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Enabling poor rural people
to overcome poverty

President's report on a proposed grant to The Republic of The Sudan for the Scaling up the Agricultural Bank of Sudan Microfinance Initiative (ABSUMI)

Note to Executive Board representatives

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Abbreviations and acronyms

ABSUMI	Agricultural Bank of Sudan Microfinance Initiative
CBS	Central Bank of Sudan
SCGs	savings and credit groups
SSDB	Savings and Social Developed Bank
WSRMP	Western Sudan Resources Management Programme

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed grant to the Republic of The Sudan as contained in paragraph 8.

President's report on a proposed grant to the Republic of The Sudan for the Scaling-up the Agricultural Bank of Sudan Microfinance Initiative (ABSUMI)

I submit the following report and recommendation on a proposed grant to the Republic of The Sudan in the amount of US\$925,000.

Part I – Introduction

1. This report recommends the provision of IFAD support to the programme for Scaling-up the Agricultural Bank of Sudan Microfinance Initiative (ABSUMI)
2. The document of the grant for approval by the Executive Board is contained in the annex to this report:
 - (i) Republic of The Sudan: Scaling-up the Agricultural Bank of Sudan Microfinance Initiative (ABSUMI)
3. The objectives and content of the programme are in line with IFAD's evolving strategic objectives and the revised IFAD 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 as it intends to: (i) promote awareness, policy and advocacy dialogue on issues of importance to poor rural people, and on behalf of, its target group; (ii) strengthen capacity of Partner institutions to deliver a range of services in support of poor rural people; and (iii) promote lesson learning, knowledge management and dissemination of information on issues related to rural poverty reduction promoted among stakeholders within and across the regions.
7. The grant has a strong link to the IFAD Strategic Objective related to Access for poor rural women and men to services to reduce poverty, improve nutrition, raise incomes and build resilience in a changing environment.

Part II – Recommendation

8. 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 Scaling-up of the Agricultural Bank of Sudan Microfinance Initiative (ABSUMI), shall make a grant not exceeding nine hundred and twenty-five thousand United States dollars (US\$925,000) to the Republic of The Sudan 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

Scaling-up the Agricultural Bank of Sudan Microfinance Initiative (ABSUMI)

I. Background

1. The practice of microfinance has a long history in Sudan. Until the year 2006, the microfinance sector in Sudan operated in a void and lacked adequate policy framework, regulatory mechanisms and capacity building measures. In 2007, the Central Bank of Sudan developed a strategy paper for Microfinance Development in the Sudan. This was followed by the establishment of the Microfinance Unit (MFU) of the Central Bank of Sudan (CBS). The Multi Donor Trust Fund has supported also the establishment of the Sudanese Microfinance Development Facility (SMDF) in 2008.
2. A series of promotional and developmental steps were initiated such as (a) the establishment of microfinance units within commercial banks (b) formulation of microfinance regulatory framework (c) instructing commercial banks to allocate 12% of their portfolio to microfinance (d) awareness generation and training and capacity building activities (e) de-capping of profit margins and (f) acceptance of group guarantee as recognizable collateral. Despite these measures, only 20% of the available microfinance resources appear to be reaching the rural areas which have 80% of the microfinance market. This is mainly due to historical experiences of high delinquency rates, high rural operations costs and the lack of intermediaries discourage financial institutions from rural microfinance ventures fearing losses and unsustainable operations.
3. Historically, IFAD-supported rural finance initiatives also suffered from the problem of unsustainable operations. To address this issue IFAD gradually started piloting a set of new delivery models with the objective of enabling the flow of commercial funds into rural areas. During the mid-term review of Western Sudan Resource Management Programme (WSRMP) in year 2008, IFAD modified the rural finance component towards the development of an independent microfinance programme within the Agricultural Bank of Sudan which was named the Agricultural Bank of Sudan Microfinance Initiative (ABSUMI). ABSUMI was to be incubated and spawned within the ABS through a pilot phase (in two localities in Kordofan) and then developed into an independent, scalable and sustainable vehicle for rural finance delivery across rural Sudan. The pilot phase was supported by three key stakeholders, namely WSRMP, ABS and the Microfinance Unit of the Central Bank of Sudan (CBS-MFU).

