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Enabling poor rural people  
to overcome poverty

## **President's report**

### **Proposed loan to the Republic of Mali for the**

### **Rural Microfinance Programme**

Executive Board — Ninety-sixth Session  
Rome, 29-30 April 2009

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For: **Approval**

## **Note to Executive Board Directors**

This document is submitted for approval by the Executive Board.

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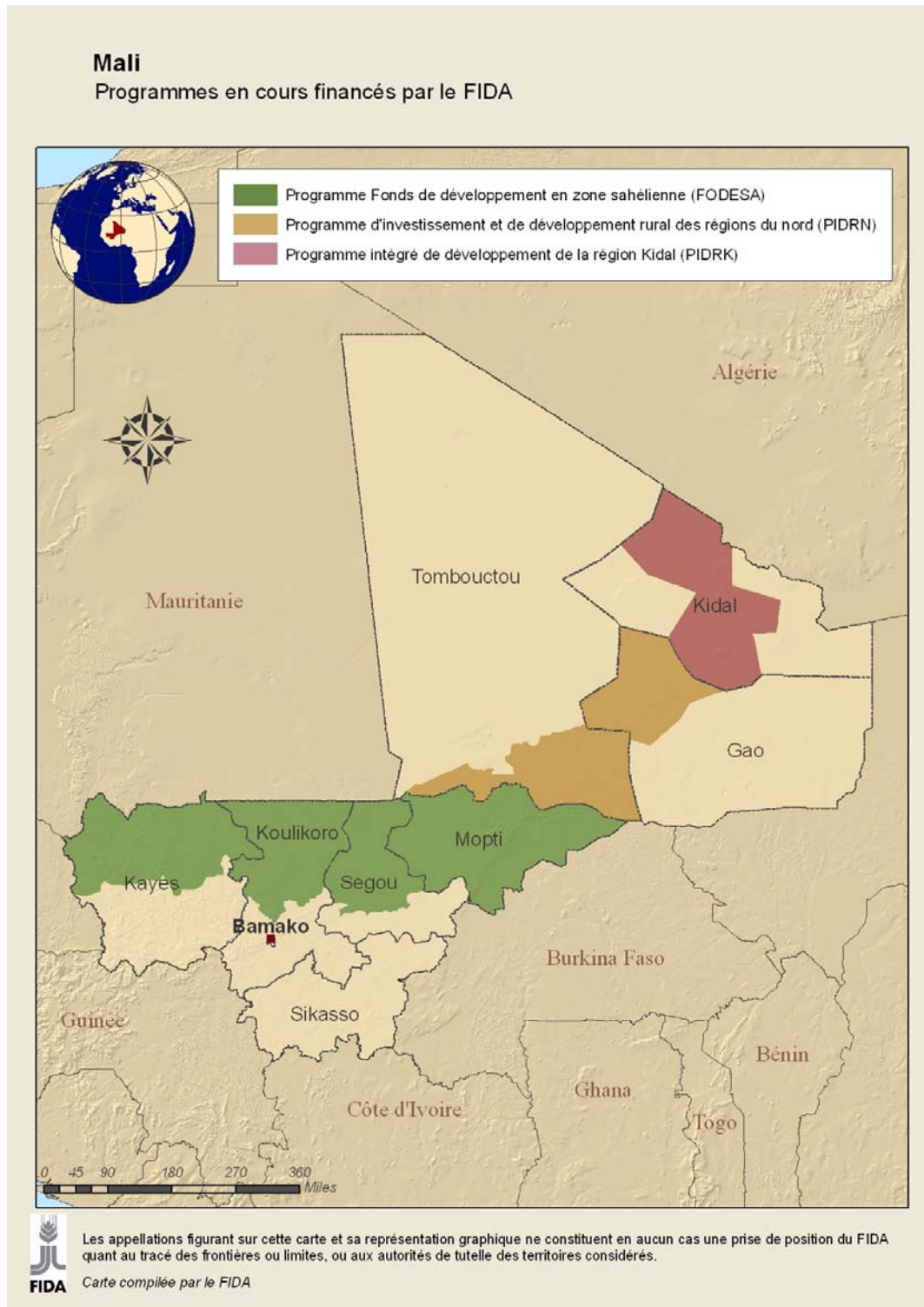
## **Abbreviations and acronyms**

FODESA	Sahelian Areas Development Fund Programme
MFI	microfinance institution

## **Recommendation for approval**

The Executive Board is invited to approve the recommendation for the proposed loan to the Republic of Mali for the Rural Microfinance Programme, as contained in paragraph 36.

