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Enabling poor rural people
to overcome poverty

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

Food and Agriculture Organization of the United Nations (FAO)

Note to Executive Board representatives

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For: Approval

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Abbreviations and acronyms

AFRACA	African Rural and Agricultural Credit Association
AgriFin	Agriculture Finance Support Facility
AGS	Rural Infrastructure and Agro-Industries Division (FAO)
ALIDE	Asociación Latinoamericana de Instituciones Financieras para el Desarrollo
APRACA	Asia and Pacific Rural and Agricultural Credit Association
CABFIN	Improving Capacity Building in Rural Finance
FAO	Food and Agriculture Organization of the United Nations
FOROLACFR	Foro Latinoamericano y del Caribe de Finanzas Rurales
GIIN	Global Impact Investing Network
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
MIX	Market Information Exchange
RFLC	Rural Finance Learning Centre (to become RFILC)
RFILC	Rural Finance and Investment Learning Centre
UNCDF	United Nations Capital Development Fund

Recommendation for approval

The Executive Board is invited to approve the recommendation for a grant under the global/regional grants window to a non-CGIAR-supported international centre as contained in paragraph 7.

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

I submit the following report and recommendation on a proposed grant for agricultural research, knowledge management and training to a non-Consultative Group on International Agricultural Research (CGIAR)-supported international centre in the amount of US\$0.56 million.

Part I – Introduction

1. This report recommends the provision of IFAD support to the research, knowledge management and training programmes of the following non-CGIAR-supported international centre: Food and Agriculture Organization of the United Nations (FAO).
2. The document of the grant for approval by the Executive Board is contained in the annex to this report:

Food and Agriculture Organization of the United Nations: Enhancing the CABFIN¹ partnership's delivery of policy guidance, capacity development and global learning to foster financial innovations and inclusive investments for agricultural and rural development
3. The objectives and content of this applied research programme are in line with the evolving strategic objectives of IFAD and the Fund's policy for grant financing.
4. The overarching strategic goal that drives the Revised IFAD Policy for Grant Financing, which was approved by the Executive Board in December 2009, is to promote successful and/or innovative approaches and technologies, together with enabling policies and institutions, that will support agricultural and rural development, empowering poor rural women and men in developing countries to achieve higher incomes and improved food security.
5. The policy aims to achieve the following outputs: (a) innovative activities promoted and innovative technologies and approaches developed in support of IFAD's target group; (b) awareness, advocacy and policy dialogue on issues of importance to poor rural people promoted by, and on behalf of, this target group; (c) capacity of partner institutions strengthened to deliver a range of services in support of poor rural people; and (d) lesson learning, knowledge management and dissemination of information on issues related to rural poverty reduction promoted among stakeholders within and across regions.
6. The proposed programme is in line with the goal and outputs of the revised IFAD grant policy. It supports IFAD's policy on rural finance (2009) and Strategic Objective 3 on increasing access to a broad range of financial services.

¹ CABFIN stands for Partnership for "Capacity Building in Rural Finance". CABFIN is a working group of donors and development agencies – FAO, Deutsche Gesellschaft für Internationale Zusammenarbeit/Federal Ministry for Economic Cooperation and Development (Germany), IFAD, World Bank and United Nations Capital Development Fund – on rural and agricultural finance aiming to promote and facilitate capacity-building and knowledge management in rural financial systems.

Part II – Recommendation

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

RESOLVED: that the Fund, in order to finance, in part, the “Enhancing the CABFIN partnership’s delivery of policy guidance, capacity development and global learning to foster financial innovations and inclusive investments for agricultural and rural development” programme, shall provide a grant not exceeding five hundred sixty thousand United States dollars (US\$560,000) to the Food and Agriculture Organization of the United Nations 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.

