

Document: EB 2008/95/INF.2
Date: 11 November 2008
Distribution: Public
Original: English

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Enabling poor rural people
to overcome poverty

United Republic of Tanzania

Implementation of the second cycle of the Rural Financial Services Programme under the Flexible Lending Mechanism

Executive Board — Ninety-fifth Session
Rome, 15-17 December 2008

For: **Information**

Note to Executive Board Directors

This document is submitted for the information of the Executive Board.

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Abbreviations and acronyms

FLM	Flexible Lending Mechanism
MFI	microfinance institution
MIS	management information system
OFID	OPEC Fund for International Development
RFSP	Rural Financial Services Programme
SACCOs	savings and credit cooperative societies

Implementation of the second cycle of the Rural Financial Services Programme under the Flexible Lending Mechanism

I. Introduction

1. The Executive Board approved the establishment of the Flexible Lending Mechanism (FLM) at its sixty-fourth session in September 1998. A loan provided under the FLM differs from a standard loan in that it has a longer implementation period to allow for the achievement of sustainable development objectives; a continuous and evolving design process through implementation of distinct three- to four-year cycles; and clearly defined pre-conditions, or "triggers", for proceeding to subsequent cycles.
2. The report on the establishment of the FLM (EB 98/64/R.9/Rev.1) stipulates that "for each FLM loan, and prior to the end of each cycle, IFAD Management will decide whether to proceed to, cancel, or delay subsequent cycles. Management will inform the Board accordingly. The document presented to the Board will set out the lessons learned from initial cycles and their incorporation into subsequent cycles, the attainment of physical targets, progress towards meeting long-term development objectives, and the achievement of the pre-conditions stipulated in the loan agreements." (paragraph 13)
3. Accordingly, an information note (EB 2005/84/INF.3) was presented to the Board at its eighty-fourth session in April 2005 to report on the progress of the Rural Financial Services Programme (RFSP) in achieving the first-cycle triggers. It was concluded that all the triggers had been achieved for proceeding to the second cycle.
4. This information note presents progress made in achieving the second-cycle triggers of RFSP. Its content is drawn from the following sources: the report of the inter-cycle review mission conducted jointly in October 2007 by IFAD, the Government of the United Republic of Tanzania and the United Nations Office for Project Services (UNOPS) as cooperating institution; the memorandum dated 18 January 2008 calling for an amendment of the loan agreement to extend second-cycle implementation by not more than one year; the report of the joint UNOPS and IFAD supervision mission conducted in July and August 2008; and the report prepared by the programme management unit in August 2008 on the achievement of milestones under the second cycle, which was attached to the Government's request to IFAD that the third cycle be declared effective.

II. Background

5. RFSP was approved for funding under the FLM by the Executive Board in December 2000 and became effective on 12 October 2001. The loan has a nine-year duration divided into three distinct cycles of three years each. The overall goal of RFSP is to achieve a sustainable increase in the incomes, assets and food security of poor rural households by enhancing their capacity to mobilize savings and to invest in income-generating activities through the development of viable rural finance service systems, in three programme zones: southern, central and northern.
6. The programme has four specific objectives:
 - (a) To support the design, development and implementation of sustainable rural finance services at the village or ward levels in the form of registered microfinance institutions (MFIs);
 - (b) To improve the managerial capacity of solidarity groups involved in microfinance activities;

- (c) To develop a sustainable rural financial network infrastructure; and
 - (d) To further empower poor rural households to benefit from rural financial services.
7. The cost of RFSP was estimated at appraisal at US\$23.77 million, of which US\$16.34 million (SDR 12.8 million) was to be provided as a loan from IFAD, US\$2.17 million each by Switzerland and the OPEC Fund for International Development (OFID), and US\$3.09 million by the Government and the beneficiaries. However, with OFID's withdrawal from cofinancing, total available funding for the programme dropped to US\$21.60 million. RFSP consists of the following components: (a) improvement of managerial capacity and performance of grass-roots MFIs; (b) rural finance systems development; (c) empowerment of the rural poor; (d) monitoring and evaluation; and (e) programme coordination and management.
 8. The first cycle of RFSP was completed in December 2004. The conditions to move to the second cycle having been met satisfactorily, IFAD declared the second cycle of the programme effective from 1 January 2005, to be completed in December 2007. The joint IFAD/UNOPS/Government inter-cycle review mission conducted in October 2007, however, noted that three of the six trigger indicators had only been partially achieved due to inadequate counterpart funding, and recommended an extension of the second-cycle implementation period to 31 December 2008. That recommendation was approved by IFAD Management.