II. Rationale and relevance to IFAD

4. ABSUMI's **Scaling-up is aligned with Sudan COSOP's** strategic objective to increase access of poor women and men to markets and microfinance services.
5. **ABSUMI's Scaling-up will benefit ongoing and future IFAD Programmes:** In anticipation of ABSUMI's initiation and expansion in their project areas, six out of the eight on going IFAD-supported programmes have initiated savings and credit groups (SCGs) formation that can be linked to ABSUMI during the scaling-up process.
6. **IFAD's Involvement and Guidance in the Scaling-up is critical:** The ABSUMI initiative resulted directly from IFAD technical inputs during its conceptualisation and implementation. Given the fragile environment in which ABSUMI operates, in the absence of IFAD's guidance during the scaling up, ABSUMI's performance may fall short of its potential.

III. The proposed programme

7. The overall goal of the programme is to increase assets and income for about 150,000 rural poor households through sustained access to tailored savings and credit services in five States. The programme's objectives are: (i) credits and savings services will enable rural poor to make agricultural and related investments, to increase expenditures for consumption and to improve household cash flow; and (ii) increase the participation of women in economic and social household's decision.
8. The target group is poor households which can benefit from loan sizes ranging from SDG 300-3,000 (US\$ 100-1,000) and are currently cut off from traditional microfinance services. The scaling-up through the six new units is expected to reach 150,000 such households in 5 years.
9. The programme will be of a three year duration and will comprise four components:
 - (i) Infrastructure development for delivering rural financial services
 - (ii) Delivery of rural financial services
 - (iii) Technical assistance and Training;
 - (iv) Programme management.

IV. Expected outputs and benefits

10. ABSUMI is expected to provide sustainable rural microfinance services to approximately 1 million poor women at the bottom layers of the economic pyramid across the Sudan in 10 years. Expected benefits are the following:
 - **Flow of commercial funds to the rural areas enhanced:** Significant volumes of loans will be disbursed through groups creating a robust pipeline backed by strong credit culture and savings habits for the flow of financial resources to rural areas. The presence of this structure will also attract other banks to enhance their rural lending.
 - **Women's status in the household uplifted:** Credit and savings services delivered through women's groups which will significantly uplift women's positive roles and influences on their families and encourage their participation in economic decision making within households.

V. Implementation arrangements

11. The Federal Ministry of Agriculture and Irrigation shall act as lead agency for this initiative and will be responsible for programme oversight, strategic guidance and facilitation of the implementation of necessary strategic and policy decisions to enable the development of the microfinance sector. The Government of Sudan will enter into an implementation agreement with the Agricultural Bank of Sudan, setting forth the terms of their respective duties and obligations in the financing and implementation of the ABSUMI initiative. The execution of such agreement shall be a condition precedent to withdrawal of any of the IFAD Grant resources.. The coordination of the ABSUMI programme will be fully integrated within the structure of the IFAD-financed Seed Development Project (SDP), which entered into force in February 2012. To this end, the programme coordination unit (PCU) of the SDP will be expanded to include microfinance specialists, whilst a Programme Implementation Manual will detail operational modalities for implementation of the ABSUMI initiative with relevant third parties. Vehicles, goods and equipment financed by Grant resources shall be procured in accordance with the IFAD Procurement Guidelines. The ABSUMI governance structure will consist of (i) National and Regional Steering Committees in charge of policy guidance and oversight; (ii) a three-tier implementation structure; and (iii) collaboration with other field level programmes such as IFAD-supported projects.

12. **Project phasing.** The Project shall be implemented in two inter-linked stages: (i) a first phase during which the new ABSUMI units will be set up through infrastructure development and procurement activities carried out to commence field operations. This phase will be financed by a first tranche not exceeding 40% of the overall Grant; and (ii) a consolidation phase for the remainder of the Project Implementation Period, during which the balance of the Grant resources will be used provided the following triggers have been met:
- (i) The Recipient shall have submitted to IFAD a Statement of Expenditure showing that at least 75% of the previous amount withdrawn has been spent for Eligible Expenditures;
 - (ii) the six new ABSUMI units shall have made available no less than 1,500 loans to eligible borrowers;
 - (iii) the six new ABSUMI units shall have disbursed the equivalent of no less than USD 160,000 in new loans;
 - (iv) a certified copy of the audit report shall have been submitted to IFAD.

VI. Indicative programme costs and financing

13. The total financing requirement for starting the scaling-up phase by launching six new ABSUMI units is US\$ 4.5 million over three year of the business plan. Of this US\$ 2.53 million (56%) is for credit delivery, US\$ 1.46 million (32%) is for infrastructure development, US\$ 0.29 million (6%) is for programme management and US\$ 0.25million (6%) is for technical assistance (Table below). The proposed IFAD grant will contribute US\$ 0.925 million (20%) of the total requirement. The remaining US\$ 3.6 (80%) will be contributed by ABS with US\$ 2.34 million (52%) and the CBS-MFU with USD 1.265 million (28%).