Kanayo F. Nwanze
President

Food and Agriculture Organization of the United Nations: Enhancing the CABFIN partnership's delivery of policy guidance, capacity development and global learning to foster financial innovations and inclusive investments for agricultural and rural development

I. Background

1. The Improving Capacity Building in Rural Finance initiative (CABFIN) was the result of collaborative efforts, beginning in 2003, among its partners: IFAD, the Food and Agriculture Organization of the United Nations (FAO), Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)/the Federal Ministry for Economic Cooperation and Development of Germany (BMZ), and the World Bank. The United Nations Capital Development Fund (UNCDF) joined in 2010. These efforts aimed to facilitate capacity development among relevant public and private stakeholders to increase the availability and effective use of a wide range of financial services in rural areas and thus contribute to livelihood development and poverty reduction.
2. CABFIN focused on creating a knowledge platform and user network that would disseminate the most relevant resource documents and capacity development material from around the world and would develop new training manuals, policy guidelines and online training material accessible worldwide in three languages. CABFIN partners also sought to facilitate dialogue among stakeholders to define priorities and undertake joint activities to overcome those obstacles limiting access to agricultural and rural finance. This led to the creation of the Rural Finance Learning Centre (RFLC) portal. The Rural Infrastructure and Agro-Industries Division (AGS) of FAO has been managing and implementing the RFLC, which has been funded by IFAD, FAO and other CABFIN partners.

II. Rationale and relevance to IFAD

3. Since the creation of the CABFIN partnership, a new development context has been emerging that imposes the need for a continuous evolution of the RFLC in order to better respond to the challenges of fostering greater access to agricultural and rural finance. Although the rural commercial sector has benefited from innovations that tailor financial services to the sector's needs, there has been a considerable lag in expanding the delivery of financial services within the agricultural sector and to agriculturally dependent households, thus limiting agricultural investments. This significantly affects smallholders, their organizations, and small- and medium-sized agroenterprises, constituting the so-called "missing middle" in financial markets that lack access to finance.
4. At the same time, the rising prices of agricultural products over the past decade and market demand from a growing middle class in emerging economies have created new and more profitable business opportunities in agriculture. This has led to the recent development of innovative finance and risk management strategies by the private sector aimed at making needed investments in agriculture and agribusiness feasible.
5. In this context, a new initiative is being proposed by the CABFIN partners to reduce the knowledge gap that has prevented expansion of the rural finance frontier into agriculture and agribusiness, which would promote much needed investment in the sector while ensuring the inclusion of poorer sectors of the population. The programme leverages RFLC achievements in order to better contribute to increased access to finance, and facilitates greater investment in inclusive agricultural and rural development. The proposal consists in filling a well-identified gap in policy

guidance and capacity development materials for development practitioners. The programme does this, first, by analysing recent innovations in finance, risk management and investment mechanisms carried out by private and public agents in agricultural value chains in developing countries. It assesses when and how they can be replicated to promote rural investments in the most inclusive and cost-effective manner. Second, the analysis will be used to develop policy guidance and capacity development materials that will be delivered to government ministries, international development agencies (including IFAD country operations), local NGOs and producer organizations, which are the main clients of the RFLC. Lastly, broad dissemination will be achieved of all material developed by further enhancing the outreach of the RFLC. The centre will broaden its target audience and outreach by including a section on agribusiness finance and investment, on which the policy and capacity development materials will be posted for wide dissemination. Consequently, the name of the platform will be changed to the Rural Finance and Investment Learning Centre (RFILC).

6. The proposed joint collaboration includes macro-level analysis and guidance to design policies that establish an enabling environment for inclusive financial and agribusiness development. This knowledge, coming not only from FAO, IFAD and CABFIN interventions, but also from private and public industry leaders worldwide, is being used to develop and disseminate capacity development programmes for policymakers, practitioners, project designers and managers within specific country contexts. This will allow them to tailor the use of diverse intervention tools towards increasing access to finance, enhancing managerial and productive capacity among producer groups, and enabling greater market access for small farmers and enterprises and low-income rural households.

III. The proposed programme

7. The overall goal of the programme is to strengthen development practitioners' capacities to design and implement more effective interventions that increase access to agricultural finance and enable agricultural investments that benefit poorer rural and agriculturally dependent households. The programme's objectives are to:
 - Develop or strengthen evidence-based approaches and policies that promote access to finance and inclusive investments for agriculture and rural small enterprises in lower-income countries;
 - Develop effective operational guidelines for public programmes focused on increasing inclusive investments in agricultural enterprises and agribusinesses;
 - Promote global knowledge by sharing learning tools, capacity development resources, policies and the operational guidelines developed in order to foster inclusive investments in agriculture and enhanced agricultural finance innovations.
8. The target group comprises direct and indirect clients. Users of the RFLC/RFILC are direct clients. They consist mainly of development practitioners within government ministries, international agencies, NGOs and producer organizations working in partner countries, engaged in providing policy advice and capacity development in rural finance, and strategies that foster inclusive investment in agricultural and rural development. Indirect clients consist of rural and agriculturally dependent households and commercial and non-commercial smallholders in agricultural value chains. These clients will benefit from more effective interventions by development practitioners – interventions that facilitate their access to rural finance and the needed investments to enable their participation in higher-rent agricultural markets. In addition, more commercial smallholders may directly access the e-learning material developed.