III. Programme achievements during the second cycle

9. The main results achieved under RFSP second-cycle components are described below.
 - Improvement of managerial capacity and performance of grass-roots MFIs**
10. RFSP is currently working with 276 MFIs, supporting them in outreach, governance, management and supervision. The programme continued to support the district cooperative officers in inspecting the books of the MFIs and having them audited. MFI members and leaders (a total of 2,145 in 2007/08) have been trained to improve MFI management. RFSP also facilitated the establishment of five MFI networks to enhance their sustainability. The visibility generated by RFSP has encouraged even the political leadership to canvass for MFI membership.
 - Rural financial systems development**
11. The programme has successfully linked 219 MFIs to financial institutions. During the year 2007/08, the MFIs received 383 loans amounting to US\$10.5 million. The MFIs are developing products to address the problem of the short-term (one-year) nature of member loans, which is generally inadequate for agricultural production. The new products include small- and medium-sized enterprise loans, emergency loans, agricultural loans, housing loans, micro-leasing, and asset (livestock) insurance. The programme also provided support to NGOs, such as Promotion of Rural Initiative and Development Enterprises Ltd. (PRIDE) and Sero Lease and Finance Ltd. (SELFINA), to enable them extend their wholesale lending and leasing services to MFIs in the rural areas. For instance, PRIDE is now linked with 74 rural MFIs to which it disbursed loans worth US\$1.8 million in September 2007. The programme has provided copies of the Cooperative Societies Act of 2003 to the MFIs and facilitated their registration as savings and credit cooperative societies (SACCOS). It facilitated the amendment of the 1991 Banking and Financial Institutions Act to recognize SACCOS and MFIs, as well as the introduction of rules and regulations governing MFIs.
 - Empowerment of the rural poor**
12. The programme has promoted greater beneficiary participation in grass-roots MFIs through awareness campaigns, production of promotional materials, exchange

visits and membership training. In addition, gender, HIV/AIDS, environmental, production and business skills training have been provided for MFI leaders and members. The programme has also implemented a market research and product development process aimed at developing new products that target women and the poorer rural population. This has led to an increase in the proportion of women borrowers. The Government is using the programme-supported MFIs to disburse funding to women, young people and entrepreneurs.

Monitoring and evaluation, and impact assessment

13. The programme has established a management information system (MIS) at the zone and district levels that consolidates data from MFIs and produces tailored reports. However, the district staff need further training to become fully acquainted with the MIS. The programme would also need to undertake impact tracer studies to capture the emerging impact of programme activities.

Programme coordination and management

14. The programme steering committee met regularly to provide policy guidance to the management. The programme management unit provided effective technical and administrative support to the districts. The allocation for the second cycle is 98 per cent disbursed. As the programme moves into the last cycle, which entails a reduction in the number of districts receiving direct support, a staff rationalization plan is being developed. This will also be accompanied by a rationalization in the distribution of existing vehicles to service the remaining activities and districts.

Overall second-cycle performance

15. The programme has achieved the second-cycle triggers. It is currently working with 276 MFIs in 22 districts with a total membership of 102,312, of whom 43 per cent are women. Loans disbursed to MFI members increased by over 6,700 per cent from US\$0.4 million in December 2003 to US\$28.8 million in June 2008. Of the 60,893 borrowers in June 2008, 41 per cent were women. The total capital of participating MFIs is now estimated at US\$11.8 million. Many of the programme districts are now factoring the programme activities into their district development plans to ensure sustainability. Overall, the programme activities are having a positive impact on the beneficiaries in terms of their food security, acquisition of assets and ability to send their children to school.

