy, investments and services.

III. The proposed programme

6. The overall goal of the programme is to reduce poverty in Kenya, Uganda and the United Republic of Tanzania through enhanced smallholder farmer use of improved technologies and thus increasing incomes of poor farmers in remote rural areas.
7. The programme's specific objectives are:
- Improve farmers' access to agricultural inputs and technology;
 - Upgrade dealer capacity and extend dealer networks;
 - Strengthen institutional capacity;
 - Improve market transparency;
 - Develop trade associations;
 - Establish and fortify market linkages.
8. The programme will be three years in duration and will comprise the following five components:
- **Diagnosis and selection of pilot areas.** The diagnosis will include a determination of the following: farmers' profiles, the productive potential of land, the potential for private-sector investment in area-based input markets, the presence of farmers' groups, the cropping patterns of smallholder farmers, the degree of farmers' control over resources and the extent of government agricultural extension staff activity in each potential area.
 - **Participatory capacity-building.** Capacity-building is a priority and cuts across all programmatic activities. The approach includes broad-based participatory capacity-building and "train the trainer" activities. Under the latter, IFDC hypothesizes that training of dealers and agricultural extension staff will create synergies in the extension of knowledge transfer to farmers. Sustainability aspects will be given great attention in order to

establish strengthened linkages between private-sector and public-sector players in the provision and distribution of agro-input services.

- **Knowledge exchange.** The proposed programme will stimulate knowledge exchange at various levels (research agendas, farmer-dealer exchanges, etc.) in order to empower smallholder farmers.
- **Policy analysis and harmonization support.** Activities will support the harmonization of language in regulatory systems and improvements in business linkages among importers, wholesalers and dealers, and will enhance regional trade opportunities.
- **Business linkage and market transparency development.** The programme will focus on strengthening backward and forward linkages (primary and sub-dealers linked with producer organizations, business service providers, credit suppliers, suppliers of diversified inputs, output traders and providers of market information).

IV. Expected outputs and benefits

9. The programme aims to produce the following key outputs over a three-year period:
 - Over 500,000 farmers have increased their use of modern inputs by an average of 15 per cent, their productivity by 25 per cent and their incomes by 20 per cent;
 - Some 1,900 primary dealers have greater professionalism and offer improved services to farmers, and over 800 new sub-dealers (including stockists that operate only on village market days) have formed an extended network serving rural markets in the three countries;
 - Sales and farmer use of fertilizer and other input in targeted areas have increased by 25 per cent. Distance to markets has been reduced by 20 per cent and transaction costs have been reduced by 10 per cent;
 - Nine local self-sustaining trade associations have been formed and linked nationally and regionally;
 - The policy-business investment environment for agro-input enterprises has improved;
 - Monitoring and evaluation reports have documented the programme's impact on the incomes of poor remote farmers.
10. The programme will directly contribute to improving the livelihoods of the rural poor through the involvement of technological change to improve agricultural productivity. It will improve farmers' access to and use of appropriate agricultural inputs by extending dealer networks to remote areas, improving dealer advisory capacity, improving the mix of products, and improving economic returns to fertilizer use by reducing transaction costs and bringing about better use practices. The programme will result in increased private-sector investment in dealer networks. It will significantly contribute to knowledge transfer, achieved through targeted training programmes, product demonstrations, and the development and dissemination of leaflets and wall posters on the safe use and handling of agro-inputs. Improved market transparency and information exchange will support improved dealer access to loans and improved decision-making at all levels in the marketing chain. The programme is expected to produce the following specific benefits:
 - Poor, remote small farmers have increased income through more productive use of modern inputs;
 - Services to poor farmers in remote areas have improved through the mobilization of resources of agro-input dealers linked to import and wholesale distribution systems to extend service areas;

- Distance to supplies and transaction costs for agro-inputs have been reduced;
- Regional linkages among dealer associations have been developed to improve buying power, address cross-border issues and serve inland markets more efficiently;
- Innovations have been introduced relating to technology, economies of scale and access to market information and credit;
- Links have been established to input networks and farmer-based organizations;
- Commodity chains have been strengthened;
- Trade associations of input dealers have been created, and they have greater capacity to advocate for organizational, policy and regulatory reform, and have established links with regional associations.

