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 20.

President’s report on a proposed grant under the global/regional grants window to the Consultative Group to Assist the Poor for the Inclusive Rural Finance for Smallholder Families and Other Vulnerable Groups Programme

I. Background and compliance with IFAD Policy for Grant Financing

1. IFAD is the only donor worldwide with a particular focus on rural finance. Recognizing the critical role that access to financial services can play in rural areas, one focus of the IFAD Strategic Framework 2016-2025 is opening access to a broad range of financial services in rural areas. Given IFAD’s institutional commitments, it is critical that it work together with strong partners to continually strengthen its interventions in rural finance through contemporary thinking and innovative approaches. A key IFAD partner in rural finance is the Consultative Group to Assist the Poor (CGAP). Housed at the World Bank, CGAP coordinates an active network of 34 development agencies and private foundations working for financial inclusion.

2. Through this grant, IFAD intends to renew its partnership with CGAP as one of its 34 member organizations. IFAD’s partnership with the group offers a number of important avenues for technical exchange and more effective dissemination of knowledge and experience in rural finance, both with CGAP and among its members.

3. The proposed programme is in line with the goal and objectives of the IFAD Policy for Grant Financing (2015). It will: (i) promote innovative, pro-poor approaches and technologies, with the potential to be scaled up for greater impact, by disseminating learning across its initiatives and regions and among CGAP’s 34 members. Success in one area of its portfolio can be applied in other CGAP partnerships and initiatives and in the work of its member organizations, driving both innovation and scale; (ii) strengthen partners’ institutional and policy capacities by working closely with a range of collaborating institutions in the public and private sectors. CGAP interventions constantly seek opportunities to add value and build partner expertise; (iii) enhance advocacy and policy engagement. Given its field experience with poor rural clients and its expertise in policies that promote an enabling environment for inclusive finance, CGAP is well positioned as an effective advocate of pro-poor approaches to financial inclusion; and (iv) generate and share knowledge for development impact. CGAP’s strong communications team works across the group and with its members to source, generate and disseminate learning on topics of priority interest to CGAP member organizations, such as IFAD, and to the wider financial inclusion sector.

4. This programme is aligned with corporate strategic priority area 1 on the “rights and access of the most-vulnerable populations to resources”. The programme is also aligned with the Policy and Technical Advisory Division’s knowledge management approach as it builds the capacity of programme design and implementation teams, supports the scaling-up agenda and acts as an entry point

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to country-level policy dialogue. It also contributes to the processes of learning, engagement and knowledge brokerage.

5. Recognizing IFAD’s overarching goal that “rural people overcome poverty and achieve food security through remunerative, sustainable and resilient livelihoods”, this programme focuses on the priority thematic area of inclusive financial services supported by IFAD’s country investment programmes. It links to the three strategic objectives of the Strategic Framework and has particular relevance to facilitating: inclusive financial services; diversified rural enterprise and employment opportunities; an enabling rural investment environment; rural producers’ organizations; and responses to the changing climate.

6. The recipient of this grant is CGAP, through the World Bank. Since its creation in 1995, the group has established itself as the recognized leader and knowledge centre providing advisory services and information to a wide array of actors engaged in rural finance. Housed in the Finance and Markets Global Practice unit of the World Bank Group, CGAP operates within the legal, financial and administrative environment of the World Bank Group. All CGAP trust fund resources are subject to the World Bank Group’s annual single audit exercise, and the transactions underlying these statements are reviewed as part of the World Bank Group’s ongoing quality assurance mechanism.

7. CGAP is an internationally recognized institution owing to its focus in an area of strategic relevance and importance. In line with the IFAD Policy for Grant Financing (paragraph 15, exemption (iii)), as there is no other member-based global think tank in the industry of financial-sector development/financial inclusion, CGAP was directly selected for this grant.

8. This funding constitutes IFAD’s contribution to this global effort and allows it to enhance development of innovative solutions for financial inclusion through practical research and active engagement with financial service providers (FSPs), policymakers and other funders in areas critical to its mission. IFAD plays an important and unique role in CGAP, as the only member focused specifically on poor rural people and on financial inclusion strategies dedicated to this particularly vulnerable population. Working with CGAP allows IFAD to benefit from the group’s activities, innovations, research and technical tools, and to transmit them to IFAD’s portfolio of rural finance and value chain finance interventions and to its partners in the field.

II. The proposed programme

9. The overall goal of the programme is that smallholder families and other vulnerable rural people have enhanced access to and find value in a range of sustainable financial solutions based on cutting-edge knowledge and financial inclusion innovations, technology and experience. The objectives are to: (i) address major barriers to the financial inclusion of vulnerable groups (e.g. women, youth, migrants, refugees and internally displaced people, particularly in sub-Saharan Africa); (ii) improve the ability of national agencies, relevant line ministries and FSPs in low- and middle-income countries to understand client needs, manage risk and lower delivery costs through the use of technology; and (iii) support IFAD’s in-country operations with guidance, strategic inputs, technical tools and data to inform their rural financial inclusion strategies and interventions.

