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Investing in rural people

President's report on a proposed grant under the global/regional grants window to PF Technical Advisory Services, Inc. (PFTAS) for the Regional Programme on Remittances and Diaspora Investment for Rural Development

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Abbreviations and acronyms

FI	financial institution
FFR	Financing Facility for Remittances
PFTAS	PF Technical Advisory Services, Inc.

Recommendation for approval

The Executive Board is invited to approve the recommendation for a proposed grant under the global/regional grants window as contained in paragraph 7.

President's report on a proposed grant under the global/regional grants window to PF Technical Advisory Services, Inc. (PFTAS) for the Regional Programme on Remittances and Diaspora Investment for Rural Development

I submit the following report and recommendation on a proposed grant under the global/regional grants window to PF Technical Advisory Services, Inc. (PFTAS) in the amount of US\$0.9 million.

Part I – Introduction

1. This report recommends the provision of IFAD support to the regional programme of PF Technical Advisory Services (PFTAS).
2. The document of the grant for approval by the Executive Board is contained in the annex to this report:

PF Technical Advisory Services, Inc. (PFTAS): Regional Programme on Remittances and Diaspora Investment for 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, as it will promote and develop innovative activities and technologies in support of IFAD's target group, support knowledge-sharing and dissemination of best practices, and contribute to advocacy and policy dialogue on issues of importance to poor rural people.

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 Regional Programme on Remittances and Diaspora Investment for Rural Development, shall provide a grant not exceeding nine hundred thousand United States dollars (US\$900,000) to PF Technical Advisory Services, Inc. (PFTAS) 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

PF Technical Advisory Services, Inc. (PFTAS): Regional Programme on Remittances and Diaspora Investment for Rural Development

I. Background

1. Developing countries in Asia are the source of the largest number of international migrants in the world, accounting for 30 per cent of the global total – nearly 60 million migrant workers, sending about US\$260 billion to relatives in their home countries in 2012. The associated remittances help lift millions of Asian households out of absolute poverty, and give them an opportunity to improve their housing, health and education assets.
2. Approximately half of migrants and their families are able to save a portion of the income earned overseas. It is estimated that around 75 per cent of these savings are held informally outside the financial system, thus limiting investment options and their benefits. Migrants' savings could have a significantly higher development impact if they were serviced through efficient investment vehicles into rural enterprises and income-generating activities in migrants' countries of origin.
3. The proposed programme will provide migrant families in communities of origin with appropriate financial products and services. It will assist apex institutions in pooling migrants' capital and channel it through local financial institutions (FIs) already serving migrants' families. The programme focuses on two countries with high remittance flows and conducive microfinance environments but where financial inclusion ratios (particularly rural) remain low: Pakistan and the Philippines.
4. These countries provide good opportunities for developing remittance investment models. They are among the principal remittance-receiving countries in the world and are ranked in the top ten most enabling business environments for microfinance by the Economist Intelligence Unit. In both countries, formal financing of local businesses and farms is primarily undertaken by strong networks of local institutions such as cooperatives, NGOs, microfinance and rural banks. One of the key constraints they face is that, even with the support of their apex wholesalers, local FIs lack sufficient capital to meet the potential investment and credit demand in rural communities.
5. The programme brings forward two innovations: (i) models developed will be a global public good, as they can be replicated in other countries; and (ii) inclusion of an apex institution acting as an agent of the local FIs, and on their behalf, provides migrants and their families access to asset-building financial products in their country of origin, and coordinates financial education and product promotion campaigns abroad. In particular, the programme promotes replication within IFAD-funded operations in Nepal and Sri Lanka, by creating a community of practice and integrating emerging models and lessons learned into project portfolios.

II. Rationale and relevance to IFAD

6. The IFAD Strategic Framework 2011-2015 and the Strategic Vision for IFAD 2016-2025 both recognize the key role that increased access to financial services plays in improving the lives of rural poor people.
7. This programme will develop inclusive, innovative and more accessible financial services, such as savings, investment and working capital loans, insurance and remittances. It will also pioneer new linkages with non-traditional sources of finance for rural development and poverty reduction, to which Asian migrants extensively contribute.
8. The grant strategies of IFAD's Asia and the Pacific Division and its Policy and Technical Advisory Division attach priority to developing scalable remittance

mechanisms in Asia and forging new partnerships. The initiative will also offer opportunities for replication of successful models in other key remittance countries.