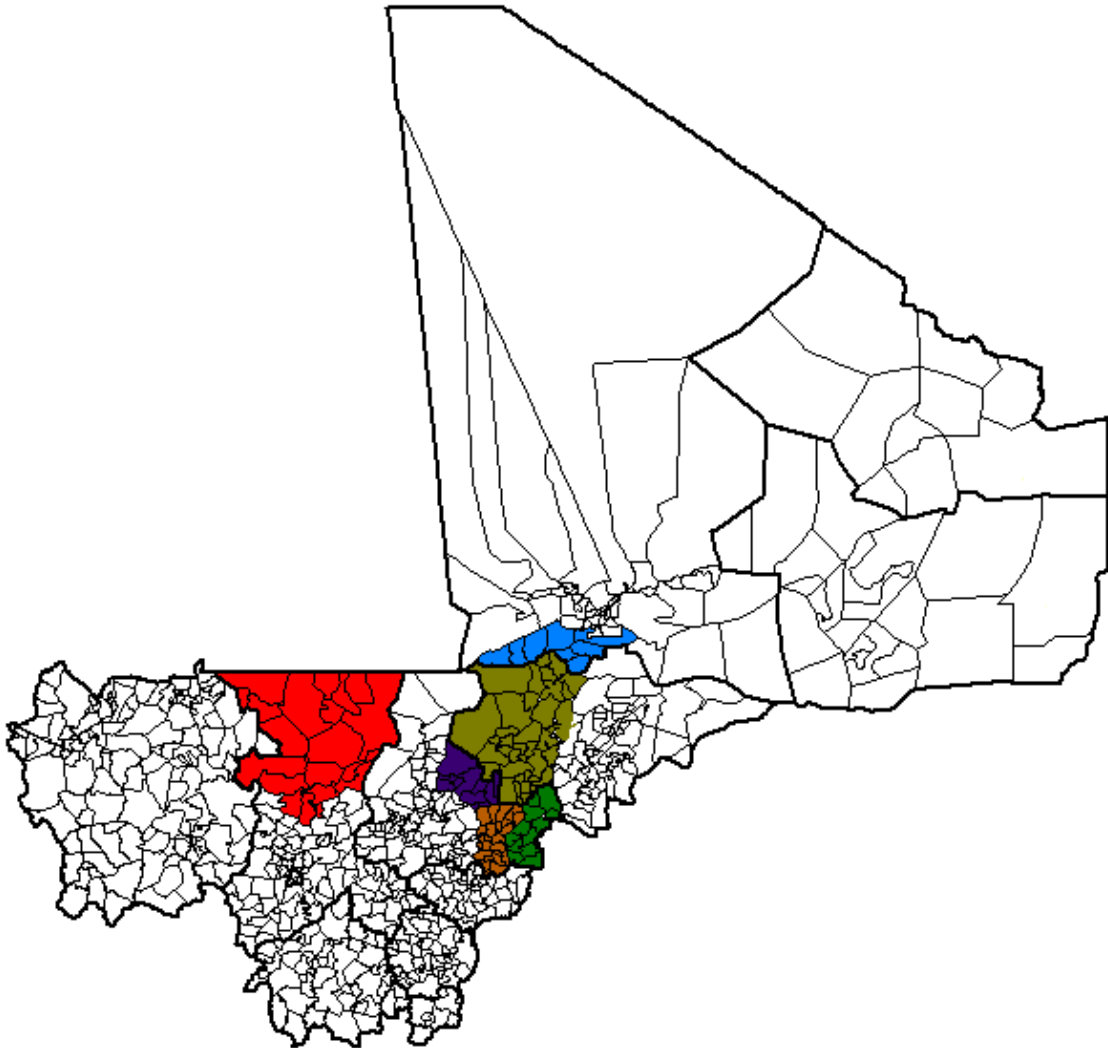
## Map of the country programme area



Source: Government of Mali

*The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.*

## Map of the programme area



Source: Government of Mali

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## Republic of Mali

### Rural Microfinance Programme

#### Loan summary

<b>Initiating institution:</b>	IFAD
<b>Borrower:</b>	Republic of Mali
<b>Executing agency:</b>	Ministry of Economy, Industry and Commerce
<b>Total programme cost:</b>	US\$30.76 million
<b>Amount of IFAD loan:</b>	SDR 17.1 million (equivalent to approximately US\$25.04 million)
<b>Terms of IFAD loan:</b>	40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum
<b>Cofinanciers:</b>	United Nations Capital Development Fund (UNCDF) United Nations Development Programme (UNDP)
<b>Amount of cofinancing:</b>	UNCDF: US\$1.00 million UNDP: US\$0.46 million
<b>Terms of cofinancing:</b>	Parallel
<b>Contribution of borrower:</b>	US\$3.67 million
<b>Contribution of beneficiaries:</b>	US\$0.59 million
<b>Appraising institution:</b>	IFAD
<b>Cooperating institution:</b>	Directly supervised by IFAD



# Proposed loan to the Republic of Mali for the Rural Microfinance Programme

## I. The programme

### A. Main development opportunity addressed by the programme

1. IFAD has supported the creation of three microfinance networks in Mali through implementation of the Income Diversification Programme in the Mali Sud Area, the Zone Lacustre Development Project, and the Sahelian Areas Development Fund Programme (FODESA). Today, 94 credit unions are part of these networks and have financed income-generating activities for over 40,000 people. Although these results are good, the livelihoods and sustainability of these credit unions remain uncertain. The Rural Microfinance Programme will therefore consolidate the existing networks through capacity-building and institutional development, restructure the networks where needed and identify new products. These objectives are in line with the National Microfinance Strategy and will benefit from IFAD's comparative advantage in microfinance in the programme area.

### B. Proposed financing

#### Terms and conditions

2. It is proposed that IFAD provide a loan to the Republic of Mali in the amount of SDR 17.1 million (equivalent to approximately US\$25.04 million), on highly concessional terms, to help finance the Rural Microfinance Programme. The loan will have a term of 40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum.

