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Investing in rural people

President's report on a proposed grant
under the global/regional window to the
Canadian Co-operative Association for the
Improving Rural Financial Inclusion
through Financial Cooperatives Project

Note to Executive Board representatives

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For: Approval

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed grant as contained in paragraph 18.

President's report on a proposed grant under the global/regional window to the Canadian Co-operative Association for the Improving Rural Financial Inclusion through Financial Cooperatives Project

1. Background and compliance with IFAD Policy for Grant Financing

1. Financial cooperatives are a growing force for the financial inclusion of the rural poor in Eastern and Southern Africa. They often operate in remote areas where other financial institutions are unable or unwilling to go. However, they face challenges in being able to innovate, develop demand-driven products and services, access relevant training, attract qualified staff and advocate on their own behalf. Lack of confidence in their own management capacity inhibits savings and credit cooperatives (SACCOs) from reaching beyond their traditional bonds of association to become more inclusive. Dedicated and sustainable secondary and tertiary institutions and an enabling regulatory environment are critical to overcoming those challenges. Throughout the world, cooperative financial institutions (CFIs) network to increase access to training, pool liquidity to improve cash-flow management and increase negotiating and advocacy power.
2. In most of East and Southern Africa (ESA), the region where this project will focus, network organizations have either failed to develop because of weak legislative environments or collapsed as a result of external interventions that, though well-intentioned, overwhelmed capacities and led to dysfunctional governance. However, if external actors take a comprehensive view of the entire SACCO system and build capacity at appropriate points, the sustainability of interventions targeted at the primary SACCO member can be increased.
3. This project will target three countries in the ESA region each having network organizations at different stages of development: Ethiopia, which has no or nascent history of networking; the United Republic of Tanzania, which has high potential to revive a network; and Malawi, which has a relatively well developed network. The project will build the capacity of these networks to develop and deliver products and services to primary financial cooperatives and increase their capacity to better reach the rural poor with attractive, safe and effective financial services. Knowledge will be shared with the entire region.
4. A holistic approach will promote the development of a healthy financial cooperative system by supporting SACCO apex organizations in developing the capacity effectively to connect with and support their member SACCOs in terms of access to training, organizational development and liquidity management. SACCOs will in turn be able to offer livelihood-management services – such as savings, productive credit, credit and life insurance, and financial literacy – to their individual members in rural areas. A thorough assessment of the cooperative sector will be conducted in each country to identify strengths and weaknesses and identify a road map. This will provide the overall framework for in-country activities as well as an effective instrument to engage policymakers in tackling regulatory constraints that prevent sector growth. The project will seek to increase the use of technology and innovative products to step up outreach to rural poor people by SACCOs, promote

the effective regulation and supervision of SACCOs, and build the capacity of regulatory agencies to supervise effectively and positively.

5. With its strong focus on knowledge management and sharing, the programme will develop informed practice guidance notes for donors and governments on how to enhance their projects and minimize disruption of the independence of SACCO systems as they engage them to deliver services to the rural poor.
6. The inclusion of the regional body the African Confederation of Cooperative Savings and Credit Associations (ACCOSCA) as a core partner is a key component of the knowledge management plan and will help guarantee scalability and sustainability. ACCOSCA's forums and regulator roundtables provide excellent opportunities for regional debate and discussion regarding the challenges and issues identified by the project's interventions. The lessons learned and methodologies used in the project can inform approaches to rural financial inclusion through cooperatives by governments and other development actors across Africa and elsewhere. The project will incorporate scalability and replicability through the engagement of African technical experts who are opinion leaders who have overcome challenges in their respective SACCO systems across Africa. The project will also engage junior African consultants to develop capacity among the next generation of SACCO leaders and ensure that interventions are cognizant of attitudes and emerging trends among rural financial service consumers.
7. The proposed project is in line with the goal and objectives of the IFAD Policy for Grant Financing (2015).¹ This project builds on a range of experiences and lessons learned with financial cooperatives. Grant financing will bring added value with its focus on innovations, capacity-building for scaling up and sustainability; knowledge-sharing between countries through South-South cooperation; and engagement in policy dialogue at country, regional and global levels for public good.
8. The project is fully in line with the corporate strategic priority area of rural financial inclusion. Financial cooperatives are, more often than not, the only formal financial service provider present in rural areas of developing countries. As such, financial cooperatives are key to help achieve IFAD's objectives.

II. The proposed project

9. The overall goal of the project is to improve the financial inclusion of the rural poor in Ethiopia, Malawi and the United Republic of Tanzania through strengthened financial cooperative networks. The objectives are to: (i) strengthen the capacity and human resources of financial cooperatives serving rural areas; (ii) promote innovative and better-quality products and services, and thereby contribute to improving access to and use of financial cooperatives' services among poor people living in rural areas; and (iii) promote, at the government level, policy and regulation that are favourable to financial cooperatives to benefit the rural poor.
10. The ultimate aim is to assist the poor rural women, men, youth, smallholder families and rural entrepreneurs who rely on SACCOs to improve their economic participation in society. To achieve this, the primary target group is national apex organizations and the government bodies that support them. The secondary target group comprises rural SACCOs and SACCOs with rural outreach. Regulators and policy-makers will also be engaged in an effort to remove existing constraints on the healthy growth of the sector.
11. The project will be implemented over four years through the following components: (i) building the technical capacity of financial cooperatives and their network organizations; (ii) introducing innovations to financial cooperatives and their network organizations; and (iii) knowledge management and policy dialogue.

