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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 –  
APRACA**

**Note to Executive Board representatives**

Focal points:

Technical questions:

**Sana F. K. Jatta**  
Country Programme Manager  
Tel.: +39 06 5459 2446  
e-mail: s.jatta@ifad.org

Dispatch of documentation:

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

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**For: Approval**

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## **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 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 – APRACA**

I submit the following report and recommendation on a proposed grant for agricultural research and training to a non-Consultative Group on International Agricultural Research (CGIAR)-supported international centre in the amount of US\$1,100,000.

#### **I. Part I – Introduction**

1. This report recommends the provision of IFAD support to the research and training programme of the Asia-Pacific Rural and Agricultural Credit Association.
2. The document of the grant for approval by the Executive Board is contained in the annex to this report:
 

Asia-Pacific Rural and Agricultural Credit Association (APRACA): Project to Document Global Best Practices on Sustainable Models of Pro-Poor Rural Financial Services in Developing Countries
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 project is in line with the goal and outputs of the revised IFAD grant policy. Its objective is to sustainably reduce rural poverty and improve food security for rural communities in the Asia and the Pacific region. Its purpose is to assist rural finance providers and governments in extending financial services on a sustainable basis, through the application of best practices suitable to their unique operating environments. More specifically, the project's immediate objectives are to identify, study, critically review and selectively pilot the adaptation of various best practices that can be replicated and successfully scaled up by IFAD and others.

## **II. 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 Project to Document Global Best Practices on Sustainable Models of Pro-Poor Rural Financial Services in Developing Countries, shall provide a grant not exceeding one million one hundred thousand United States dollars (US\$1,100,000) to the Asia-Pacific Rural and Agricultural Credit Association for a four-year project 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

# **Asia-Pacific Rural and Agricultural Credit Association (APRACA): Project to Document Global Best Practices on Sustainable Models of Pro-Poor Rural Financial Services in Developing Countries**

## **I. Background**

1. It is widely recognized that the lack of access to a range of financial services is a major hindrance to lifting rural smallholders out of poverty. Without access to finance, poor farmers cannot buy required inputs to expand production and increase incomes. Also, the limited availability of credit has held back the rural and agricultural sectors in developing countries, thereby slowing overall economic development. Yet the ability of governments and rural finance institutions to provide services sustainably has proved elusive. Many governments are frustrated by the limited impact their funding efforts are having on the rural poor.
2. Many of the reasons for this lack of success are well known. Delivering small-scale financial services is particularly challenging in rural areas where low population densities and poor infrastructure increase transaction costs exponentially. Further, the lack of collateral and risks associated with smallholder agriculture (natural calamities, price volatility, etc.) discourage credit providers. Thus, perceptions from many quarters about agricultural finance are that it is risky. For these reasons, while many finance institutions have adequate liquidity, they are often reluctant to extend credit to small farmers.
3. IFAD's experience demonstrates, however, that both agriculture and rural finance provide good scope for profitable businesses. With adequate opportunity and resources, innovative approaches and business models do have good potential to lift small farmers out of poverty. Furthermore, IFAD is widely recognized to have invested strategically in supporting these new approaches, and it is therefore often requested, as was the case for the proposed project, to support innovations in improving rural financial services for the rural poor.

## **II. Rationale and relevance to IFAD**

4. The grant meets the strategic objectives of IFAD's grant policy by promoting innovative, pro-poor research that enhances the impact of IFAD-funded projects, and by building pro-poor capacities of partner institutions. It is also in accord with IFAD's goal of empowering rural people to achieve higher incomes and improved food security. Additionally, it contributes to articulating the Asia and the Pacific Division's strategic workplan by supporting the thematic focus on increasing the capacity of financial institutions to provide services to the rural poor.
5. The project builds on the satisfactory partnership between IFAD and the Asia-Pacific Rural and Agricultural Credit Association (APRACA). The two worked closely on the completed IFAD-APRACA Programme for Accelerating the Financial Empowerment of Poor Rural Communities in Asia and the Pacific through Rural Finance Innovations (2007-2011). This programme promoted an inclusive rural finance policy and regulatory environment, and designed, tested and replicated new financial products and services. The ongoing IFAD-APRACA project for Enhancing the Access of Poor Rural People to Sustainable Financial Services through Policy Dialogue, Capacity-building and Knowledge-sharing in Rural Finance (2012-2015) (the Finservaccess project) covers four countries: Bangladesh, Cambodia, Nepal and Myanmar. Its objectives are to: foster an enabling pro-poor rural finance policy framework; promote the replication of rural finance best practices; build capacities of APRACA's members; and increase knowledge exchanges among them.

6. APRACA provides a good network of stakeholders from 21 countries, which will allow a broad comparison of different approaches and their adaptation/replication across countries. Further, the members of APRACA will serve as a nucleus for setting up a national working group of stakeholders. These groups will mobilize assistance from their members to mutually benefit from capacity-building and the harmonization of policies.