V. Implementation arrangements

11. The Training and Workshop Coordination Department at IFDC headquarters will manage the programme, supervising an international regional coordinator based in Nairobi and a country coordinator based in each target country.
12. The programme will create strong linkages with ongoing IFAD investment programmes in the three target countries. In particular, other initiatives with a focus on input supply chains – for instance, Catalyze Accelerated Agricultural Intensification for Social and Environmental Stability (CATALIST), Strengthening Trade at the Regional Level in Agricultural Inputs in Africa (STAR) and the United Republic of Tanzania fertilizer partnership – will constitute important partners.
13. Monitoring and evaluation, reporting and knowledge-sharing events will focus on identifying what has been learned through the programme implementation experience. Particular areas of focus will include the institutional arrangements established and their sustainability and replicability; and the programme's impact on poor farmers in more remote areas.
14. Activities will be conducted and expenditures incurred against an agreed workplan and budget. IFDC will submit semi-annual progress reports and a completion report. IFDC has a proven track record of grant fund management. IFAD has provided a total of ten grants to IFDC

VI. Indicative programme costs and financing

15. The total cost of the programme is US\$2.0 million, of which the grant request to IFAD is US\$1.0 million. The estimated costs are provided in below.

Summary of budget (United States dollars)

<i>Type of expenditure</i>	<i>IFAD</i>
Personnel	138 500
Travel costs	111 100
Operation costs	228 300
Training	252 500
Capital/equipment	37 500
Contractual services	125 000
Administration	107 100
Total	1 000 000

Logical framework

Level	Narrative Description	Indicators	Means of Verification	Assumptions
Goal	Reduce poverty in rural areas of Kenya, Tanzania, and Uganda via enhanced smallholder farmer use of improved technologies	<ul style="list-style-type: none"> Number of poor farmers in remote areas increasing income through improved use of agro-inputs Percentage income increase among farmers 	Impact Survey/Project monitoring reports	<ul style="list-style-type: none"> Project research hypothesis is valid Policy environment remains supportive
Objectives	<ol style="list-style-type: none"> smallholder farmer access to inputs/use knowledge improved dealer capacity upgraded institutional capacity strengthened market transparency improved farmer group/trade associations developed market linkages established/fortified public sector research agenda linked with smallholder farmer needs, results disseminated 	<ul style="list-style-type: none"> number of dealers and geographic dispersion in areas periphery to current service areas dealer knowledge increased transaction costs reduced to reflect market efficiencies regional trade policies harmonized Agro-input prices and dealer margins reflect market efficiencies Number of trade associations and farmer groups established 	<ul style="list-style-type: none"> Project monitoring information Impact studies Training programmes completed Policy analyses/Special studies 	<ul style="list-style-type: none"> Dealers will invest capital to extend networks Transaction costs and competition are key price determinants Dealer participation in training occurs Government is receptive to policy reform Dealers: farmer groups establish and fortify relationships
Outputs	<ol style="list-style-type: none"> Increased use of agro-inputs by farmers Increased number of dealers offering improved service to farmers Smallholder farmer use of fertilizer increased by 35% Distance to markets reduced Transaction costs reduced Trade policies harmonized 	<ul style="list-style-type: none"> No. of farmers in remote locations increasing use of inputs No. of primary input dealers participating in extended service areas Percentage increase in sales of farm inputs in remote service areas Percentage reduction in retail prices and dealer margins in remote areas 	<ul style="list-style-type: none"> Project monitoring reports Training Records Market Information Bulletins distributed Policy reviews/media reports on policy changes Special studies and line surveys 	<ul style="list-style-type: none"> Dealer capacity strengthened Annual work plan adjustments made to adjust activities based on experience and perceived opportunities Private entrepreneurs are receptive to harmonized regional trade works extended
Activities	<ol style="list-style-type: none"> Diagnosis and Selection of Pilot Areas Participatory Capacity Building of Dealers Knowledge Exchange Policy Analysis and Harmonization Support Business Linkage and Market Transparency Development 	<ul style="list-style-type: none"> Appraisal reports Dealer Operations Manual disseminated Number of dealer training events Number of dealers trained Number of information sharing linkages developed Number of market intelligence bulletins distributed to importers and wholesalers/dealers 		

