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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

International Bank for Reconstruction and Development (IBRD)

Note to Executive Board representatives

Focal points:

Technical questions:

Michael Hamp
Senior Rural Finance Adviser
Tel.: +39 06 5459 2807
e-mail: m.hamp@ifad.org

Dispatch of documentation:

Deirdre McGrenra
Head, Governing Bodies Office
Tel.: +39 06 5459 2374
e-mail: gb_office@ifad.org

For: Approval

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Results-based logical framework

Abbreviations and acronyms

AFI	Alliance for Financial Inclusion
CGAP	Consultative Group to Assist the Poor
ExCom	Executive Committee of CGAP
GPII	Global Partnership for Financial Inclusion
IBRD	International Bank for Reconstruction and Development
MIX	Microfinance Information Exchange, Inc.

Recommendation for approval

The Executive Board is invited to approve the recommendation for a grant under the global/regional grant 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 and training to non-Consultative Group on International Agricultural Research (CGIAR)-supported international centre in the amount of US\$1.5 million.

Part I – Introduction

1. This report recommends the provision of IFAD support to the research and training programme of the following non-CGIAR-supported international centre: International Bank for Reconstruction and Development (IBRD).
2. The document of the grant approval by the Executive Board is contained in the annex to this report:

International Bank for Reconstruction and Development (IBRD): Developing Inclusive Financial Systems for Improved Access to Financial Services in Rural Areas with the Consultative Group to Assist the Poor (CGAP)
3. The objective and content of the applied research programme is 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 in as much as it supports knowledge management, learning, and dissemination, innovative activities and innovative technologies and approaches; and strengthens the capacity of partner institutions to deliver services to poor rural people. It also supports IFAD strategic objective 3 by promoting the access of poor rural women and men to services to reduce poverty, improve nutrition, raise incomes and build resilience in a changing environment.

Part II – Recommendation

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

RESOLVED: that the Fund, in order to finance, in part, the Developing Inclusive Financial Systems for Improved Access to Financial Services in Rural Areas with the Consultative Group to Assist the Poor (CGAP), shall provide a grant not exceeding one million five hundred thousand United States dollars (US\$1.5 million) to the International Bank for Reconstruction and Development (IBRD), 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

International Bank for Reconstruction and Development (IBRD) - Developing Inclusive Financial Systems for Improved Access to Financial Services in Rural Areas with the Consultative Group to Assist the Poor (CGAP)

I. Background

1. IFAD is the only donor worldwide with an exclusive focus on rural finance. Recognizing the critical role that access to financial services can play in rural areas, one of the six areas of IFAD's Strategic Framework focuses on opening access to a broad range of financial services in rural areas. Through the IFAD Rural Finance Policy, revised and approved by the Executive Board in 2009, IFAD has confirmed its commitment to continuously seek more effective ways to support the rural finance sector. Given these institutional commitments, and the fact that approximately 20 per cent of all IFAD projects focus on rural finance, it is critical that IFAD work with strong partners to continually improve its work in rural finance and reflect state-of-the-art thinking and experience in the sector.
2. A research entity housed at the World Bank, CGAP, is one of IFAD's key partners in rural finance. As an internationally-recognized policy and research centre dedicated to advancing financial access for the world's poor, CGAP coordinates an active network of over 30 development agencies and private foundations (i.e. IFAD, the Asian Development Bank, the African Development Bank and the United States Agency for International Development) working in rural microfinance. CGAP's mission is to improve the lives of poor people by spurring innovations and advancing knowledge and solutions that promote responsible and inclusive financial markets.
3. IFAD's partnership with CGAP offers a number of important avenues for technical exchange and allows for more effective dissemination of knowledge and experience in rural finance. Membership in CGAP has also enabled IFAD to benefit from advisory services, including participation in technical review committees, joint publication of cases studies in rural finance, Microfinance Donor Peer Reviews and the 2009 SmartAid for Microfinance Index. Also, IFAD has contributed to the 2012 CGAP Funder Survey with more than 30 CGAP members contributing to improving the transparency of funding for microfinance. In January 2013, IFAD (specifically the Policy and Technical Advisory Division and the Statistics and Studies for Development Division) participated in a retreat for CGAP members and leading researchers on impact evaluation for financial inclusion, held at the Department for International Development (DFID), London, United Kingdom. Since 1 July 2011, IFAD has participated in CGAP's Executive Committee and will continue to do so until 30 June 2014.