### III. The proposed project

7. The **overall goal** of the project is to sustainably reduce rural poverty and improve food security for rural communities in the Asia and Pacific region. Its purpose is to assist rural finance providers and governments in extending financial services on a sustainable basis, through the application of best practices suitable to their unique operating environments. More specifically, its immediate objectives are to identify, study, critically review and selectively pilot various best practices that can be replicated and successfully scaled up. The following key immediate objectives will be accomplished: global best practices in the identified themes are selected and rated in terms of appropriateness to the Asia and Pacific region; the best practices are piloted to test their effectiveness for scaling up; a systematic structure is created for dialogue among policymakers on promoting the best practices in providing financial services to the rural poor; and best practices are shared through workshops, conferences and knowledge hubs.
8. The ultimate target group/beneficiaries will be poor rural households. They will benefit from the increased outreach and scaling up of sustainable financial services, a broader range of services and more innovative and tailored methodologies for providing rural finance. These beneficiaries will include small farmers and small rural businesses, with a focus on women and young people. Other beneficiaries will include self-help groups, cooperatives and banks.
9. The project has a duration of four years and is comprised of four components/phases: (a) mapping and scoping of global best practices in rural finance; (b) design and execution of a pilot activity to validate the best practices in selected countries; (c) promotion of best practices, through knowledge events and exchange visits, awareness-raising, and policy dialogue; and (d) consolidation of existing knowledge hubs or creation of new ones.
10. The project's approach will be to cover best practices at the macro, meso and micro levels. The activities will be demand-driven, with the themes being decided at an inception workshop. All IFAD projects in the selected five focus countries, namely China, India, Indonesia, the Philippines and Thailand, will be targeted to share their knowledge and adapt emerging recommendations on best practices. The following themes may be considered: savings; credit; collateral; legal structures and regulations; managerial and administrative structure; operational and outreach structures; financial and management reporting; Islamic finance; and governance.
11. **Component/phase 1.** The mapping and scoping of global best practices in rural finance will entail: (a) holding an inception workshop to introduce the project to stakeholders, and to identify rural finance themes; (b) undertaking an extensive global desk review of the design, implementation and evaluation of best practices relating to the agreed rural finance themes; (c) undertaking field research in selected countries; (d) conducting a review and analysis of the various types of rural financial services and methodologies for providing financial services to the rural poor; and (e) identifying successes and failures in rural finance. The activities will be undertaken in the participating countries and will run for six months. This phase will draw on the results of the global review. In each of the participating countries, a facilitating entity will be selected to assist the teams undertaking the activities. These teams will consist of one internationally recruited consultant plus one locally recruited expert.

12. **Component/phase 2.** This phase will last 28 months and consist of the following activities in only three preselected countries, namely China, Indonesia and the Philippines. Based on the results of phase 1, several themes of best practices will be selected for piloting. These trials will be undertaken with both IFAD-funded and other interested projects. During this time, the experts and the project manager will monitor/assess performance of the pilots for appropriateness to local circumstances and for scaling up. At the end of the pilot phase, a concluding workshop will be held to discuss the results, draw conclusions and make recommendations.
13. **Component/phase 3.** Based on the results of the pilot studies, the best practices related to the agreed themes will be selected. To this end, a regional conference, supported by publications (pamphlets and booklets), a website, and CDs/DVDs, will be organized to announce the results of the study. Also agreement will be sought on how to continue promoting the dissemination of best practices, either by establishing a knowledge hub, or strengthening existing ones. This phase will be carried out over a period of four months.
14. **Component/phase 4.** Based on the results of phase 3, and if recommended at the concluding conference, funding will be provided to support knowledge management for another eight months. This will enable the further dissemination of the results of the grant, and track the evolution of best practices.
15. During its life, the project will collaborate with partners in the participating countries, and APRACA's own networks. This will be reinforced by exchange visits by representatives from the participating countries. To enhance its outcomes and impact, the project will also work with other international organizations, including the United Nations Food and Agriculture Organization, the German Agency for International Cooperation (GIZ), and the Consultative Group to Assist the Poor. Further, in view of their complementarities, the project and the ongoing Finservaccess project will coordinate closely with each other to increase IFAD's impact, including by increasing their cumulative outreach from four to nine focus countries, and by further involving ministries in charge of finance, agriculture and planning in the relevant policy dialogue between IFAD and APRACA's members and other non-APRACA members in the focus countries.

#### **IV. Expected outputs and benefits**

16. The expected outputs of the project are: (a) documentation of global rural finance best practices; (b) a series of workshops/conferences that critically examine and disseminate these; (c) piloting of some best practices; (d) recommendations for promoting, scaling up and replicating agreed best practices; and (e) publication of proceedings and results of the project's activities.
17. Based on the outputs, the following outcomes are expected: (a) best practices that improve sustainable rural financial services are adopted; (b) results are used in designing future rural finance interventions; (c) knowledge-sharing about best practices among stakeholders is increased; (d) governments and private-sector actors have enhanced capacity to formulate/execute sustainable, replicable, pro-poor rural financial policies and practices; and (d) a knowledge hub is created, or existing ones are strengthened, to further support the identification, refinement and dissemination of best practices.