Breakdown of total financing by category and financier

All figures in US\$

Financing Categories	Proposed Financiers				%
	IFAD grant financing	CBS-MFU and SMDF	ABS	Total	
Investment Costs					
Credit funds		1,265,250	1,265,250	2,530,501	56%
Community awareness and mobilisation	200,000			200,000	4%
Vehicles	249,724	-	605,479	855,204	19%
Motorcycles	16,173	-	39,212	55,385	1%
Office equipment and furnishing	101,804	-	246,834	348,638	8%
Technical assistance and training	250,000	-	-	250,000	6%
Subtotal: Investment costs	817,701	1,265,250	2,156,776	4,239,727	94%
Recurrent costs					
Salaries and allowances	56,821	-	97,444	154,266	3%
Operations and admin costs	50,478	-	86,566	137,044	3%
Subtotal: Recurrent costs	107,299	-	184,010	291,309	6%
Total: Project Cost	925,000	1,265,250	2,340,786	4,531,036	100%
%	20%	28%	52%	100%	

Results-based logical framework

	Objectives-hierarchy	Objectively verifiable indicators	Means of verification	Assumptions
Goal	Household assets and income of rural poor increased in five states.	<ul style="list-style-type: none"> Increase in household income and household asset by 20-30% Approximately 150,000 poor men and women benefitting from the projects interventions 	<ul style="list-style-type: none"> Baseline survey, mid-term and completion assessments 	<p>Situation of conflict in the project areas disrupting implementation activities</p> <p>- Condition of drought and natural calamities affecting poor people's livelihoods</p>
Objectives	Credits and savings enabled rural poor, to make agricultural and non-agricultural investments, to increase expenditures for consumption and to improve household cash flow:	<ul style="list-style-type: none"> 150,000 households have access to savings, credit and other financial services 70-80% of investments in agricultural, livestock and microenterprise activities 10-20% of credits and savings used for consumptions Approximately 75,000 household with improved cash flow 	Household survey on savings and credit practices	
Outcomes	<p>(i) Credit culture and savings habits changed to create a robust pipeline for the flow of financial resources to rural areas</p> <p>(ii) Participation of women in economic and social household 's decision increased</p>	<ul style="list-style-type: none"> US\$10 million mobilised as savings, at least 90% by women Superior portfolio at risk less than 5% and the repayment rate records >95% are achieved Self-sufficiency ratio becomes greater than 100% at the end of the 3rd year 40-50% of investments in HH made by women 20-25% of hh expenditures on education and health 	<ul style="list-style-type: none"> Baseline survey, mid-term and completion assessments Progress reports 	<ul style="list-style-type: none"> Macroeconomic instability and conflict causing slow scaling up, funding crisis, and supervision problems Poor community level acceptance of the ABSUMI model in new areas
Outputs	<ul style="list-style-type: none"> Functional infrastructure for delivering of financial services created Community level rural financial services to the targeted households with special focus on women operational Technical assistance to enhance the capacity of staff provided Women credit and savings groups strengthened 	<p>ABSUMI services are available in 5 States through the 6 new units</p> <p>Approx 1,500 villages of ABSUMI operations</p> <p>7,500 of savings and credit groups formed of which 80% are women's groups</p> <p>150,000 savers and borrowers of which at least 80% are women</p> <p>30 SDG as average savings size per year and USD 750 average loan size per client</p>	<ul style="list-style-type: none"> Monthly progress reports Supervision and follow up missions 	<ul style="list-style-type: none"> Spread of conflict in planned areas of ABSUMI Units delaying implementation Staff capacity is slow to develop and turnover is high

**Negotiated financing agreement:
" Scaling up the Agricultural Bank of Sudan Microfinance Initiative (ABSUMI)"**

(Negotiations concluded on 20 November 2012)

Grant Number: _____

Project Title: Scaling up the Agricultural Bank of Sudan Microfinance Initiative (ABSUMI)
(the "Project")

The Republic of the Sudan (the "Recipient")

and

the International Fund for Agricultural Development ("IFAD" or the "Fund")

(each a "Party" and both of them collectively the "Parties")

hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1) and the Allocation Table (Schedule 2).
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as may be amended from time to time (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.
3. IFAD shall provide a Grant to the Recipient (the "Financing"), which the Recipient shall use to implement the Project in accordance with the terms and conditions of this agreement.