9. The programme includes a specific knowledge component, to document and disseminate research findings, lessons learned and best practices.
10. The programme is closely linked to IFAD's portfolio. In Pakistan, the prospective apex partner has collaborated with IFAD as the implementing agency of three previous loans, and is expected to partner with IFAD for a future loan in microfinance. In the Philippines, ongoing programmes targeting communities with high migration rates are keen to collaborate. In Nepal, the upcoming Rural Employment and Remittances Programme will potentially integrate the programme approach, using the loan funds available.

III. The proposed programme

11. The overall goal of the programme is to develop scalable models for supporting investment by migrants and their families in poverty-reducing rural enterprises in Pakistan and the Philippines. The programme will prepare the ground for replication of such models in Nepal and Sri Lanka.
12. The programme objective is to leverage remittances and channel savings of migrants and their families into local FIs in rural areas, contributing to increased rural economic activity and financial inclusion.
13. The primary target groups are 20,000 migrant families and their rural communities in Pakistan and the Philippines, and respective diaspora. A strong participation by women and youth will be ensured. The secondary target groups are the financial service providers engaged in the remittance marketplace.
14. The target groups in Nepal and Sri Lanka are migrant family stakeholders who will benefit from the knowledge-sharing component and learn about programme outcomes and potential for replication.
15. The programme will have a duration of three years, and its implementation will be organized in three main components:
 - (a) **Design, testing and implementation of financial packages that enable migrants and their families to invest in rural micro, small and medium enterprises, farms and other income-generating activities:** Support will be provided to two apexes and ten selected member FIs serving rural areas through institutional policies and processes targeting migrants and their families, as well as savings and investment products adapted to their needs;
 - (b) **Promotion of savings and investment among migrants and their families:** Financial education and advisory services will be provided to enhance the savings capacity of beneficiaries, and to raise awareness of the availability of safe financial products promoting economic opportunities back home. This education programme will be integrated into the existing financial service delivery channels of the local FIs, to ensure sustainability; and
 - (c) **Documentation and sharing of evidence-based models:** To raise awareness and set the stage for future programming, knowledge-sharing processes will target two user groups in all four countries and at the regional level: (i) financial service providers and migrants' associations; and (ii) public and private stakeholders in home countries and beyond.

IV. Expected outputs and benefits

16. Building on the results of a successful pilot microfinance services (MFS) project, ReBuiLD MFS,¹ implemented by IFAD's Financing Facility for Remittances (FFR) (Philippines/Italy, 2010-2012), the programme will replicate/scale up its aspect of diaspora capital mobilization. Specifically, working with local FIs, it will develop a range of products that help migrant families build financial assets.
17. The programme will provide inclusive remittance-related financial products and services, channelling an estimated US\$20 million in diaspora capital into investment and savings in two apexes and ten local FIs in Pakistan and the Philippines.
18. Programme outputs include:
 - (a) Responsive and accessible financial services, enabling migrants and their families to save and invest safely in countries of origin with local FIs that finance rural economic activities;
 - (b) Improved capacity of the target group to manage finances using formal savings and investment products; and
 - (c) Documentation and sharing of successful models for channelling diaspora capital into local FIs in all remittance-receiving countries.
19. The associated benefits include:
 - (a) **Outcome 1:** Financial intermediation systems (deposit and investment products combined with product promotion and financial education) are integrated into the service delivery of participating FIs to leverage financial inclusion and investment in rural economic growth;
 - (b) **Outcome 2:** Migrants and their families have an enhanced savings capacity and stronger awareness of what specialized savings and investment products are and how they can be used to build assets; and
 - (c) **Outcome 3:** Awareness about the programme approach, tools, outcomes and opportunities for replication is raised among key stakeholders from the public and private sectors, and civil society.