#### Relationship to the IFAD performance-based allocation system (PBAS)

3. The allocation defined for Mali under the PBAS is US\$26.61 million over the 2007-2009 allocation cycle.

#### Country debt burden and absorptive capacity of the State

4. Mali's capacity to service external debt has improved. After Mali received relief under the Multilateral Debt Relief Initiative, its external debt fell to 20 per cent of GDP in 2006. Mali has received eight loans from IFAD since 1986, and the Government of Mali has a good repayment record.

#### Flow of funds

5. The IFAD loan will be channelled through a special account in CFA francs opened in a commercial bank in Bamako. National counterpart funds will be deposited into the counterpart funds account on a yearly basis at the beginning of each fiscal year. Following IFAD's approval of annual workplans and budget, the loan will be disbursed for eligible expenditures.

#### Supervision arrangements

6. The programme will be directly supervised by IFAD. Special arrangements have been made with cofinanciers and national institutions to jointly supervise the programme.

#### Exceptions to IFAD General Conditions for Agricultural Development Financing and operational policies

7. No exceptions.

#### Governance

8. The following planned measures are intended to enhance the governance aspects of the IFAD loan: (i) strict application of the loan covenants; (ii) strengthening of rules and regulations for procurement; (iii) issuance of IFAD "non-objections" and terms of reference for the recruitment of external auditors, who will carry out annual

programme audits; and (iv) strict application of the IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations.

## **C. Target group and participation**

### **Target group**

9. In accordance with the IFAD Policy on Targeting, the main groups targeted by the programme will be (i) rural households needing credit; (ii) producers' organizations wanting to ensure services to their members; (iii) promoters of income-generating activities; and (iv) women and young people needing to finance their income-generating activities. The programme plans to reach 315,000 individuals, including women and young people.