9. After implementation of the proposed grant, it is expected that current yearly visits to the RFLC/RFILC will increase from 330,000 to 660,000 as a result of implementation of the dissemination strategy. Also, registered memberships in the RFLC are expected to rise from 4,400 to 7,500 in the three-year time frame.
10. The three-year programme will comprise three main components:
 - Evidence-based approaches and policies that promote access to finance and inclusive investment in agriculture and rural small enterprises in lower-income countries;
 - Operational guidelines for public programmes focused on increasing inclusive investments in agricultural enterprises and agribusinesses;
 - Global knowledge to foster inclusive investments in agriculture and enhanced agricultural finance innovation.

IV. Expected outputs and benefits

11. These are the following outcomes and outputs as described in the project design document:
 - Knowledge is updated of the diverse typologies of agricultural finance and investment mechanisms led by the private sector, and their distinguishing operational features, such as investment funds and value-chain finance services (e.g. insurance, inventory credit and savings).
 - Knowledge of and capacity development resources for inclusive business models and services for small farmers and small and micro-agribusinesses are strengthened and used to improve access to finance and markets (contract farming, warehouse management, producer organizations).
 - Development indicators are measured in a sample of private and public investment ventures and the value chains in which they participate.
 - Updated information on the nature and value of investments and financial instruments in agriculture is made available and analysed, and knowledge is shared of how public policy influences private-sector investment strategies and innovations in agriculture.
 - Policymakers in IFAD member countries develop their capacity to define when and how to promote specific finance and investment mechanisms for agriculture.
 - Programme managers develop their capacity to design and implement effective interventions that enhance risk management and facilitate the financing of private and public investments for inclusive agricultural development.
 - Public and private stakeholders have access to state-of-the-art written and multimedia resources through the RFILC in order to promote improved finance and investments in agriculture and in rural enterprises.
 - Stakeholders (ministries, training institutions, projects, professional communities, networks and associations) use interactive online learning facilities, including ready-to-use courses and training information on rural and agricultural finance and investment.

V. Implementation arrangements

12. The programme will be implemented by FAO, through AGS. Implementation of the workplan relies on complementing each partners' comparative advantage. CABFIN partners have in-house transnational and interdisciplinary technical expertise and resources at field offices that will enable analysis of case studies and drafting of

relevant policy and training materials. To validate and test these materials with targeted development practitioners, collaboration with local professional networks like Asia and Pacific Rural and Agricultural Credit Association (APRACA), African Rural and Agricultural Credit Association (AFRACA) and Foro Latinoamericano y del Caribe de Finanzas Rurales (FOROLACFR) will be formalized through letters of agreement. These professional networks have a long history of collaboration with FAO, IFAD and other CABFIN partners on capacity development, and they are able to reach large numbers of local clients and disseminate knowledge far beyond the grant's duration.

13. The private sector is a key partner. Through the network of private agricultural investment funds that FAO, IFAD and other CABFIN partners have developed, case studies will be identified of private agricultural investments in developing countries in which innovative risk management and financial schemes have been implemented.
14. FAO will be accountable for administrative, financial and technical management of the programme, through AGS. The annual budget and workplan will be prepared by the AGS team and approved at the beginning of the year by the FAO board of directors.
15. Monitoring of FAO/AGS and CABFIN partner outputs will be done through the annual workplan and budget. IFAD will have frequent exposure to all programme activities being implemented. FAO, through AGS, will submit status reports every six months, and the annual report will highlight achievements against objectives and use of the budget.
16. The programme will be directly supervised by IFAD through its Senior Rural Finance Advisor, who will involve regional divisions where relevant.. As the grant recipient, FAO will provide all needed declarations and subscribe to all implementation, cofinancing and reporting arrangements stated in the standard IFAD/FAO grant agreement.

