

IOE



Investing in rural people

Independent Office of Evaluation

124th
Evaluation
Committee

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Project cluster evaluation on rural finance in the East and Southern Africa Region

➤ **Main objectives of the evaluation**

- ✓ Assess results and performance
- ✓ Inform new designs and implementation

➤ **Criteria for project selection**

- ✓ Start date after the 2009 Rural Finance policy and min duration of 6.5 years
- ✓ Multiple interventions levels (financial institutions, financial infrastructure and policy/regulatory) and wide range of partners (village institutions, microfinance and commercial banks)

➤ **Evaluation methodology**

- ✓ Desk reviews on project documents, literature reviews
- ✓ In-country missions (Oct-Dec 2022)
- ✓ Comparative analysis

Projects covered by this PCE

- **Ethiopia:** Rural Financial Intermediation Programme II (RUFIP II)
- **Kenya:** Programme for Rural Outreach of Financial Innovations and Technologies (PROFIT)
- **Zambia:** Rural Finance Expansion Programme (RUFEP)

- ▲ Strong alignment to challenges of the rural finance sector.
- ▲ Pursued interventions at multiple levels (micro, meso, macro)
- ▼ Complex designs and involvement of multiple institutions create challenges for start up and implementation
- ▼ Lack well-defined targeting approaches

Impact pathways	PROFIT Kenya	RUFIP II Ethiopia	RUFEP Zambia
Reduce default risk of agricultural credit to increase lending to agriculture	✓✓✓		
Provide access to (subsidized) refinance	✓✓✓	✓✓✓	
Strengthen capacity of FSP on product development	✓	✓✓	✓✓
Strengthen capacity of FSP related to technology and innovation			✓✓✓
Strengthen capacity of SME (e.g., business development) to reduce business failures and defaults	✓		✓
Strengthen capacity of farmers/farmer groups (e.g. market linkages) to reduce business failures and defaults	✓		✓✓
Start-up grants to kick-start agricultural investment for ultra-poor	✓		✓

- ▲ All projects met their output targets, although with delays, resulting in increased access to financial services
- ▲ PROFIT's (Kenya) risk sharing facility achieved a 4.8 leverage ratio commercial banks and 5.1 through microfinance banks.
- ▼ Aside from increased outreach and increased returns for FSPs, project benefits were not sufficiently passed on to clients, especially the most vulnerable
- ▼ Training for Financial Service Providers in Kenya and Ethiopia was not well sequenced and targeted

- ▲ Involvement of community level financial organizations
- ▲ Credit guarantees and matching grants for innovation present opportunities for leveraging private sector resources.
- ▲ PMUs set up in predecessor projects in Ethiopia and Zambia helped improve implementation
- ▼ Critical data on performance and sustainability of FSPs was not collected by the projects.
- ▼ Over estimation of project beneficiaries
- ▼ Lack of IFAD technical follow up in the early stages of PROFIT
- ▼ Continued perception of high risk in smallholder agricultural finance

Conclusions

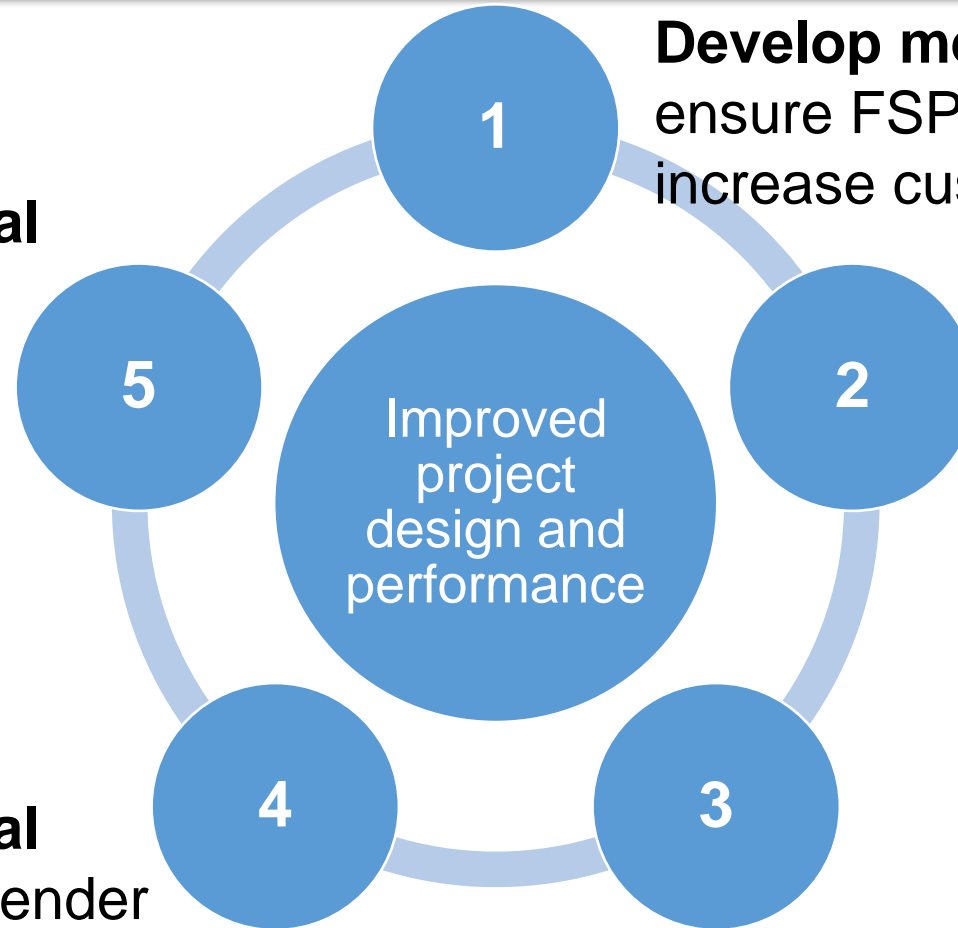
- Lack of well articulated targeting strategies, including on gender
- Appropriate choice of FSPs but insufficient engagement, capacity development and monitoring
- High risk perception and high operational cost remain challenges

Lessons

- Technological innovations are useful but face-to-face interaction at the community level is critical for FSPs
- Lines of credit are a popular approach, but credit guarantees have proven effective
- Complex design is relevant but requires investment in project management and technical supervision
- Consumer protection and financial literacy are key aspects for inclusive rural finance

Provide greater technical guidance on targeting strategies to address the needs of disadvantaged groups such as youth

Provide more substantial technical guidance on gender equality and women's empowerment at project design and implementation stages.



Develop mechanisms at design to ensure FSPs use the project benefits to increase customer value for target groups

Require and provide guidance to PMUs to conduct thorough assessments of capacities of FSPs, and **set clear expectations** on implementation, targeting and reporting requirements

Require that project M&E systems collect financial sector-specific data and a more accurate counting of beneficiaries