II. Rationale and relevance to IFAD

4. Access to financial services – whether in the form of savings, credit, money transfers, or insurance – is a fundamental tool for improving a family's well-being and productive capacity. It empowers the poor by reducing their vulnerability, and offering them opportunities to improve their lives. CGAP's role is to advance and accelerate development of responsible and inclusive financial markets by working on frontier issues, thereby unlocking the potential to deliver high-quality financial services that benefit poor people who are currently unserved or underserved by such facilities. CGAP's work is aligned with the two central purposes of subsidized catalytic capital: (i) generation of accessible knowledge, accessible data and related practical insights, and (ii) private and social sector experimentation that demonstrates viable and innovative products and business models.
5. Since its creation in 1995, CGAP has established itself as a recognized leader and knowledge centre providing advisory services and information to a wide array of

actors engaged in rural finance. Its mandate and strategy have been updated and renewed four times (most recently in May 2013, when CGAP's strategy was updated to include a new work stream committed to financial innovation for smallholder households). CGAP's extensive collaboration with United Nations agencies, the donor community and other major stakeholders enables it to form partnerships that result in both consensus building and cost-sharing. CGAP's standards and good practice guidelines, technical tools, innovation and research, and knowledge dissemination are designed to benefit a variety of stakeholders in the microfinance industry.

6. Policymakers and stakeholders in the rural finance field will benefit from the policy analysis and key messages emanating from the proposed programme. The programme will reach out to policymakers involved in rural finance through its advisory services, but also by applying CGAP standards in the area of regulation and supervision, anti-money laundering/combating financing of terrorism, consumer protection and branchless banking policies, all of which are essential for the expansion of rural finance.
7. CGAP is widely considered to be the leading global resource centre for access to finance. This is reflected in testimonials from CGAP's members and partners; independent evaluations, the increasing uptake from various stakeholders, and from CGAP's role as implementing partner of the G20's Global Partnership for Financial Inclusion (GPII). CGAP received over 2,000 press citations in 2012 and continued high traffic is evident on its websites (with approximately one million visits and an average of 92,000 visits monthly from more than 170 countries).
8. Through its partnership with CGAP, IFAD benefits from activities, research and technical tools that can be transmitted to projects and programmes cofinanced by IFAD and its grant and loan cofinanced programmes and projects and respective partners in the field. In addition, through the CGAP network, IFAD can enhance the quality of project and programme designs, test approaches with other practitioners, share its experiences in rural finance with the donor community for its supported operations in partner countries and learn from their experience throughout the project and programme cycles. CGAP also serves as a gateway for IFAD to disseminate its successful project and programme experiences to other donors and stakeholders, and share lessons learned from less successful projects and programmes.
9. One of the main pillars of CGAP's work is improving the effectiveness of funding targeted at providing access to finance. The SmartAid Index is a service for funders that seek to better understand how internal management systems, policies, procedures, and incentives affect their work in microfinance. IFAD participated in the SmartAid for Microfinance Index review in 2009 and 2013. The reviews identified several areas for possible improvement.
10. Finally, CGAP produces an annual survey on cross-border funding flows for financial inclusion (in which more than 50 donors and investors participate, including IFAD).

III. The proposed programme

11. The overall goal of the programme is to provide access to a wide range of sustainable rural financial services, particularly to smallholder households and the extreme poor through an inclusive financial system. Secondly, by building stronger partnerships in the field, this large grant will also enhance IFAD's operational effectiveness and impact in its rural finance interventions. The programme's objectives are to (i) increase awareness of the financial service needs of smallholder and other rural families in order to improve the delivery, outreach, and sustainability of such services; (ii) research and disseminate related lessons on how best to serve the extreme poor in rural areas; (iii) foster a supportive policy framework for rural finance; and (iv) build the capacity of IFAD stakeholders and project and programme partners in rural finance in all regions.

12. The target group is composed of all stakeholders in the rural finance sector, throughout all partner countries where IFAD operates. Currently, an estimated 90 per cent of people living in rural areas lack access to reliable financial services.
13. The programme will be of a three-year duration and will comprise four main components:
- (i) Increasing the awareness of the broad array of financial service needs of smallholder and other rural families in order to improve the delivery, outreach, and sustainability of such services;
 - (ii) Researching and disseminating related lessons on how best to serve the extreme poor in rural areas;
 - (iii) Fostering a supportive policy framework for rural finance; and
 - (iv) Supporting linkages with centres of excellence in rural finance.