VI. Indicative programme costs and financing

17. The total cost of the programme is US\$875,000, of which 36 per cent is financed by FAO and 64 per cent by IFAD. FAO cofunding covers the cost of technical staff programme activities, amounting to US\$105,000, in addition to a cash and in kind contribution to cover knowledge management activities of US\$210,000, for a total of US\$315,000. IFAD grant funding will cover implementation of all remaining activities for developing and disseminating knowledge.
18. According to the United Nations standard service agreement, FAO will provide trust-fund management services for which support costs represent 7 per cent of the trust fund value.
19. Regarding an exit strategy, given the public goods nature of the RFILC, it is expected that CABFIN partners will continue to fund its operation once the proposed grant programme is closed. For this proposal, UNCDF has committed US\$100,000 to its implementation and GIZ has offered the in-kind contribution of an intern specializing in rural finance and communication. Similarly, the Agriculture Finance Support Facility (AgriFin) project of the World Bank, sponsored by the Bill and Melinda Gates Foundation, is collecting relevant case study information involving private and public agricultural investments. The possibility of generating income to partially cover RFILC operational costs by selling services will be explored with CABFIN partners.

Summary of budget and financing plan

(Thousands of United States dollars)

<i>Number</i>	<i>Type of expenditure</i>	<i>IFAD</i>	<i>Cofinancing^a</i>
1	Personnel (including subcontractors)	-	105 000
2	Professional services/consultancies	217 000	45 000
3	Travel costs	44 000	-
4	Equipment	-	-
5	Operational costs, reporting and publications (research, conferences, web maintenance, desktop publishing, e-learning, translation, evaluation)	262 000	165 000
6	Overhead (project support costs 7 per cent)	37 000	
	Total	560 000	315 000

^a The counterpart budget does not include contributions from CABFIN partners, which are used both for specific joint CABFIN activities and to support the RFLC.

Results-based logical framework

	Objectives-hierarchy	Objectively verifiable indicators	Means of verification	Assumptions
Goal	The capacity of development practitioners in developing countries to design and implement more effective interventions that increase access to agricultural finance and enable agricultural investments that benefit poorer rural and agricultural households is significantly enhanced.			
Objective 1	Evidence-based approaches and policies that promote access to finance and inclusive investments for agriculture and rural small enterprises in lower-income countries developed or strengthened			
Outcomes	<p>1.1. Updated knowledge on the typology of the different agricultural finance and investment mechanisms led by the private sector and their distinguishing operational features such as investment funds and value chain finance services (e.g. insurance, inventory credit, and savings)</p> <p>1.2. Knowledge and capacity development resources on inclusive business models and services for small farmers and micro and small agribusinesses are strengthened and used to improve access to finance and markets (contract farming, warehouse management, producer organizations)</p> <p>1.3. Development indicators are measured in a sample of private and public investment ventures and the value chains where they participate</p> <p>1.4. Updated information on the nature and value of investments and financial instruments in agriculture is made available and analysed and knowledge shared on how public policy influences private sector investment strategies and innovations in agriculture</p>	<p>1.1. Over 30 agricultural investment ventures and financing arrangements analysed with support from private partners</p> <p>1.2. Improved capacity building resources on contract farming, value chains and agribusiness support services for inclusive agriculture and rural development are developed and implemented in at least 10 IFAD or CABFIN member projects.</p> <p>1.3. Over 200 participants representing government ministries, donors, agricultural companies, investment fund managers and other stakeholders contribute to the consultation and validation workshops/conferences</p> <p>1.4. Agriculture investment and finance information is made available through The MIX or other platforms and over 70% of participating stakeholders consider the information and policy recommendations useful and relevant</p>	<p>Assessment reports and regular project reporting</p> <p>Resource materials and project reports</p> <p>Events' attendance records</p> <p>The MIX publication or other database and participant satisfaction</p>	<p>NOTE: All related activities leverage on past and on-going work of CABFIN Partners: GIZ, FAO, IFAD, UNCDF and World Bank.</p> <p>Continued collaboration with private sector partners</p> <p>Continued support of the Contract Farming Resource Centre and field-level support particularly of GIZ, FAO and IFAD in development of, testing and use of resource</p> <p>Coordination with the RACAs (APRACA, etc.), GIIN and/or other networks</p> <p>A collaborative agreement with The MIX to test agricultural finance indicators approved by Steering Committee.</p>
Outputs	<p>1.1.1 Policy publications for each region discussing the cost-effectiveness of strategies to finance investments for inclusive agriculture and rural development</p> <p>1.2.1 IFAD and CABFIN member field projects have policy guide resource materials for project design and implementation</p> <p>1.3.1. Comprehensive report analysing overall results</p> <p>1.4.1. Data tracking on agricultural finance and investment products and stakeholder workshops and conferences conducted to consult and validate findings</p>	<p>1.1.1. One policy publication for three regions (Latin America, Africa and Asia) analysing over 30 public and private agricultural investment ventures</p> <p>1.2.1. Three regional workshops/conferences held in order to consult and validate regional findings</p> <p>1.3.1. One comprehensive report summarizing overall results</p> <p>1.4.1. Publicly available resource platform in key agricultural finance products and investment data</p>	<p>Case study reports</p> <p>Workshop and conference aide memoire</p> <p>Resource platform</p>	
Objective 2	Effective operations guidelines for public programmes focused on increasing inclusive investments in agricultural enterprises and agribusinesses developed			
Outcomes	2.1. Policy makers in member countries develop their capacity to define when and how to promote specific finance and investment mechanisms agriculture	2.1. Over 300 representatives from target public institutions and partner networks participate in training workshops	Ongoing project monitoring Training attendance records	Commitment of partner institutional networks and government ministries