Section B

1. The amount of the Grant is six hundred thousand Special Drawing Rights (SDR 600 000).
2. The first day of the applicable Fiscal Year shall be 1 January.
3. In accordance with Section 4.04(d) of the General Conditions, amounts withdrawn by the Recipient in advance shall be held in an account designated in EURO for that purpose in the Central Bank of the Sudan ("CBS").
4. There shall be a Project Account denominated in local currency for the benefit of the Programme Coordination Unit ("PCU") in the CBS or other commercial bank acceptable to the Fund.

5. The Agricultural Bank of the Sudan (“ABS”) and CBS shall provide counterpart financing for the Project in local currency equivalent respectively to USD 2.34 million and USD 1.265 million.

Section C

1. The Lead Project Agency shall be the Federal Ministry of Agriculture and Irrigation.
2. The following are designated as an additional Project Parties: ABS and the CBS.
3. The Project Completion Date shall be the third anniversary of the date of entry into force of this Agreement.

Section D

The Financing will be administered and the Project supervised by IFAD.

Section E

1. The following is designated as an additional ground for suspension of this Agreement: The Project Implementation Manual (“PIM”) for the IFAD-financed Seed Development Project (“SDP”) (Grant No. I-DSF-8094-SD) or any provision thereof has been waived, suspended, terminated, amended or modified without the prior agreement of the Fund and the Fund, after consultation with the Recipient, has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the Project, and the Recipient has not taken any measures to remedy the situation.

2. The following are designated as additional general conditions precedent to withdrawal:

- (a) The Recipient shall have entered into an implementation agreement with ABS, acceptable to the Fund, covering, among other things, the terms and conditions for the implementation of the community mobilisation and Project management activities referred to respectively under paragraph 4, letters (b) and (d) of schedule 1 hereto.
- (b) The designated Account in EURO, referred to in section B. 3 above shall have been duly opened; and
- (c) The PIM of the SDP covering, among other things, the technical, operational, organisational, financial and staff requirements necessary to implement all activities under this Agreement, shall have been adopted by the lead Project Agency in the form approved by the Fund.

3. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Recipient:

Minister
Ministry of Finance and National Economy
P.O. Box 700
Khartoum, Sudan

For IFAD:

The President
International Fund for Agricultural development
Via Paolo di Dono 44
00142 Rome, Italy

This Agreement, dated [], has been prepared in the English language in six (6) original copies, three (3) for IFAD and three (3) for the Recipient.

REPUBLIC OF THE SUDAN

Signed by: []

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Signed by: []

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. Project area and target population: The Project shall establish six new ABSUMI units across five States of the Republic of the Sudan as a step towards creating ABSUMI's nationwide presence. In particular, two units will be established in the North Kordofan State, and one unit will be set up in each of the South Kordofan, Sennar, White Nile and Kassala States (the "Project Area"). The target population is composed of poor, especially women-headed, rural households with no access to traditional microfinance services, to be chosen through a participatory wealth ranking exercise prior to implementation of Project activities. The criteria to be adopted for the selection of the locations of the units are as follows:

- (a) **For the North and South Kordofan States:** (i) data from market survey undertaken by the ABS at the beginning of the pilot phase; (ii) points of concentration of potential microfinance markets based on feedback from IFAD projects/programmes and ABS traditional microfinance operations in the Kordofan region; (iii) stable internal security environment in the locality; (iv) Potential for future expansion into neighbouring localities; and (v) presence of better performing savings and credit groups promoted by the IFAD financed Western Sudan Resources Management Programme (WSRMP).
- (b) **For the Sennar, White Nile and Kassala States:** (i) presence of active IFAD supported projects/programmes; (ii) presence of ABS branch to assist the establishment of the new ABSUMI unit; and (iii) stable internal security environment.

2. Project goal and objective: The goal of the Project is to increase the households' assets and income for about 150 000 rural poor through sustained access to tailored savings and credit services in the Project Area. More specifically the Project will provide the target households with access to savings and credit services to enable them to make agricultural and non-agricultural investments, to increase expenditures for consumption and to improve household cash flows.