V. Implementation arrangements

20. Programme execution will be led by PF Technical Advisory Services, Inc. (PFTAS), a non-profit, financial inclusion consultancy headquartered in Manila and operating throughout Asia. PFTAS specializes in rural finance, including product design and strengthening of internal systems of FIs.
21. PFTAS will establish a memorandum of understanding with key programme stakeholders, and will adapt its existing tools to meet partners' needs, developing their capacity to deliver technical support to their members.
22. Local implementing partners will include the apexes National Confederation of Cooperatives in the Philippines and the Pakistan Poverty Alleviation Fund, which will dedicate staff to work with PFTAS on implementation and ultimately take ownership of the programme tools and methods for mapping and capacity-building. The apexes have agreed to dedicate staff for this purpose and are open to pay their salaries and expenses to ensure sustainability after the programme ends.
23. The programme will have:
 - (a) A regional steering committee, chaired by the implementing agency and including two representatives per country, to review and approve country annual workplans and budgets, and to provide overall strategic guidance.

¹ Remittance-Building Linkages for the Development of Rural Migrants and their Families through Microfinance Services.

Selected members from key organizations will be identified at the start of programme implementation, while designated IFAD staff will participate as observers. The steering committee will meet twice in the first programme year and once yearly thereafter; and

- (b) A national advisory committees (NAC) in each target country, to be composed of key programme stakeholders – apexes, representatives of migrant groups, and outstanding service providers working on remittances. The NAC will meet at least twice a year to review progress on overall action plans, provide strategic advice and mobilize partners towards target outcomes.
24. The programme, through its geographical focus, will seek complementarities with IFAD-funded loans and grants and country strategy development, with a view to: (i) ensuring efficiency, effectiveness and impact in implementation; and (ii) capitalizing on opportunities for investment loans to scale up viable models that increase financing for rural economic activities.

VI. Indicative programme costs and financing

25. The programme's total cost of US\$1,222,000 will be funded through IFAD resources for a total amount of US\$900,000. This will be complemented by additional cofinancing of US\$100,000 from IFAD's FFR supplementary funds, plus a contribution of US\$172,000 from the grant recipient (PFTAS) and US\$50,000 from the two apex institutions (the National Confederation of Cooperatives in the Philippines and the Pakistan Poverty Alleviation Fund) (tables 1 and 2).

Table 1

Programme costs, by component and financier
(Thousands of United States dollars)

<i>Components</i>	<i>IFAD</i>		<i>Cofinancier PFTAS</i>		<i>Cofinancier apexes</i>		<i>Cofinancier FFR</i>		<i>Total</i>	
Design, testing and implementation of financial packages	436	48%	17	9%	35	70%	60	60%	548	45%
Promotion of savings and investment among migrants and their families	336	38%	10	6%	10	20%	30	30%	386	32%
Documentation and sharing of evidence-based models	74	8%	5	3%	5	10%	10	10%	94	8%
Overheads and programme management	54	6%	140	82%	0	0	0	0	194	15%
Total	900	100%	172	100%	50	100%	100	100%	1 222	100%

Table 2

Programme costs, by expenditure category and financier
(Thousands of United States dollars)

<i>Expenditure category</i>	<i>IFAD</i>		<i>Cofinancier PFTAS</i>		<i>Cofinancier apexes</i>		<i>Cofinancier FFR</i>		<i>Total</i>	
Salaries and allowances	24	3%	98	57%	0	0	0	0	122	12%
Apex staff	91	10%	0	0	17	34%	0	0	108	9%
Consultancies	404	45%	32	18%	20	40%	50	50%	506	40%
Travel and allowances (including hotels)	227	25%	0	0	0	0	40	40%	267	22%
Workshops and conferences	124	14%	0	0	13	16%	10	10%	147	11%
Management fees/overheads	30	3%	42	25%	0	10%	0	0	72	6%
Total	900	100%	172	100%	50	100%	100	100%	1 222	100%

26. PFTAS will ensure that the entire programme implementation period is covered by audit, having its institutional accounts audited independently every year in accordance with international audit standards, and will deliver to IFAD a copy of its

audited financial statements, within six months after the end of each fiscal year. PFTAS will also ensure that an audit opinion letter on the statement of expenditures submitted to IFAD is duly completed by its independent auditor, disclosing the amount of funds from various sources received and spent under this operation. The annual audit report submitted to IFAD will consolidate expenditures incurred by sub-grantees. Unaudited financial statements will be provided to IFAD on the programme on a semi-annual basis.