### **Targeting approach**

10. The programme's targeting strategy rests on four pillars: (i) support to microfinance institutions (MFIs) to develop new products; (ii) development of incentives encouraging MFIs to prioritize the needs of women and youth groups in their business plans; (iii) development of a mechanism to favour women and youth groups when asking for credit; and (iv) capacity-building for women's groups to increase their influence in decision-making.

### **Participation**

11. To ensure ownership of the programme, it is essential that all MFIs actively participate in its implementation. The development of new and innovative financial products will be translated into a wider range of services offered, a better understanding of the rural market segments served and, consequently, the sustainability of activities.
12. Sustainability will also be assured by requiring beneficiaries to finance their organizations through small contributions. The programme will provide capacity-building in technical areas such as management, enabling these organizations to reach higher business levels and forge new partnerships with other MFIs.

## **D. Development objectives**

### **Key programme objectives**

13. The programme's main objective is to provide the rural poor with sustainable access to financial services that fit their needs. More specifically, the programme will promote the development of appropriate mechanisms and products, and provide capacity-building for sustainability.

### **Policy and institutional objectives**

14. The programme is in line with the National Microfinance Strategy and its action plan, which promotes capacity-building for state institutions, namely the Support and Promotion Centre for Decentralized Financial Systems and the Control and Monitoring Cell. These bodies will govern the programme at a macro level, the former supported at a higher level by the Ministry of Finance and the latter by the Ministry of Economy, Industry and Commerce.

### **IFAD policy and strategy alignment**

15. The programme is in line with the first strategic objective of the Mali country strategic opportunities programme: to "increase and diversify agricultural production in order to improve household food security and goods accumulation" (EB 2007/92/R.12, paragraph 29). In this case, IFAD will contribute to this objective by facilitating access to financing for these activities. The programme will consolidate the achievements that previous IFAD operations made in the microfinance sector by promoting income-generating activities.

## **E. Harmonization and alignment**

### **Alignment with national priorities**

16. The programme prioritizes two of the three strategic objectives of the National Microfinance Strategy, namely (i) to consolidate the current supply of microfinance services, improving their products and management, and (ii) to increase the scope of the financial services offered by developing new products and building new partnerships with the banking sector and other MFIs.

### **Harmonization with development partners**

17. The programme complements the interventions of other donors, such as the Canadian International Development Agency (CIDA) and the Danish International Development Assistance (DANIDA), with which this programme has been discussed. IFAD and these donors, with the support of the Government, are working on designing and implementing a single management plan for all microfinance projects and programmes in Mali.

## **F. Components and expenditure categories**

### **Main components**

18. The programme has three components: (i) facilitation of access to financial services (54 per cent); (ii) support to MFI livelihoods (37 per cent); and (iii) programme management (9 per cent).

### **Expenditure categories**

19. There are six expenditure categories: (i) construction and rehabilitation; (ii) vehicles, equipment and goods; (iii) training and technical assistance; (iv) service providers; (v) support funds; and (vi) operating costs.

## **G. Management, implementation responsibilities and partnerships**

### **Key implementing partners**

20. These will be mainly the Support and Promotion Centre for Decentralized Financial Systems and other government implementation units. Farmers' organizations, research institutes, banks, insurance companies and NGOs will also play a fundamental role in implementation.

### **Implementation responsibilities**

21. A programme management unit will be responsible for implementing activities. This unit will work closely with other IFAD programme/project implementation units for better coordination of activities. This will include joint preparation of annual workplans and budgets. The unit will also be responsible for tendering and preparing contracts for service providers following IFAD's non-objection.

### **Role of technical assistance**

22. The programme will receive assistance from national and international technical experts. It will benefit from national technical assistance for undertaking studies and providing training to MFIs. Technical experts, recruited nationally and internationally on a competitive basis, for assignments averaging five years, will provide guidance on the efficient use of financial resources and the adaptation of financial services to rural poor people's needs.