3. Project phasing: The Project shall be implemented over three years in two inter-linked stages: (i) a first phase during which the new ABSUMI units will be set up through infrastructure development and procurement activities carried out to commence field operations. This phase will be financed by a first tranche not exceeding 40% of the overall Financing; and (ii) a consolidation phase for the remainder of the Project Implementation Period, during which the balance of the Financing resources will be used provided the following triggers have been met:

- (a) The Recipient shall have submitted to IFAD a Statement of Expenditure showing that at least 75% of the previous amount withdrawn has been spent for Eligible Expenditures;
- (b) the six new ABSUMI units shall have made available no less than 1 500 loans to eligible borrowers;
- (c) the six new ABSUMI units shall have disbursed the equivalent of no less than USD 160 000 each or USD 960 000 in total in new loans;

- (d) a certified copy of the audit report referred to in Section 9.03 (b) of the General Conditions shall have been submitted to IFAD.

4. Project components and outcomes: The Project includes four (4) components, as follows:

- (a) **Component 1: Physical Infrastructure for Delivering Financial Services:** The activities under this component include acquisition of essential physical assets and office infrastructure development in preparation for doorstep delivery of community level financial services. The establishment of functional ABSUMI Unit Offices in the new areas will involve: (i) office space identification in six locations; (ii) office furnishing; (iii) the procurement of office equipment; and (iv) procurement of vehicles and motorcycles.
- (b) **Component 2: Community-level Delivery of ABSUMI's Rural Financial Services:** Activities under this Component will focus on the actual delivery of financial services to the ABSUMI target households, in particular (i) locality survey and identification of the potential village clusters for commencing Unit level operations; (ii) mobilisation and awareness development; and (iii) group formation, verification and training. This will be followed by savings mobilisation and credit delivery.
- (c) **Component 3: Technical assistance and Training:** Technical assistance will be delivered for the training and capacity building of the staff members and for the development of technology driven systems and procedures.
- (d) **Component 4: Project Management:** Activities under this Component will cover physical and human resources management for efficient implementation of ABSUMI's services. Project management will consist of: (i) staff salary and allowances; and (ii) other operations costs. The expenses in both such categories, which have been projected in the business plan for the five years subsequent to entry into force of this Agreement, will be used for budgetary control during Project implementation.

II. Implementation arrangements

5. Governance of the Project. The Project shall avail itself of the existing ABSUMI three-tier implementation structure, which includes: (i) the National Coordination Unit at the ABS Head Office responsible for the provision of overall oversight, control, monitoring, supervision and progress according to business plan guidelines and projections; (ii) Regional Coordination Units tasked with the close monitoring, supervision, technical and administrative backstopping of the Unit; and (iii) Locality level Unit Offices directly responsible for ABSUMI's community level implementation through the formation of groups, mobilisation of savings, provision of access to loans and other financial services.

6. Project Coordination Unit. The Project shall be managed by the PCU of the SDP, the composition of which will be expanded to reflect the technical and financial expertise required to implement the Project in a manner acceptable to the Fund.

7. Project Planning. The process for the preparation, discussion and endorsement of the AWPB for the Project shall be described in detail in the PIM. The AWPB shall be submitted to IFAD for no objection no later than 60 days before the beginning of the relevant Project year.

8. **Monitoring and Evaluation (M&E).** The M&E system of the SDP shall be expanded to incorporate this Project. The M&E system shall be aligned with the monitoring framework for agricultural development of the Government of the Republic of the Sudan projects as well as with the Results and Impact Measurement System developed by IFAD. The M&E system shall be elaborated in the PIM of the SDP.

9. **Implementation Agreement.** The Recipient shall enter into an implementation agreement with the ABS. The implementation agreement shall clearly specify the scope of the work to be undertaken, expected deliverables, estimated budget for specific activities, as well as clearly defined performance evaluation criteria. The implementation agreement shall be monitored closely by the PCU and renewed annually based on satisfactory performance. The implementation agreement shall: (i) specify that the ABS shall maintain a register of assets (e.g. goods and equipment) acquired with the proceeds of the Financing and that at completion of the Project implementation, such assets will be transferred to ABSUMI; and (ii) be submitted to the Fund for its prior approval. The implementation agreement may not be modified without the prior consent of the Fund.

Schedule 2*Allocation Table*

1. *Allocation of Grant Proceeds.* (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the Grant and the allocation of the amounts of the Grant to each Category and the percentages of expenditures for items to be financed in each Category:

Category	Grant Amount Allocated (expressed in SDR)	% of eligible expenditure to be financed
I. Vehicles and Equipment	214 000	100% net of taxes
II. Technical assistance and training	263 000	100% net of taxes
III. Incremental Operating costs	63 000	100% net of taxes
Unallocated	60 000	
TOTAL	600 000	

(b) The terms used in the Table above are defined as follows:

“Technical Assistance and Training” covers community awareness and mobilisation activities.