IV. Expected outputs and benefits

<i>Outputs</i>	<i>Outcomes</i>
Component 1	
<ul style="list-style-type: none"> • Demand-driven research on how rural smallholders manage their financial needs • Landscaping and experimentation with new branchless banking models completed and key findings disseminated • Business model and product performance analysis 	<ul style="list-style-type: none"> • Stakeholders increasingly and accurately understand the broad array of financial services needed by smallholder and other rural families and extreme poor households increased
Component 2	
<ul style="list-style-type: none"> • New pilots serving the poorest in rural areas are implemented and documented, and lessons shared • Partners and service providers are identified and enabled to implement financial graduation programmes 	<ul style="list-style-type: none"> • Delivery channels, outreach, and sustainability of financial services for the rural poor improved
Component 3	
<ul style="list-style-type: none"> • Financial inclusion policy engagements (such as technical assistance, workshops, commentary on draft policy or regulation) reflected in the policy recommendations and guidelines of national regulators of IFAD partner countries and/or global bodies (such as standard-setting bodies [SSBs] and the G20) 	<ul style="list-style-type: none"> • National and international supportive policy framework for rural finance fostered
Component 4	
<ul style="list-style-type: none"> • Data architecture engagements (i.e. technical assistance and convening) with respect to the International Monetary Fund (IMF) Financial Access Survey, Findex Survey and Microfinance Information Exchange, Inc. (MIX) • Advise GPF and Alliance for Financial Inclusion (AFI) data and measurement subgroups on advancing data standards on frontier issues • Establishment of broad-based advisory committee for financial innovation for smallholder households in which IFAD participates • SmartAid for Microfinance evaluation of IFAD completed and implementation support provided 	<ul style="list-style-type: none"> • IFAD stakeholder and partner coordination and cooperation strengthened • Innovation in rural finance replicated and scaled within IFAD's rural finance portfolio enhanced

V. Implementation arrangements

14. Housed at the World Bank, CGAP provides a variety of services in rural microfinance, from advising on legal and regulatory issues to researching, publishing, and disseminating good practices and standards, as well as developing and funding experimental initiatives designed to open access to financial services to more of the world's poor. CGAP has an autonomous governance structure that consists of the Council of Governors of member donors and the Executive Committee (ExCom). Since 1 July 2011, IFAD has participated in the ExCom and will continue to do so until 30 June 2014. Membership of the ExCom allows IFAD general oversight over CGAP, but does not provide it with decision-making authority over individual grant administration. The administration of grants rests solely with CGAP and its implementation partners. Meetings of the ExCom may consider issues related to individual grant projects/programmes on an ad hoc basis; however this is not the primary focus of the ExCom. Fiduciary accountability rests with CGAP management.
15. Given that CGAP is housed at the World Bank, the financial governance of this grant will follow the financial management procedures of the Bank. Donor funds are managed through a number of financial mechanisms and in managing these funds, the World Bank maintains secure information technology systems and adheres to a comprehensive internal control framework. Separate financial statements are produced for CGAP transactions, and internal and external audit reviews are conducted to provide assurance to donors that disbursements follow relevant World Bank policies and procedures for the funds it is entrusted with.
16. There will not be a separate annual audit of CGAP, but IFAD will rely on an attestation of the World Bank's controls by the Bank's external auditors. All disbursements from the CGAP Trust Fund will be made against certified statements of expenditure submitted to IFAD.

VI. Indicative programme costs and financing

17. The cost of the entire programme amounts to US\$60.7 million. IFAD's contribution, in the form of this grant of US\$1.5 million, will finance specific earmarked expenditures. Parallel financing from other donors is estimated at US\$59.2 million.¹
18. IFAD funds will be channelled to the programme solely through the CGAP Trust Fund administered by the IBRD. Funds will be transferred to the Trust Fund and then disbursed to CGAP for programme implementation based on its annual workplans and budgets.

Table

Summary of budget and financing plan

(Thousands of United States dollars)

<i>Type of expenditure</i>	<i>IFAD</i>	<i>Cofinancing</i>
Salaries and allowances ^a	500	
Contractual services	745	
Workshops ^b	90	
Travel costs	90	
Management fee ^c (5 per cent)	75	
Total	1 500	59 200

^a Including full-time direct staff and consultants.

^b Convening, media and workshop costs, and associated overhead costs.

^c Fee payable to IBRD.

¹ Estimated budget for July 2013 – June 2016 (FY2014-FY2016) financed by contribution by donors, core and designated; and interest income and foreign exchange gains; but not including IFAD funding.