Microfinance Information Exchange, Inc. (MIX): Programme for Building Market Information to Improve Performance Monitoring in Rural Finance

I. Background

1. Among the varied causes of rural poverty, the lack of access to financial services represents a major hindrance to improving the socio-economic choices of the rural poor. Building inclusive financial systems that serve the rural poor is a priority for IFAD, as demonstrated by the fact that approximately 20 per cent of the Fund's portfolio is dedicated to rural finance initiatives. Whether working with commercial banks to design products for poor clients or on issues of governance, or with microfinance institutions (MFIs) to build staff capacity, IFAD is committed in each of its interventions to measuring the performance of its rural finance partners.
2. As the first donor to form a partnership with the Microfinance Information Exchange, Inc. (MIX), IFAD is at the forefront of donor harmonization of standard performance indicators in microfinance. It recognizes that effective performance monitoring and greater transparency in the microfinance sector strengthen institutions and increase competition, which leads to better financial products at better prices for IFAD's target group, the rural poor
3. MIX focuses on one of the key challenges in development finance: the lack of reliable, publicly available information on the financial strength and performance of MFIs. This information is fundamental to the maturation of the financial market for microfinance services. Addressing this gap, MIX works to build the infrastructure of the microfinance sector by offering specialized information services and data sourcing, benchmarking, and monitoring tools
4. The MIX Market, a key MIX performance monitoring and benchmarking tool, is an Internet-based database where MFIs, public and private investors, and market facilitators (e.g. rating agencies, networks, regulators) exchange information (see www.mixmarket.org). MFIs, for example, post data on outreach and financial performance, detail their financing needs and share general institutional information. As the only global, decentralized database of information on microfinance, this innovative marketplace has accelerated the flow of technical assistance and funds to the sector by increasing transparency and improving industry reporting standards. As of June 2007, a total of 947 MFIs, 93 investors, and 160 market facilitators were participating in the MIX Market

II. Rationale and relevance to IFAD

5. All of the IFAD Results and Impact Management System (RIMS) indicators for rural finance are captured on the MIX Market, making this tool a key element of IFAD's strategy to build the capacity of its rural finance partners to collect and use performance information to improve their social and financial performance. To date, as a result of the collaboration between IFAD and MIX, 73 of IFAD's rural finance partners report the required RIMS indicators via the MIX Market. Together these 73 institutions serve over 2.9 million borrowers – 58 per cent of whom are women – and manage outstanding loans that total over US\$1 billion. Overall, these rural finance partners have posted impressive performance, as demonstrated by their relatively high levels of self-sufficiency and the efficiency of their operations. With these results, the synergy between IFAD's commitment to transparency and the functionality of MIX performance monitoring tools is clear.
6. As this important initiative with MIX continues into its third phase, mainstreaming MIX tools will reinforce an in-house "culture change" in how IFAD monitors the performance of its rural finance programmes, further encouraging the transition from

activity-based to performance-based monitoring. Moreover, the third phase will broaden the scope of the microfinance market that publicly discloses standard performance data, with an increased emphasis on harder-to-reach institutions in Latin America, Asia and, particularly, Africa.

III. The proposed programme

7. The overall goal of the programme is to contribute to the construction of inclusive financial systems that meet the needs of the rural poor. IFAD's collaboration with MIX is designed to facilitate the development of sustainable MFIs and the connections to funding sources, which together ensure that the rural poor have access to a wide range of financial services over the long term.
8. The programme's specific goal is to make information on microfinance markets and service providers more transparent. Greater institutional transparency is an underlying prerequisite to increasing the scale of microfinance and contributes to the very infrastructure of the market. It helps augment the flow of funds to microfinance service providers, enables institution-building, and increases the efficiency of services, ultimately expanding the choice in financial products and lowering prices for IFAD's target group, the rural poor.
9. This four-year programme focuses on three objectives:

Objective 1 – Increase transparency

Build local performance-monitoring hubs in key regional markets to improve local capacity for performance monitoring and increase knowledge on local microfinance markets

Objective 2 – Extend reporting standards

Conduct research and develop reporting standards on various delivery channels or products that will improve knowledge on microfinance service providers and markets

Objective 3 – Expand the information services platform

Integrate new reporting standards into MIX's global information platform on microfinance to broaden publicly available data on other aspects of microfinance service provision

IV. Expected outputs and benefits

The outputs generated by this work include the following, organized by objective.