27. Disbursements will be based on annual workplans and budgets, with advances of up to 75 per cent of the approved budget for activities to be carried out. Subsequent advances will be based on statements of expenditure certified by management and in a form acceptable to IFAD, justifying at least 75 per cent of the immediately previous advance and 100 per cent of all earlier advances, if any.

Results-based logical framework

	Objectives-hierarchy	Objectively verifiable indicators	Means of verification	Assumptions
Goal	Develop scalable models for supporting investment by migrants and their families' in poverty reducing rural enterprises	<ul style="list-style-type: none"> At least 20,000 new time deposit and investment fund accounts opened by migrants/migrant family members At least \$20 million in funds saved and invested by migrants and migrant families 	<ul style="list-style-type: none"> Baseline data report Quarterly Progress Reports Audited financial statements of local FIs and apexes 	<ul style="list-style-type: none"> No change to international policies that could restrict remittances (i.e., anti-money laundering policies)
Objective	Leverage remittances and channel migrants and their families' savings into local FIs in rural areas, contributing simultaneously to increased rural economic activity and financial inclusion.	<ul style="list-style-type: none"> At least one appropriate savings and investment product and financial education training and product promotion programs are installed in each participating FI. A sustainable process for delivering financial education training and product promotion programs to migrants overseas is developed and implemented At least 20,000 save/invest an average of \$1000 each over the life of the programme. 	<ul style="list-style-type: none"> Baseline data report Quarterly Progress Reports Product manuals Financial education and product promotion materials 	<ul style="list-style-type: none"> There is no decline in macroeconomic performance or widespread natural disasters that (i) reduces the ability of migrants/migrant families to use their remittances for purposes other than supporting the immediate consumption needs; (ii) affect the assets of the migrants/migrant families
Outcomes	Systems for targeting migrants and migrant families as well as delivering deposit and investment products combined with product promotion embedded in financial education training to them are integrated into the service delivery of participating FIs.	<ul style="list-style-type: none"> Business strategies of all participating FIs integrate migrant/migrant family targeting Manuals of operations of all participating FIs include institutional policy and detailed products/mechanisms to target migrants and their families At least one time deposit and one investment fund product is available to migrants/migrant family members in every participating FI Cost of loans and financial products for rural clients is at equal or lower existing rates. 	<ul style="list-style-type: none"> Business strategies or operational plans of participating FIs, including quantitative targets for reaching migrant/migrant family members Investment fund feasibility reports, registration documents and business plans Savings and investment product manuals, including migrant/migrant family targeting strategies Manuals of operations Quarterly Progress Reports 	<ul style="list-style-type: none"> Internal accounting and other systems in participating FIs can be strengthened through programme technical assistance to manage these new products
	The savings capacity of migrants and migrant families is enhanced, their awareness of specialized savings and investment products is raised, and their usage of such products to build assets is increased.	<ul style="list-style-type: none"> Financial education training package designed and implemented for each home country and integrated into the service delivery of the local FIs (the number will vary based on each institution's delivery modality) 7 financial education training sessions conducted for migrants in each target destination countries 	<ul style="list-style-type: none"> Quarterly Progress Reports Training modules Training attendance sheets & evaluation reports 	<ul style="list-style-type: none"> Migrants and migrant families trust the formal financial sector enough to save and invest with it if given appropriate products and support
	Awareness about approach, tools, methods and outcomes of the programme as well as opportunities for expansion or replication is raised among stakeholders such as financial service providers, regulators, migrant and migrant-support groups in all target countries.	<ul style="list-style-type: none"> Training modules, toolkits and other information, education and communication (IEC) materials are developed and disseminated per country At least one case study for each country is written Preliminary research is conducted in Sri Lanka and Nepal to determine the feasibility of future replication of the programme At least two national conferences are held per country 	<ul style="list-style-type: none"> Training modules, flyers, brochures and other IEC materials Case studies Conference reports 	<ul style="list-style-type: none"> Participating FIs are willing to share their experiences with the wider financial inclusion community