Results-based logical framework

	Objectives-hierarchy	Objectively verifiable indicators	Means of verification	Assumptions
Goal	Access to a wide range of sustainable rural financial services in an inclusive financial system unlocked for smallholder families and rural extreme poor households.	Improved financial market infrastructure, policy frameworks, service delivery, and economic performance by 10% annually on average for all supervised rural finance components and projects.	Annual MIX-market report, Annual IMF Financial Access Survey Findex Financial Access Survey (if available)	Management support and sufficient financial resources available for capacity building and institutional development and change processes.
Development Objective	IFAD's operational effectiveness in its rural finance interventions is enhanced and partners in the field strengthened.	Corporate Level Evaluation (CLE) of IFAD's Rural Finance Policy or Peer Review of Aid Effectiveness scores increase by 20% against previous CLE or Peer Review. IFAD's capacity is strengthened. Project participating financial service providers report 10% increase of target client outreach (loans and savings) annually.	CLE report SmartAid for Microfinance feedback report score and commentary. Performance-based agreements/ contracts with project participating FSPs.	Management support and sufficient financial resources of different origin available for capacity building and institutional development and change processes. Rural finance sector remains relatively unaffected by global / regional economic and financial crises. IFAD member governments are committed to the financial inclusion agenda.
Outcomes	Awareness of the broad array of financial services needed by smallholder and other rural families and extreme poor households increased. Delivery channels, outreach, and sustainability of financial services for the rural poor improved. National and international supportive policy framework for rural finance fostered. IFAD stakeholder and partner coordination and cooperation strengthened. Innovation in rural finance replicated and scaled within IFAD's rural finance portfolio enhanced.	20 citations of demand research on how best to serve smallholder families and the extreme poor in rural areas by stakeholders. 5 cases of innovative service delivery approaches (such as branchless banking) implemented and published. 10 examples of IFAD stakeholder and partner coordination as a result of CGAP and its regional hubs. 5 policy recommendations/ guidelines/drafts (policy documents) by national regulators or global bodies that reflect CGAP input. Second (outcome) and third level (impact) RIMS indicators for rural finance improve for IFAD stakeholders and partners with baselines and linkages with CGAP.	Number of citations in publicly accessible or other databases. CGAP Publications (such as Annual Reports, Focus Notes, and Briefs) and other reports. Country strategy and project design documents. Review of relevant policy documents. Supervision mission mid-term and project completion reports.	Sufficient contributions from other CGAP member donors in order to implement all planned activities. Stakeholders are interested to participate in development of inclusive financial systems. Knowledge will be absorbed by IFAD's operations (willingness to change)

	Objectives-hierarchy	Objectively verifiable indicators	Means of verification	Assumptions
Outputs	<p>Demand-driven research on how rural smallholders manage their financial needs.</p> <p>Landscaping and experimentation with new branchless banking models completed and key findings disseminated.</p> <p>New pilots serving the poorest in rural areas are implemented and documented, and lessons shared.</p> <p>Partners and service providers are identified and enabled to implement financial graduation programmes.</p> <p>Business model & product performance analysis.</p> <p>Financial inclusion policy engagements (such as technical assistance, workshops, commentary to draft policy or regulation) reflected in the policy recommendations and guidelines of national regulators of IFAD partner countries and/or global bodies (such as standard-setting bodies (SSBs) and the G20).</p> <p>Data architecture engagements (technical assistance and convenings) with respect to International Monetary Fund (IMF) Financial Access Survey, Findex Survey and Microfinance Information Exchange, Inc. (MIX).</p> <p>Advise GPFI and Alliance for Financial Inclusion (AFI) data and measurement subgroups on advancing data standards on frontier issues.</p> <p>Establishment of broad-based advisory committee for financial innovation for smallholder households in which IFAD participates.</p> <p>SmartAid for Microfinance evaluation of IFAD completed and implementation support provided.</p>	<p>3 Research studies published.</p> <p>1 Landscaping published and 2 branchless banking experiments completed.</p> <p>6 graduation pilot projects implemented and documented.</p> <p>3 business model and product performance analyses.</p> <p>6 financial inclusion policy engagements.</p> <p>2 data architecture engagements.</p> <p>5 data related publications/statements by IMF, Findex, MIX, GFP and AFI subgroups.</p> <p>16 Advisory Committee meetings.</p> <p>1 publication of IFAD's Smartaid for Microfinance evaluation.</p>	<p>CGAP reporting.</p> <p>CGAP public communications, including website.</p> <p>For certain outputs IFAD internal resources (e.g. supervision mission reports, portfolio reviews etc.).</p> <p>SmartAid for Microfinance feedback report.</p> <p>Review of data publications/statements by IMF, Findex, MIX, and GPFI/AFI subgroups.</p>	<p>Sufficient data and lessons learnt for replication and scale up are available.</p> <p>Undesired policies and/or programmes averted.</p>