¹ See EB 2015/114/R.2/Rev.1.

III. Expected outcomes/outputs

12. The project is expected to have the following outcomes/outputs:

Outcome 1: Network organizations (serving rural SACCOs and their members in rural areas) incubated or revived and operating sustainably.

- (i) Output 1.1: Strategies for sector sustainability based on country diagnostic;
- (ii) Output 1.2: Network organizations incubated or revived; and
- (iii) Output 1.3: Network organizations operating sustainably with governance structures in place.

Outcome 2: SACCO service delivery improved through adoption of innovative products and rural SACCO members' access to relevant financial services improved.

- (i) Output 2.1: SACCO service delivery improved through adoption of Digital Financial Solutions; and
- (ii) Output 2.2: Rural SACCO members' access to relevant financial services improved.

Outcome 3: Governments and development actors engaged in engendering an enabling environment for rural SACCOs to reach the rural poor.

- (i) Output 3.1: Regulators, supervisors and policymakers engaged in engendering an enabling environment for rural SACCOs;
- (ii) Output 3.2: Governments and donors revise engagement with CFI networks based on recommendations;
- (iii) Output 3.3: Improved access to training and educational services for network organizations and rural SACCOs; and
- (iv) Output 3.4: Learning from project themes documented and disseminated.

IV. Implementation arrangements

13. The Canadian Co-operative Association (CCA), the grant recipient, will lead a consortium comprising the ACCOSCA and the Irish League of Credit Unions International Development Foundation Ltd. (ILCU Foundation). The recipient and its consortium were selected through a competitive process. In response to an invitation to ten institutions deemed to have met relevant criteria based on a market assessment, four proposals were received. The selection was made by a competitive evaluation screening team, which included the ESA regional economist and portfolio advisor, and representatives of IFAD's Financial Management Services Division and Office of the General Counsel as observers. The selectors unanimously placed the CCA proposal in first place. CCA is a not-for-profit cooperative with recognized expertise in supporting the development of financial cooperative systems. In Africa, CCA has active programmes in Ghana, Malawi, Rwanda, Sierra Leone and Uganda and has experience working in Ethiopia, The Gambia, Mozambique, South Africa, the United Republic of Tanzania, Zambia and Zimbabwe. The legislative and regulatory frameworks for financial cooperatives in Kenya, Malawi and Ghana are strongly influenced by the Canadian experience. CCA has country offices in Colombia, Ghana, Malawi, Rwanda, Sierra Leone and Uganda and anticipates opening a country office in Ethiopia in 2017.
14. CCA will manage supervision. CCA and ILCU Foundation will lead knowledge management and ACCOSCA will house and drive much of the Africa-based component on knowledge dissemination. The latter encompasses market and regulatory assessments, toolkits and technical and policy briefings. Educational and training courses will also be vetted and promoted through ACCOSCA. ACCOSCA provides an excellent forum for high-level exchange reaching 20 African countries. CCA and ILCU Foundation will bring their considerable experience in working with

in-country stakeholders to develop SACCOs, SACCO apexes and SACCO regulatory environments in Africa and Asia, and will be able to document this knowledge to enhance IFAD's practice in rural financial inclusion through cooperatives.

15. CCA has overall responsibility for project management and finances, monitoring risk and results, and delivering on project outcomes. Day-to-day implementation will be managed by a project coordinator embedded within ACCOSCA. The three partners will form an international project steering committee, which will meet annually with the participation of lead consultants as advisors. At the country level, project advisory teams will be established with the local consortium partner, the local country partner, local government representatives and local industry (cooperative and microfinance) representatives. All interventions will collaborate with IFAD country offices to enhance country programmes.
16. There are no deviations from the standard procedures for financial reporting and audit.

V. Indicative project costs and financing

17. The total project cost is US\$3.28 million, comprising an IFAD grant in the amount of US\$2.66 million and US\$620,000 in cofinancing from the partners CCA, ILCU Foundation and ACCOSCA. Cofinancing will comprise both in-kind and cash contributions. CCA and ILCU Foundation will both contribute considerable unpaid expert technical assistance.