10. Direct target groups will be the national agencies and relevant line ministries in low- and middle-income countries that drive the financial inclusion agenda, as well as decision makers and stakeholders that engage in national policy and advocacy work related to the Sustainable Development Goals (SDGs). IFAD operational teams will also benefit directly from this grant as they make strategic investment decisions with partners and grantees to support high-quality country portfolios. Participating rural FSPs will benefit from improved client metrics, market
intelligence and expanded digital solutions for smallholders, women and other vulnerable groups. Indirect target groups that will ultimately benefit from this grant include: rural women, youth and vulnerable households; smallholder farmers dependent on agriculture for subsistence and/or income; and migrants, refugees and internally displaced people. These target groups comprise sizeable proportions of the global population.

11. The programme will be implemented over five years and will have the following components:

(i) **Component 1: Financial inclusion** – focusing on vulnerable groups such as migrants, refugees and internally displaced people, women and youth, particularly in sub-Saharan Africa. This component will build on CGAP data and analysis from the financial diaries and national surveys of smallholder households, and will incorporate the results of other data-collection efforts. Grant activities related to financial inclusion are designed to expand the evidence base for financial inclusion among vulnerable groups, as well as other groups excluded from the financial solutions they need to manage their lives.

(ii) **Component 2: Digital financial solutions** for small-scale rural enterprises and smallholder farmers. This component will build on CGAP collaboration with FSPs to research, design, launch and scale up a range of financial solutions that leverage digital channels. Grant activities focused on digital financial solutions will generate more extensive client information and specific financial solutions that meet their particular needs. These experiences will help FSPs better understand and meet client needs and seize opportunities to leverage relevant technology to increase outreach, expand their portfolio of solutions and lower delivery costs.

(iii) **Component 3: Guidance, strategic inputs and capacity-building support** to IFAD’s in-country operations. This component aims to provide guidance, strategic inputs, technical tools and data to inform and maximize the impact of rural financial inclusion strategies and interventions.

### III. Expected outcomes/outputs

12. The programme is expected to have the following outcomes:

   (i) National agencies, relevant line ministries and FSPs in low- and middle-income countries reach vulnerable customers with tailored financial products and services that meet their needs through trusted and effective delivery mechanisms.

   (ii) Tailored financial solutions offer added value to smallholder families in both their agricultural and non-agricultural activities, as well as their overall household priorities.

   (iii) IFAD plays a more catalytic role in financial market development and effective, responsible funding of inclusive rural finance.

### IV. Implementation arrangements

13. CGAP manages a grant fund to support its activities, which include FSPs and networks, distilling and disseminating best practices in financial inclusion, and funding innovations that expand the frontiers of the sector. The CGAP Operational Team implements the strategy endorsed by its constituency group. The team is based in Washington, D.C., and has an additional office in Paris that focuses primarily on aid effectiveness. CGAP also has regional hubs in Côte d'Ivoire, Kenya, Lebanon, Russia Federation and Singapore.

14. Given its range of expertise and proven management capabilities, CGAP will implement grant activities, supervised by IFAD's rural finance team in the Policy
and Technical Advisory Division. At the start of implementation, CGAP will provide its strategy document and overall annual workplan. Disbursement of grant resources will be made in annual tranches, based on the expenditure of the previous tranche and fulfilment of the workplan.

15. There are no deviations from the standard procedures for financial reporting and audit.

V. Indicative programme costs and financing

16. The total five-year budget for this CGAP programme is estimated at US$122.25 million, of which US$2.25 million will be financed by the proposed grant from IFAD. The grant amount represents IFAD’s contribution to this global effort.

17. The three overarching activities supported by the proposed grant will receive relatively equal allocations of funds. Components 1 and 2, on financial inclusion and digital financial solutions, respectively, will each receive 28 per cent of annual funding, while component 3, on guidance, strategic inputs and capacity-building support, will receive approximately 44 per cent.

18. The approximate cost categories and components of the budget are indicated in tables 1 and 2. Grant funds are earmarked specifically for these categories and components, and no other expenditures will be financed.

19. Cofinancing in the amount of US$120 million will be received as cash contributions from other CGAP members: African Development Bank, Bill & Melinda Gates Foundation, Citi Foundation, European Commission, European Investment Bank, Ford Foundation, Agence Française de Développement, Federal Ministry for Economic Cooperation and Development (Germany), Inter-American Development Bank/Multilateral Investment Fund and International Finance Corporation, among others.

