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Investing in rural people

President's report on a proposed grant modification under the global grants window to the Eastern Africa Farmers' Federation for Scaling-up Rural Youth Access to Inclusive Financial Services for Entrepreneurship and Employment

Note to Executive Board representatives

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For: Approval

Recommendation for approval

The Executive Board is invited to approve the change in grant recipient from the Global Youth Innovation network to the Eastern Africa Farmers' Federation, as contained in paragraph 7.

Proposed grant modification under the global grants window to the Eastern Africa Farmers' Federation for Scaling-up Rural Youth Access to Inclusive Financial Services for Entrepreneurship and Employment

I. Background

1. Evidence from IFAD projects and rural finance knowledge products from the Policy and Technical Advisory Division has shown that rural youth face several challenges including accessing inclusive finance adapted to their needs. This remains the greatest hurdle that rural youth must overcome to engage in profitable business activities in rural areas. Rural youth in general, and those in sub-Saharan Africa in particular, are among the most financially excluded population segment in the world. Their financial exclusion stems from a lack of suitable services and the low capacity and lack of interest among risk-averse financial institutions in serving a target group that is perceived as volatile, very high-risk and "unbankable" (i.e. unable to save; represent high credit risk due to their engagement in unprofitable enterprises; lack experience and bankable collateral).
2. Access to financial services such as credit, saving and loans, like access to land, has become fundamentally important when attempting to start up or sustain any agricultural activity. The evidence shows that rural youth are systematically excluded in a continent where 70 per cent of the population is under 30 years old. Before releasing funds to young people, many financial service providers ask for loan guarantees, such as formal land titles, steady employment, personal guarantors, solidarity group guarantees or more informal movable asset guarantees (motorcycles, furniture, etc.), all of which are assets that young people typically do not possess. Young people are perceived as a high-risk category because they have limited financial capabilities, often resulting from their lack of experience and lack of bankable projects. Nonetheless, there is growing recognition of the need for a more inclusive financial system; and there are already a number of innovative models to reduce risk when lending to youth. Unfortunately, although many of these models are obtaining positive results, they are not well known, making their replication difficult.
3. In November 2016, under the lapse-of-time procedure, the Executive Board approved a grant of US\$1 million to the Global Youth Innovation Network (GYIN). The overall goal and objectives of that grant are replicated under this grant proposal by the Eastern Africa Farmers' Federation (EAFF). The overall goal of the grant to EAFF is to enhance the current process of raising capital for the enterprises of young people in poor rural areas (i.e. for start-ups and for scaling up of existing businesses) by mitigating financial institution risks, increasing interaction with industry experts, acquiring new knowledge and sharing success stories. The objectives are to (i) build the capacity of poor rural youth organizations to design and deliver entrepreneurship training, mentorship, business development, and partnership services to support young entrepreneurs in rural areas of East Africa; (ii) build the capacity of local financial institutions to provide alternative start-up and scaling-up capital through risk assessment and mitigation, and to develop and deliver pro-poor youth-inclusive financial tools in Burundi, Kenya, Rwanda and

Uganda; and (iii) consolidate and share learning through practical knowledge products, communities of practice, and events to support the creation, scaling up and replication of successful pro-poor youth-led business in East Africa.

4. The grant's goal and objectives are aligned with the goal and objectives of the IFAD Policy on Grant Financing (2015).¹ The proposed grant modification under the global grants window to EAFF is aligned with IFAD's general objectives of empowering poor and rural youth and of promoting successful and/or innovative approaches and technologies to support agricultural and rural development. The project is also in line with IFAD's objective of increasing access to financial services and markets.
5. The selection of the recipient involved a competitive process implemented by the Competitive Evaluation Screening Meeting, which ranked GYIN first and EAFF second. In terms of financing modalities, one of the highest scoring features of GYIN was its cofinancing ratio of 1:1.8 as opposed to EAFF's, which was 1:0.2. Nonetheless, GYIN had fiduciary issues that made it impossible for them to implement the grant. Following the disqualification of GYIN, and to implement the project as planned, IFAD proposes that this project be implemented by EAFF. The offer has been accepted by EAFF and their cofinancing ratio has been increased to 1:0.4.²

II. Proposed new grant recipient

6. EAFF is a regional farmers' organization working in 10 countries, namely: Burundi, the Democratic Republic of the Congo, Djibouti, Eritrea, Ethiopia, Kenya, Rwanda, South Sudan, the United Republic of Tanzania and Uganda. Within these 10 countries, EAFF encompasses 24 national farmers' organizations set up as cooperatives and commodity associations; and represents a total of 20 million farmers in the region. EAFF has formal working relationships with regional economic communities and regional private sector organizations (East Africa Business Council and the East Africa Grain Council). It also works closely with the East African Legislative Assembly and several other NGOs. EAFF's 2012-2020 strategic plan promotes entrepreneurship through the organization of farmers into units that can participate in profitable agribusiness ventures. EAFF has deployed major efforts in fostering gender and youth mainstreaming.

III. Recommendation

7. I recommend that the Executive Board approves the following resolution:

RESOLVED: that the Fund, in order to finance the activities of the grant Scaling-Up Rural Youth Access to Inclusive Financial Services for Entrepreneurship and Employment, approved by the Executive Board in November 2016, approves the change of grant recipient from the Global Youth Innovation Network to the Eastern Africa Farmers' Federation.

Gilbert F. Hougbo
President

¹ See EB 2015/114/R.2/Rev.1.

² EAFF is providing 30 per cent in cash and an additional 10 per cent in kind. These two contributions make up a total of 40 per cent cofinancing (higher than the 20 per cent minimum threshold acceptable by PTA).