Table 1
Costs by component and financier
 (Thousands of United States dollars)

<i>Components</i>	<i>IFAD</i>	<i>CCA</i>	<i>ILCU Foundation</i>	<i>ACCOSCA</i>	<i>Total Cofinancing</i>	<i>Total</i>
1. Building the technical capacity of financial cooperatives and their network organizations	986	87	87	15	189	1 175
2. Introducing innovations to financial cooperatives and their network organizations	881	90	90	10	190	1 071
3. Knowledge management and policy dialogue	596	95	95	15	205	801
Subtotal	2 463	272	272	40	584	3 047
Overheads	197	18	18		36	233
Total	2 660	290	290	40	620	3 280

Table 2
Costs by expenditure category and financier
 (Thousands of United States dollars)

<i>Expenditure category</i>	<i>IFAD</i>	<i>Cofinancing</i>		<i>Total</i>
		<i>Cash</i>	<i>In-kind</i>	
1. Salaries and allowances	350	-	-	350
2. Operating costs	57	-	160	217
3. Consultancies	840	64	360	1 264
4. Travel and allowances	850	-	-	850
5. Goods, services and inputs	52	-	-	52
6. Workshops	110	-	-	110
7. Training	204	-	-	204
8. Management fees/overheads	197	-	36	233
Total	2 660	64	556	3 280

VI. Recommendation

18. 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 Improving Rural Financial Inclusion through Financial Cooperatives Project, shall provide a grant in the amount of two million six hundred and sixty thousand United States dollars (US\$2,660,000) to the Canadian Co-operative Association for a four-year period and 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

Results-based logical framework

	Objectives-hierarchy	Objectively verifiable indicators	Means of verification	Assumptions
Goal	Improve the financial inclusion of the rural poor in Ethiopia, Malawi and the United Republic of Tanzania through strengthened financial cooperative networks	3 SACCO network orgs sustainability improved and rural outreach increased by 10% for participating SACCOs. (defined as SACCOS with active membership in network orgs.)	SACCO financial statements and membership statistics	Outside interests do not derail network org development gains.
Objective 1	Strengthen the capacity and human resources of financial cooperatives serving rural areas	3 Target networks have enhanced service delivery to rural SACCOs	Baseline and end of programme capacity assessments Financial Reports	Network orgs able to afford staff
Outputs	Technical Capacity of financial co-operatives and their network Orgs built 1.1 Strategies for sector sustainability based on country diagnostics 1.2 Network Orgs incubated or revived 1.3 Network Orgs operating sustainably with governance structures in place	1.1.1 3 Country sector sustainability strategies in place 1.2.1 550 active SACCO members with fully paid subscriptions 1.2.2 850 (at least) of eligible SACCOs are members 1.3.1 100% Operational Self Sufficiency of Apexes	Document review Network Org Statistics Regulatory Authority statistics Financial Statements	Primary SACCOs see need and have financial capacity to support network orgs Legal environment supportive of network incubation or revival
Key Activities	Situational diagnosis in each country, awareness raising workshops, election of interim boards, bylaw development or revision, study tours, training for leaders, staff, Gov officers, participatory strategic planning, policy and procedures dev, tools & training mat development, financial literacy training, mentor boards and staff, dialogue with Government Officers, other development actors, sign MOUs where appropriate with local authorities (e.g. Ethiopia)			
Objective 2	Promote innovative and better-quality products and services, and thereby contribute to improving access to and use of financial cooperatives' services among	Uptake of new products and services by rural SACCOs reaching at least 20% of eligible of SACCO membership or 400,000 rural households.	SACCO financial statements and membership statistics	Sufficient no.s of SACCOs join network orgs and take advantage of services

	Objectives-hierarchy	Objectively verifiable indicators	Means of verification	Assumptions
	poor people living in rural areas			
Outputs	2.1 SACCO service delivery improved through adoption of Digital Financial solutions 2.2 Rural SACCO access to relevant financial services improved	2.1.1 75 of active member SACCOS offering DFS solutions 2.2.1 3 new products and services offered to member SACCOS	Service Contracts Sacco financial reports and member statistics	National ITC infrastructure has sufficient outreach and is affordable
Key Activities	Market assessment of financial products offered, pilot new product offerings, train network orgs of product delivery, tools development, mentor boards and staff, product promotion, engagement with regulatory authority to clear new product offerings			
Objective 3	Promote, at the government level, policy and regulation that are favourable to financial cooperatives to benefit the rural poor.	Policy makers in up to 5 countries adopt and implement informed practice standards	Reports to regulators roundtables (RRTs)	
Outputs	3.1 Regulators and policy makers engender an enabling environment for rural SACCOS 3.2 Governments and Donors engage with CFI networks based on recommendations 3.3 Improved access to training and education for Network Orgs and rural SACCOS 3.4 Programme learning documented and disseminated	3.1.1 up to 5 countries reporting changes in policy or regulatory environments 3.2.1 Changes in rural outreach strategies by IFAD 3.3.1 up to 1,000 SACCOs accessing ACCOSCA online portal and up to 50 trainings delivered by Network Orgs 3.3.4 600 people attending dissemination forums and 18 documents published	Country reports to RRTs IFAD country programme AWPS Online registrations IRFITCO Reports Attendance records	Regulators will continue to patronize RRTs IFAD shares AWP of national programmes National associations participate actively Connectivity infrastructure is sufficient to allow cost effect access to online portal
Key Activities	Prepare TNs, workshops, exposure visits, training for regulators and policy makers, mentoring, publish learning, participation in ACCOSCA forums			