



THEME : MODES D'INTERVENTION

**OUTILS D'AIDE A LA DECISION POUR LA
POLITIQUE DE FINANCE RURALE DU
FONDS INTERNATIONAL DE DEVELOPPEMENT AGRICOLE
(FIDA)**

Résumé en anglais du document

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RURAL FINANCE DECISION TOOLS

The Rural Finance Decision Tools reflect primarily IFAD's decision to 'operationalize' its Rural Finance Policy Paper, approved by the Executive Board at its Sixty-Ninth Session in April 2000. The RF Policy Paper highlights four major policy directions relating to:

- Building sustainable RF institutions with outreach to the rural poor
- Fostering stakeholder participation, including the poor, in the development of rural finance
- Building a diversified rural financial infrastructure
- Promoting a conducive policy and regulatory environment

The decision tools have been designed to reflect the operational implications of the above themes. Some of the issues dealt with in the document refer directly to one of the above titles (such as 'participation and RF'), while others do so indirectly (i.e. 'the balance between the provision of technical assistance and loan capital, which has a major impact on the building of sustainable RF institutions'). In other cases, such as in the chapter on Impact Analysis, reference is made to one of the core objectives of the Strategic Framework.

This text also incorporates the outcome of IFAD's recent Strategic Framework for 2002-2006, and its development into the subsequent regional strategies elaborated at the level of each Regional Division.

The above considerations explain why the Decision Tools are structured around three main sections:

- Section I deals with cross-cutting issues and challenges that apply to IFAD's RF in general.
- Section II looks more closely at the formulation and implementation mechanisms for IFAD RF projects, and ways and means of addressing some existing challenges and limitations in that regard.
- Section III develops the region-specific characteristics of rural finance. It provides a brief description of the current status of RF in each region, followed by the major types of IFAD RF interventions. It also highlights IFAD's comparative advantage in RF in each particular region, in the context of the recent regional strategies.

Composition of each section

Part I: Cross cutting issues

IFAD's rural finance programmes are characterized by several key cross-cutting issues, which are described briefly below:

- **How to extend the RF 'frontier'**: how far can IFAD extend its RF operations into remote rural areas while, at the same time, promoting institutional and financial sustainability? What are the innovations that can help IFAD extend the frontiers of its interventions in rural areas even further?

- **Funding agricultural needs through RF programs:** how can IFAD better address the funding of agriculture-related activities through its RF programs? There is a strong consensus among donors regarding the failure of past government-led and subsidised agricultural lending practices. However, there is much less knowledge available regarding the successful experiences in microfinance that have provided agricultural financial services on a sustainable basis, in particular to marginalized rural households. How can innovation be promoted in this field, and what are the key issues to bear in mind when doing so?
- **The role of state-owned banks and formal financial institutions in RF:** Should IFAD work with them, and how? There is a large consensus regarding the failure of state-owned banks (SOBs), and especially state-owned agriculture banks (SOABs), to provide financial services to the poor. In this context, IFAD's Policy Paper rightly advocates discontinuing the provision of large credit lines to these institutions. However, through their large rural networks, their ability to mobilize savings, and their transfer systems, SOABs have, in principle, a strong comparative advantage in reaching very large numbers of poor people in rural areas in a cost-effective manner. In this context, is there scope for IFAD to continue working with these institutions on a different basis? How could pilot programs be tested and what are the key conditions to be met?
- **Savings and remittances:** Savings have been called the "forgotten half of microfinance". There has been a growing awareness within IFAD of the key role played by savings in RF - especially with regard to reaching the very poor, who may lack investment opportunities but greatly value access to savings services. Research and pilot programs (i.e. MicroSave) have shown that access to safe and flexible savings services can play a critical role in poor people's strategies for minimizing risks, can mitigate income fluctuations and build a small asset base over time. However, mobilizing savings implies risk and also specific responsibilities for RF institutions, donors and governments. The Decision Tools look at the key issues that need to be addressed when supporting savings mobilization.
- **Balance between funding capacity building and providing loan capital:** IFAD has started moving away from projects that provide very large credit lines, and is recognising the importance of funding capacity building and technical assistance for its RF partners. However, balancing both of these interventions in the most effective manner still remains a challenge, and is discussed in this section.
- **The role of participation in RF programmes:** IFAD's Policy Paper places strong emphasis on the value of participation as a means to empower the poor, both in product design and in the management of rural finance institutions (RFIs). However, the concept of participation reflects very different realities, depending on the local context and type of RF institution concerned. This section analyses what participation means in the different contexts, and the way in which IFAD may reflect participation through its various types of interventions.
- **RF Policy Issues:** IFAD is confronted with major policy issues in most of its RF interventions: at what point should it consider designing a national RF strategy as opposed to a more 'operational' project? How should the Fund deal with the challenges concerning the regulation and supervision of RF institutions? How could it best reflect policy issues in its RF operations?

- **Impact analysis:** IFAD is facing increasing pressure to better document the impact of its RF programs. Are its interventions reaching the poor and very poor? Can one assess the impact of IFAD projects on the life of its RF clients? What types of impact assessment tools exist, what are their characteristics and how can they best fit the Fund's needs and requirements for impact assessment?

Part II: Design and Implementation Considerations

Part II addresses the specific **challenges and issues faced by IFAD in the design and implementation of its RF programs**. It starts by looking at the **formulation process**: what are the minimum conditions to be met for the formulation of an RF intervention, how should potential RF partners be identified and selected, and at what stage of project design?

Part II then addresses the multiple challenges related to **project implementation**: how could IFAD improve while simplifying the monitoring of RF partners' operations? How could a simple reporting system on key performance indicators be set up at the national level? Finally, this section looks at some of the operational implications of the above on IFAD relations with its cooperating agencies, and also its government counterparts.

Part III: Specific Context of IFAD RF Regional Strategies

Beyond the common RF challenges faced by IFAD (reflected in Parts I and II), the Decision Tools also have the objective of capturing the **specific characteristics of IFAD's RF interventions in each region**, including the broad policy directions reflected in the **Regional Strategies** that were presented to the Governing Council in February 2002.

Part III reflects, for each region:

- (i) the major characteristics of micro and rural finance,
- (ii) IFAD's various RF experiences and models, and
- (iii) a broad analysis of **IFAD's comparative advantage and options for future programming**, in line with each regional strategy. This section also further expands some themes (from Part I) that relates more specifically to the particular context of each region.