### **Status of key implementation agreements**

23. The programme will sign performance-based contracts with MFI networks to define the nature of the assistance and expected results. It will also enter into contracts with service providers and NGOs to obtain specialized technical assistance in training MFI staff and leaders and developing new financial products.

### **Key financing partners and amounts committed**

24. The total programme cost will be US\$30.76 million over eight years. The sources of financing will be IFAD (81.4 per cent), the United Nations Capital Development Fund (3.3 per cent), the United Nations Development Programme (1.5 per cent), beneficiary MFIs (1.9 per cent) and the Government (11.9 per cent).

## **H. Benefits and economic and financial justification**

### **Main categories of benefits generated**

25. The programme will (i) expand MFI service coverage to provide easier access to credit in rural areas; (ii) increase the sustainability of MFIs; (iii) develop financial services tailored to market needs; and (iv) reinforce MFI livelihoods.

### **Economic and financial viability**

26. The programme's economic rate of return is 14.4 per cent for the basic case scenario. At zero per cent interest, the actual net value of the economic benefits is approximately US\$14.0 million; with 10 per cent interest, the benefits are calculated at approximately US\$1.8 million.

## **I. Knowledge management, innovation and scaling up**

### **Knowledge management arrangements**

27. The programme will periodically assess the impact of credit on the economic and social livelihoods of a representative sample of women and young people benefiting from this credit. The results obtained will be disseminated to promote best practices, with successes and failures and lessons learned highlighted. Exchange visits will be organized throughout the region to capitalize on and adapt initiatives to be scaled up nationally.

### **Development innovations that the programme will promote**

28. The programme is innovative in the country context in that it will (i) link MFIs to the country's banking system; (ii) rationalize and restructure MFI networks so that they can interact with donor networks; (iii) facilitate vulnerable groups' access to credit; (iv) develop new financial products tailored to assessed needs; and (v) promote the professionalization of MFI management and reduce use of non-paid staff.

### **Scaling-up approach**

29. The restructuring of MFI networks and the new financial products developed and tested during the programme will be scaled up to the national level, including to other donor programmes, in the context of the National Microfinance Strategy.

## **J. Main risks**

### **Main risks and mitigation measures**

30. The programme faces four main risks: (i) late implementation of preliminary activities; (ii) decreased viability of MFIs with the closure of FODESA; (iii) reduced government support; and (iv) degraded MFI portfolios. The planned mitigation measures for each risk include: (i) actively involving the agencies implementing the National Microfinance Strategy in programme activities, making them more aware of programme needs; (ii) creating a finance manager position as was done for the third cycle of FODESA; (iii) including ministries in programme consultative bodies; and (iv) introducing alternative sources of financing to ease the degrading MFI portfolios.

### **Environmental classification**

31. Pursuant to IFAD's environmental assessment procedures, the programme has been classified as a Category B operation in that it is not likely to have any significant negative environmental impact.

## **K. Sustainability**

32. The programme sustainability will be assured by continually seeking operational partnerships between the programme and MFIs, and by gradually transferring risk to the MFIs themselves, as the programme phases out.

## **II. Legal instruments and authority**

33. A programme loan agreement between the Republic of Mali and IFAD will constitute the legal instrument for extending the proposed loan to the borrower. Important assurances included in the negotiated agreement are attached as an annex.
34. The Republic of Mali is empowered under its laws to borrow from IFAD.
35. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.

## **III. Recommendation**

36. I recommend that the Executive Board approve the proposed loan in terms of the following resolution:

RESOLVED: that the Fund shall make a loan to the Republic of Mali in various currencies in an amount equivalent to seventeen million one hundred thousand special drawing rights (SDR 17.1) to mature on or prior to 15 March 2049 and to bear a service charge of three fourths of one per cent (0.75 per cent) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board herein.

Kanayo F. Nwanze  
President

## Important assurances included in the negotiated loan agreement

(Negotiations concluded on 25 March 2009)

### **Pest management practices**

1. The Government of the Republic of Mali will comply with the International Code of Conduct on the Distribution and Use of Pesticides and ensure that pesticides procured under the programme do not include any pesticides classified as extremely hazardous or highly hazardous by the World Health Organization.