	Objectives-hierarchy	Objectively verifiable indicators	Means of verification	Assumptions
	2.2. Programme managers develop their capacity to design and implement effective interventions that enhance risk management and facilitate the financing of private and public investments for inclusive agriculture development	2.2. Training evaluations show over 70% of assimilation of concepts introduced	Training evaluation results	
Outputs	<p>2.1.1. Technical notes on good practices for programme design to promote finance and investment for inclusive agriculture development</p> <p>2.1.2. Tested training manuals targeting technical teams in public institutions on methods to assess the cost-effectiveness of finance and investment mechanisms that enable agriculture development</p> <p>2.2.1. Delivery of training sessions to target public institutions in partnership with local networks</p>	<p>2.1.1. Over 8 technical notes on specific financial, operational, and institutional innovations used by industry and public policy leaders to promote private and public investment into inclusive agribusinesses</p> <p>2.1.2. At least 3 manuals for methodologies to assess the potential of finance and investment mechanisms and the design of strategies to implement effective public interventions</p> <p>2.2.1. Delivery of at least 4 regional training workshops through collaboration with institutional networks in Latin America, Africa and Asia like ALIDE, FOROLACFR, PAMIGA, AFRACA and APRACA</p>	<p>Technical notes published</p> <p>Training manuals published</p> <p>Training workshop aide memoirs</p>	
Objective 3	Global knowledge dissemination by sharing learning tools, capacity building resources, policies and operations guides developed to foster inclusive investments in agriculture and enhanced agricultural finance innovations			
Outcomes	<p>3.1. Public and private stakeholders have access to state-of-art written and multimedia resources through the RFILC to promote improved finance and investments in agriculture and rural enterprises</p> <p>3.2. Stakeholders (ministries, training institutions, projects, professional communities, networks and associations) use interactive online learning facilities, including ready-to-use courses and training information on rural and agricultural finance and investment</p>	<p>3.1. On average, over 6,500 monthly visits to the new web platform</p> <p>3.2. 30% increase in the number of training resource downloads made from the platform</p>	Webhost statistics	CABFIN partners are committed to proposed changes in the web platform
Outputs	<p>3.1.1. A section that hosts aspects related to agribusiness and agriculture investment is built into CABFIN's web platform: the RFILC</p> <p>3.1.2. All policy, operational and training materials are made available through an improved web platform and design to facilitate greater traffic</p> <p>3.2.1. A new communication strategy is developed to cost-effectively expand dissemination of resources both through the web in 3 languages and through networks and other platforms</p> <p>3.2.2. Print of materials including videos and CDs is done to reach those not accessible through the web</p>	<p>3.1.1. One new section in the web platform hosting material on investment topics</p> <p>3.1.2. Membership in the RFILC grows to 7,500 members monthly traffic increases to an average of 8,000 visitors</p> <p>3.2.1 Communication strategy is approved by CABFIN members and documented</p> <p>3.2.2 Promotional material developed and distributed through partner networks such as the RACAs, AgriFin and FOROLACFR</p>	<p>Regular project reporting</p> <p>Ongoing project monitoring</p>	