10. **Objective 1 – Increase transparency: outputs**
 - (a) Microfinance performance monitoring and information hubs in five local markets each staffed by a fully trained analyst who is an expert in industry reporting standards and capable of using MIX tools to collect, process and disseminate information on the local microfinance market;
 - (b) Doubling of institutional profiles and other information sets on microfinance service providers available from the MIX Market and through its information dissemination channels, relative to the 2007 baseline;
 - (c) Technical advice on performance monitoring in IFAD rural finance projects to ensure compliance with international standards on microfinance reporting norms.

Consistent with its current strategy to build information hubs in local markets, MIX will work to identify local actors that have the interest and skills to become centres of information on their local microfinance market. After market surveys and due diligence on potential partners, MIX will train a key resource person in each hub to collect, process and disseminate performance data.

11. **Objective 2 — Extend reporting standards: outputs**

- (a) Reporting standards on three new delivery channels, products or other areas of performance data (e.g. social performance, capital structure) in the microfinance market;
- (b) Policy guidelines on effective monitoring of these new delivery channels, products and other areas of information for each area of research;
- (c) An industry standards hub that links donors, investors, analysts and practitioners together in developing and implementing expanded reporting in microfinance.

To expand the coverage of performance data on various microfinance service providers, MIX will research other prevalent models and products. The goal is to create a reporting template and standards based on relevant, available performance information. MIX will then leverage its industry position as a leader on reporting standards to disseminate these new standards as widely as possible.

12. **Objective 3 — Expand the information services platform: outputs**

- (a) Data collection tool for one new reporting template;
- (b) Information systems for processing, managing and storing new data collected according to one set of newly developed reporting standards;
- (c) Online tools that allow users to search, compare, monitor and extract data reported according to the new reporting template.

Although MIX's online information platform is the single biggest industry data source on the performance of MFIs, it does not currently include data on highly decentralized local service providers or microfinance products within mainstream financial service providers; it concentrates on wholly dedicated, specialized service providers. Building on this existing platform, MIX will integrate the research on extending standards to implement a data collection tool that collects information on a new microfinance service delivery model, product or aspect of performance (e.g. social performance, capital structure).

V. Implementation arrangements

- 13. The programme will be implemented by MIX, a not-for-profit organization that focuses on increasing transparency in the microfinance sector and generating information critical to the maturation of the financial market for microfinance services.
- 14. In building the market for standardized performance data on MFIs, MIX will work through local partner agencies and regional hubs. Each regional hub will act as the local centre for collecting and reporting on MFI performance. MIX headquarters will provide management support to these hubs in work planning, the building of local contacts, training, reviews of outputs, and access to MIX standard tools and systems. In addition, MIX will maintain an active certification programme that will ensure high-quality information through in-depth knowledge of the local microfinance market, full familiarity with local accounting practices and rigorous analysis. These hubs, in turn, will train and support local networks and other relevant actors on MIX standard procedures, policies and systems for the performance monitoring and benchmarking of MFIs.
- 15. In addition to the three current hubs that cover South America, West Africa, and South Asia, potential hubs could also cover East Asia, East Africa, Eastern Europe and Central Asia, and Southern Africa. As with the creation of its three current hubs, MIX will evaluate markets for potential local partners, select markets where more than one strong potential partner operates, and proceed with selection via a request-

for-proposal process. IFAD funding will provide the seed capital necessary to attract other funders to finance these microfinance information hubs.