### **Monitoring and evaluation**

2. A monitoring and evaluation system that meets the requirements of IFAD's results and impact management system will be set up to serve as a programme steering and impact evaluation instrument. The logical framework, as the activity planning, monitoring and evaluation instrument, will be reviewed beginning in the first year of implementation. It may be supplemented with new indicators as needed to better measure results and impact and to inform the monitoring and evaluation system set up in the context of the national microfinance development strategy and related action plan for 2008-2012.

The monitoring and evaluation system will provide for (a) measuring performance on logical framework indicators; (b) assessing the relevance of the implementation strategy; (c) assessing performance on implementing activities by actors, operators and service providers; (d) evaluating the programme's effects on the living conditions of the target groups; and (e) identifying successes and best practices for capitalization and replication, to be disseminated by the policy dialogue unit in accordance with its mandate to promote policy dialogue on rural poverty reduction.

### **Insurance of programme personnel**

3. The Government will insure programme personnel against health and accident risks to the extent consistent with customary practice in the country.

### **Recruitment**

4. Key programme staff – namely, the director of the coordination and management unit, the administrative and financial officer, the accounting officer, the financial services development officer and the monitoring and evaluation officer, will be recruited under national calls for offers published in the national press, in accordance with current government procedures and excluding all forms of discrimination, on the basis of renewable contracts that may in no case exceed the programme duration. The recruitment of key programme staff and any decision to terminate their contracts will be done in agreement with IFAD. Programme staff will be subject to performance evaluations under modalities to be defined in the administrative, accounting and financial procedures manual, and their contracts may be terminated on the basis of the findings of those evaluations. Management of staff will be subject to procedures in force within the Government's territory. The Government will give preference to women and to candidates with demonstrated ability to work with rural institutions (farmer and producer organizations, decentralized financial system) and women's groups.

**Suspension by IFAD**

5. IFAD may suspend, in whole or in part, the right of the Government to request withdrawals from the loan account if:
- (a) the loan agreement has not become effective by the stipulated date or such other date as may be set for such purpose;
  - (b) the counterpart funds are not available under conditions satisfactory to IFAD;
  - (c) IFAD has given notice to the Government that credible allegations of corrupt or fraudulent practices in connection with the programme have come to the attention of IFAD, and the Government has either not undertaken an investigation of the matter in a manner satisfactory to IFAD or, following such investigation and on the basis of its conclusions or other information, IFAD in consultation with the Government has deemed such practices to have taken place and the Government has failed to take timely and appropriate action to address the matters to the satisfaction of IFAD; or
  - (d) the administrative, accounting and financial manual, or any provision thereof, has been suspended, rescinded in whole or in part, waived or otherwise modified without the prior consent of IFAD, and IFAD has determined that such event has had, or is likely to have, a material adverse effect on the programme.

**Suspension in the event of non-compliance of audit requirement by the Government**

6. IFAD will suspend the right of the Government to request withdrawals from the loan account if it has not received the audit reports within the six months following the six-month period set forth in the loan agreement.

**Conditions precedent to withdrawal**

7. No withdrawal will be made until such time as:
- (a) the first tranche of the counterpart funds, i.e. the amount of FCAF 82,200,000, has been deposited into the programme account;
  - (b) the draft administrative, accounting and financial manual has been prepared and submitted to IFAD; and
  - (c) the first annual workplan and budget, including a procurement plan for the first 18 months, has been approved.

**Conditions precedent to effectiveness**

8. The loan agreement will become effective upon the fulfillment of the following conditions precedent:
- (a) the Government has delivered to IFAD a favourable legal opinion, acceptable in form and substance, issued by the Supreme Court or other authority having competence within the territory of the Government;
  - (b) the coordination and management unit and the steering committee have been created by means of the appropriate administrative procedure by the competent authority;
  - (c) the director of the coordination and management unit and the administrative and financial officer have been selected; and
  - (d) a programme account and a special account have been opened by the Government.