Performance of milestones during the second cycle of programme implementation

<i>Second-cycle triggers</i>	<i>Performance</i>
<p>1. Progressive introduction of the legal, regulatory and supervisory framework in all programme supported grass-roots MFIs in stage 2 and above.</p> <p>The Cooperative Societies Act of 2003 guides the operations of SACCOS and the amended 1991 Banking and Financial Institutions Act recognizes SACCOS as MFIs. The Cooperative Societies Act and Rules (2004) have been translated into Kiswahili and distributed to the district cooperative officers and MFIs to guide the development of by-laws, management structure, credit policies, accounting framework and development of products. The Bank of Tanzania, Ministry of Finance, and Registrar of Cooperatives are now recognized as the competent supervisory authority in respect of different classes of MFIs. The Cooperative Audit and Supervision Corporation Act has been amended to allow MFIs to use other auditors.</p>	Target achieved
<p>2. Ten training and service provider (TSP) members are accredited trainers in microfinance best practices.</p> <p>62 TSPs were trained and one of the TSPs, Moshi University College of Co-operative and Business Studies (MUCCoBS), trained 21 members out of the 62 earlier trained by the programme on CGAP [Consultative Group to Assist the Poor] best practice in microfinance.</p>	Target exceeded
<p>3. Select and work with 275 MFIs during the second cycle, of which 74 in stage 1, 140 in stage 2 and 61 in stage 3.</p> <p>The programme is working with 276 MFIs distributed as follows: 74 in stage 1, 140 in stage 2, and 62 in stage 3.</p>	Target achieved
<p>4. At least 140 grass-roots MFIs are linked to financial institutions.</p> <p>Banking relations have been established between 219 MFIs and 8 financial institutions; 90 MFIs have obtained loans totalling US\$7 million.</p>	Target exceeded
<p>5. At least 40 per cent of MFI members are women.</p> <p>Proportion of women members reached 43 per cent in June 2008.</p>	Target achieved
<p>6. At least 40 per cent of MFI borrowers are women.</p> <p>Proportion of active women borrowers reached 41 per cent in June 2008.</p>	Target achieved

IV. Lessons learned and focus for the third cycle

16. The goal for implementation of RFSP's third cycle is to consolidate the achievements of the first and second cycles while ensuring the sustainability of activities after programme support ceases.

Support to MFIs in 10 remaining districts from the second cycle

17. Most of the MFIs recruited in the second cycle have not received adequate capacity-building because counterpart funding has been insufficient. The third cycle will concentrate on building the capacity of these MFIs for growth. Emphasis will be on facilitating a review of by-laws, policies and procedures; promoting good governance, updating of accounts and conduct of inspections; improving MIS; and promoting increased membership, including the participation of vulnerable groups. The MFIs will also be supported in setting up and equipping offices, recruiting professional staff and developing new products.

Closer collaboration with local governments

18. During the third cycle, the programme will work more closely with local government authorities to ensure that RFSP activities are fully integrated into district development plans. Apart from capacity-building of district staff to enable them to provide needed support to the MFIs, the programme will collaborate with other actors at the district level to provide services to MFIs under the umbrella of the District Forum.

Support for regulatory and supervisory frameworks for MFIs

19. The programme will support the development and implementation of a strategy for delegated supervision of MFIs to apex organizations, networks and community banks. The Registrar of Cooperatives will also be supported to train cooperative officers on the legal and regulatory framework.

Development of effective networks

20. The programme will continue to support the development of networks of MFI associations to play an increasing role in advocacy and capacity-building. Plans call for each programme zone to have an operational network by 2010.

Support to service providers

21. The programme will continue its support to community banks and other financial institutions to enable them to provide better products to MFIs. Business development service providers will also be assisted and linked with MFIs.

Support for information and communication technology

22. This would be mainly to facilitate peer learning. Relevant stakeholders and networks will be linked with the MFIs for learning purposes.

V. Recommendations and conclusions

23. The most important objective of RFSP's third cycle is to consolidate the achievements of the first two cycles. This cycle should also lay a foundation for expanding the outreach of diversified rural finance services beyond the programme area, in line with the third strategic objective of the country opportunities strategic programme for the United Republic of Tanzania.
24. It is recommended that, during the third cycle, serious attention be given to strengthening collaboration with district authorities to ensure the sustainability of the programme activities.