16. Several collaborating organizations will be involved in performance reporting, including ProDesarrollo, Finanzas y Microempresa in Mexico, Red Financiera Rural in Ecuador, Consorcio de Organizaciones Privadas de Promoción al Desarrollo de la Micro y Pequeña Empresa (COPEME) in Peru, Consortium Alafia in Benin, the Pakistan Microfinance Network, the Microfinance Council of the Philippines, the Russian Microfinance Centre, and Sanabel in the Middle East and North Africa region. The IFAD Senior Technical Advisor on Rural Finance, in coordination with the rural finance team, will provide technical backstopping with the concerned regional divisions.

VI. Indicative programme costs and financing

17. The total cost of this four-year programme is US\$3.4 million. Of this total, approximately 27 per cent is requested from IFAD (US\$948,000); the remainder will be leveraged from MIX core funds and cofinanced by external donors (US\$2.5 million).
18. MIX financial support comes from core funders that have supported operations since its inception in 2002, and from restricted grants (project funding) and earned income (fees paid for MIX services). Current core funders have indicated their continued support for this programme budget period at prior levels; they include the Citigroup Foundation, Open Society Institute, Consultative Group to Assist the Poor, Deutsche Bank Americas Foundation, Omidyar Network, and Rockdale Foundation. New funders, including the Bill and Melinda Gates Foundation and MasterCard Foundation, will supplement restricted grants and earned income from data and analysis services.
19. Overall, IFAD will fund: (i) seed capital for new regional microfinance information hubs; (ii) standards research; and (iii) a proof of concept to integrate new standardized data into the existing MIX platform. This funding will leverage the existing management capacity of MIX in order to expand to five regional information hubs around the world. Without considering information technology costs, which benefit the entire MIX network, 60 per cent of the budget is allocated specifically to the regional hubs; only one part-time position in MIX headquarters office will manage the standards research of this initiative.

Summary of budget (United States dollars)

<i>Type of expenditure</i>	<i>Total programme costs</i>	<i>Cofinancing</i>	<i>IFAD</i>
Capital/equipment	349 000	239 000	110 000
Operating costs	228 000	171 000	57 000
Professional services	960 000	679 000	281 000
Personnel	1 112 000	857 000	255 000
Travel costs	803 000	558 000	245 000
Total	3 452 000	2 504 000	948 000

Logical framework

Objectives and Outputs	Indicators	Means of Verification	Assumptions
Goal			
Contribute to the construction of an inclusive financial system that meets the needs of the rural poor	Numbers of rural poor accessing financial services	National statistics Monitoring and impact studies	Availability of data Continued priority of building inclusive financial systems in IFAD's Strategic Framework
Objective 1: Increase Transparency			
<ul style="list-style-type: none"> (a) Local microfinance performance monitoring and information hubs (b) Institutional profiles and other information sets on microfinance service providers (c) Technical advice on performance monitoring in IFAD rural finance projects to ensure compliance with international standards 	<ul style="list-style-type: none"> Number of actors using MIX tools to collect, process and analyze microfinance performance data Number of institutional profiles on MIX Market Number of institutions in MIX performance benchmarks 	<ul style="list-style-type: none"> Survey of microfinance associations, technical service providers MIX Market MIX MFI benchmarks 	
Objective 2: Extend Reporting Standards			
<ul style="list-style-type: none"> (a) Reporting standards on three new delivery channels, products and other areas of performance data (b) Policy guidelines on effective monitoring of these new delivery channels, products, and information. (c) An industry standards linking donors, investors, analysts and practitioners in developing and implementing expanded reporting in microfinance 	<ul style="list-style-type: none"> New data types reported in industry standards Use of new industry standards by other industry analysts, donors, investors or practitioners in reporting on the microfinance market. 	<ul style="list-style-type: none"> MIX Market or other MIX database Industry analytical publications from networks (such as Accion, Grameen, or others) and donors. 	
Objective 3: Expand Information Platform			
<ul style="list-style-type: none"> (a) Data collection tool for collecting data on one new reporting template (b) Information systems for processing, managing and storing new data collected on one new reporting template (c) Online tools that allow users to search, compare, monitor, and extract data reported according to the new reporting template 	Standardized publicly available information on new microfinance delivery channels, products or other areas of performance not currently covered by reporting standards	MIX Market or other MIX database	