## **Key reference documents**

Stratégie Nationale de Microfinance

### **Country reference documents**

Poverty reduction strategy paper

### **IFAD reference documents**

Evaluation of 2<sup>nd</sup> Phase and Formulation of 3rd Phase of FODESA

Project design document (PDD) and key files

COSOP

Administrative Procedures on Environmental Assessment

### **Other miscellaneous reference documents**

## Logical framework

	Objectives-hierarchy	Objectively verifiable indicators	Means of verification	Assumptions
<b>Goal</b>	Contribute to improving sustainable access for the rural poor to financial services responding to their needs	<ul style="list-style-type: none"> <li>malnutrition levels of children &lt;5 years</li> <li>evolution of HH goods(by gender)</li> </ul>	<ul style="list-style-type: none"> <li>Baseline and impact surveys</li> <li>Impact study of MFIs on rural poverty reduction in rural areas</li> </ul>	<ul style="list-style-type: none"> <li>Development of rural productive systems</li> <li>Synergy with partners and alternative financing agreements</li> </ul>
<b>Objectives</b>	<ul style="list-style-type: none"> <li>Promote mechanisms and adapted financial products, such as credit, savings, insurance</li> <li>Reinforce the intervention capacity of MFIs</li> </ul>	<ul style="list-style-type: none"> <li>No. of chartered and viable MFIs</li> <li>Volume of refinancing reached</li> </ul>	<ul style="list-style-type: none"> <li>MFIs quarterly reports</li> <li>MFIs dashboards</li> <li>Supervision reports</li> </ul>	Willingness of MFIs to adapt new products developed in favour of the target groups
<b>Component 1</b>	<p><b>Result:</b> New products will be put into place and made available in credit unions and MFI networks, which will contribute to the economic development of the area</p> <p><b>Activities:</b></p> <ul style="list-style-type: none"> <li>studies to be undertaken to identify savings/credit patterns, assess needs and develop new products</li> <li>facilitate creation of networks b/w MFIs, banks and insurance companies</li> </ul>	<ul style="list-style-type: none"> <li>new microfinance services developed</li> <li>Volume of investment portfolio in new products available</li> </ul>	<ul style="list-style-type: none"> <li>M&amp;E reports from project M&amp;E unit</li> <li>Surveys compiled by users in test phase</li> <li>MTR</li> </ul>	<ul style="list-style-type: none"> <li>Willingness of MFIs to offer new products</li> <li>MFI staff competency</li> <li>Willingness to forge partnerships</li> <li>Creation of integrated market chains aided by the use of new products</li> </ul>
<b>Component 2</b>	<p><b>Result:</b> Sustainable intervention capacity of MFIs and reinforced networks</p> <p><b>Activities:</b></p> <ul style="list-style-type: none"> <li>Support and guidance in restructuring of MFIs</li> <li>Capacity building at all levels</li> <li>Training at all levels</li> </ul>	<ul style="list-style-type: none"> <li>Evolution of architecture and performance of network and credit union portfolios (quality and ratios)</li> <li>Quality of governance of MFIs</li> <li>Quality of work environment with other MFIs and partner institutions</li> </ul>	<ul style="list-style-type: none"> <li>M&amp;E reports from project M&amp;E unit</li> <li>Surveys compiled by users in test phase</li> <li>MTR</li> </ul>	<ul style="list-style-type: none"> <li>No. membership (new clients) of MFIs and their networks</li> <li>Absence of negative interference from traditional leaders and public authorities</li> </ul>
<b>Component 3</b>	<p><b>Result:</b> Mechanisms and arrangements for effective management, M&amp;E are put in place and functional</p>	<ul style="list-style-type: none"> <li>AWPB timely and properly prepared</li> <li>Average disbursement rate 75% of AWBP achieved</li> <li>M&amp;E system up and working</li> </ul>	<ul style="list-style-type: none"> <li>Supervision reports</li> <li>MTR</li> <li>Quarterly reports</li> <li>Financial reports</li> <li>Audit reports</li> <li>PCR</li> </ul>	Loan signature and entry into effectiveness of loan.