#### **V. Implementation arrangements**

18. APRACA will implement the project. The Association was established in 1977 and now has 60 members, mainly central banks, agricultural banks, cooperatives, microfinance institutions, commercial banks and agri-finance-related government agencies. Since 1995 it has implemented three IFAD-funded regional grant projects, one still ongoing. Additionally, it has implemented projects for GIZ and the

International Labour Organization. To date, IFAD has found the performance of APRACA on its three projects to be satisfactory.

19. As the lead implementing agency for the project, APRACA will be responsible for oversight of project activities. A project manager, to be recruited, will be in charge of the day-to-day management and coordination. The specific activities in the participating countries will be contracted to competent national and international experts. A steering committee, consisting of representatives of APRACA and other interested parties, will provide overall direction for the implementation of the project. The Asia and the Pacific Division will supervise and report on project implementation through regular supervision missions and reports. Managers of IFAD-funded projects will be consulted regularly. The project will be implemented in compliance with IFAD financial management procedures and guidelines on procurement, financial reporting, audit and fund flow requirements. To strengthen financial accountability, the installation of an accounting system is proposed as a condition for the second disbursement. Disbursement will be made on the basis of annual work plans and budgets, cleared by IFAD, with the submission of periodical certified statements of expenditure. APRACA will submit a copy of the consolidated audit report for the project within six months of the end of each fiscal year.

## VI. Indicative project costs and financing

20. With an estimated total cost of US\$1.5 million, the project will be cofinanced by an IFAD grant of US\$1.1 million, with parallel contributions from the participating financing institutions totalling US\$356,000, and in-kind contributions of US\$67,000 from APRACA.

### Summary of budget and financing plan

(United States dollars)

<i>Type of expenditure</i>	<i>IFAD</i>	<i>Cofinancing</i>
Salaries and allowances	200,000	
Consultancies	444,000	
Workshops	283,000	
Travel and allowances	71,000	
Operating costs	11, 000	
Overhead (8 per cent)	91,000	
<b>Total</b>	<b>1,100,000</b>	<b>423,000*</b>

\* Confirmed cofinancing.



## Results-based logical framework

	Objectives-hierarchy	Objectively verifiable indicators	Means of verification	Assumptions
<b>Goal</b>	Rural poverty and food security for rural communities in the Asia-Pacific region sustainably reduced, through rural finance providers and governments assisted in extending financial services on a sustainable basis using best practices suitable to their unique operating environments.	<ul style="list-style-type: none"> <li>- The range and depth of best practices that are rated, approved and disseminated at the end of the grant project.</li> <li>- External funding provided by governments or the agencies to support the (or a) knowledge hub.</li> </ul>	<ul style="list-style-type: none"> <li>- Results of the final conference under the project and a survey undertaken in phase 4.</li> <li>-Final supervision report.</li> </ul>	
<b>Objectives</b>	Best practices in rural finance that are appropriate to the Asia-Pacific region, are implementable and are considered useful by stakeholders, are identified, piloted and disseminated broadly	<ul style="list-style-type: none"> <li>-At least 1 best practice identified in each of 5 focus countries; and</li> <li>-At least 2 best practices in each of 3 focus countries are piloted and subsequently disseminated through workshops and other outlets.</li> </ul>	The results of the final conference.	<ul style="list-style-type: none"> <li>-Continued commitment of governments and key stakeholders</li> <li>-Conflicting needs of stakeholders does not disrupt common goals.</li> <li>-The most appropriate entity to effect change is selected.</li> </ul>
<b>Outputs</b>	A study of best practices, a series of workshops and conferences, recommendations for scaling up and replicating, and the creation, or strengthening, of a knowledge hub.	<ul style="list-style-type: none"> <li>-5 country reports on rural finance best practices and the lessons learnt;</li> <li>-2 workshop/conference publications identifying key best practices;</li> <li>-3 pilots conducted and reported.</li> </ul>	Progress reports, conference publications, the end of phase reports, the midterm review and the final supervision reports.	Progress reports, conference publications, the end of phase reports, the midterm review and the final supervision reports.
<b>Key Activities</b>	<ul style="list-style-type: none"> <li>-Inception workshop.</li> <li>-Phase 1, scoping and mapping.</li> <li>-Phase 2, pilot testing.</li> <li>-Phase 3, promotion of best practices.</li> <li>-Phase 4, establishment of a knowledge data base gathering centre.</li> </ul>	<ul style="list-style-type: none"> <li>-Studies in 5 focus countries, complemented with a global desk review conducted;</li> <li>-4 sequential workshops and conferences completed;</li> <li>-At least 3 pilot rural finance activities completed in 3 focus countries.</li> <li>-Recommendations for establishing, or strengthening, a knowledge hub on rural finance agreed and funded.</li> </ul>	The end of phase reports, minutes of the various workshops and conferences. The mid-term review and the final supervision report.	<ul style="list-style-type: none"> <li>-Country attendees/implementers are appropriately selected for successful workshops and studies/reviews.</li> <li>-Close links between rural finance institutions and IFAD-supported projects are in place.</li> <li>-Stakeholders in the focus countries co-fund project activities and scale them up.</li> </ul>