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

<table>
<thead>
<tr>
<th>Components</th>
<th>IFAD</th>
<th>Cofinancing</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Financial inclusion</td>
<td>625</td>
<td>33 600</td>
<td>34 225</td>
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<tr>
<td>2. Digital financial solutions</td>
<td>625</td>
<td>33 600</td>
<td>34 225</td>
</tr>
<tr>
<td>3. Guidance, strategic inputs and capacity-building support</td>
<td>1 000</td>
<td>52 800</td>
<td>53 800</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2 250</strong></td>
<td><strong>120 000</strong></td>
<td><strong>122 250</strong></td>
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</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Expenditure category</th>
<th>IFAD</th>
<th>Cofinancing</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Salaries and allowances</td>
<td>625</td>
<td>48 000</td>
<td>48 625</td>
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<tr>
<td>2. Consultancies</td>
<td>845</td>
<td>24 000</td>
<td>24 845</td>
</tr>
<tr>
<td>3. Travel and allowances</td>
<td>200</td>
<td>11 000</td>
<td>11 200</td>
</tr>
<tr>
<td>4. Workshops</td>
<td>225</td>
<td>12 000</td>
<td>12 225</td>
</tr>
<tr>
<td>5. Goods, services and inputs</td>
<td>188</td>
<td>13 000</td>
<td>13 188</td>
</tr>
<tr>
<td>6. Overhead/management fees</td>
<td>167</td>
<td>12 000</td>
<td>12 167</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2 250</strong></td>
<td><strong>120 000</strong></td>
<td><strong>122 250</strong></td>
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VI. Recommendation

20. 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 Inclusive Rural Finance for Smallholder Families and Other Vulnerable Groups Programme, shall provide a grant of two million two hundred and fifty thousand United States dollars (US$2,250,000) to the Consultative Group to Assist the Poor, through the World Bank, for a five-year period upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board herein.

Gilbert F. Houngbo
President
### Results-based logical framework

<table>
<thead>
<tr>
<th>Objectives/hierarchy</th>
<th>Objectively verifiable indicators</th>
<th>Means of verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Goal</strong> Smallholder families and other vulnerable rural people have enhanced access to and find value in a range of sustainable financial services, all based on cutting-edge knowledge and financial inclusion innovations, technology, and experience</td>
<td>Access to suitable products for smallholder families, women, refugees, and other excluded client groups improved by 10%</td>
<td>Annual MIX Market report as tailored to IFAD’s portfolio</td>
<td>Management support and sufficient financial resources for capacity building, institutional development, and change processes IFAD member governments remain committed to the global financial inclusion agenda</td>
</tr>
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</table>

| Objectives | 1. Financial inclusion: Address major barriers to the financial inclusion of vulnerable groups, particularly in sub-Saharan Africa.  
2. Digital financial solutions: Improve the ability of national agencies, relevant line ministries, and FSPs in low- and middle-income countries to better understand client needs, manage risk, and lower delivery costs through the use of technology.  
3. Guidance, strategic inputs, and capacity building: Support IFAD’s in-country operations with guidance, strategic inputs, technical tools, and data to inform their rural financial inclusion strategies and interventions | 60% of smallholder families, women, refugees, and other excluded client groups (of CGAP-supported financial service providers) who perceive that new products or practices effectively meet their financial needs  
20 stakeholders who have a more holistic understanding of the financial services needs of smallholder families, women, refugees, and other excluded client groups  
5 new financial products and service-provider practices aimed at better serving smallholder families, women, refugees, and other excluded client groups | CGAP Annual Progress Reports  
CGAP Smallholder Households Advisory Committee meetings  
Minutes of specific update-quarterly calls | Development community remains engaged in smallholder household development and the importance of reaching excluded groups in achieving the SDGs  
Sufficient contributions from other CGAP members to implement planned activities  
Willingness of IFAD staff and management to engage and absorb contemporary innovation from the wider rural financial inclusion sector |

| Outcomes/Outputs | National agencies, relevant line ministries, and FSPs in low- and middle-income countries reach vulnerable customers with tailored financial programmes and services that meet their needs through trusted, effective delivery mechanisms  
Tailored financial solutions that offer added value to smallholder families in both their agricultural and non-agricultural activities as well as their overall household priorities IFAD plays a more catalytic role in financial market development and effective funding for inclusive rural finance | 20 citations of CGAP research and findings relevant to excluded groups, digital financial services and smallholder households  
5 examples of innovative solution delivery approaches from national agencies, relevant line ministries, and FSPs in low- and middle-income countries with potential to scale | CGAP Annual Progress Reports  
CGAP publications related to work with smallholder families, women, refugees, and other excluded client groups  
CGAP Smallholder Households Advisory Committee meetings  
Minutes of specific update-quarterly calls | Partners with sufficient interest and capacity are available and interested in collaboration  
Audience for publications and research outputs remains high |