

Operationalizing IFAD Rural Finance Policy

1 Refocusing IFAD's Rural Finance Policy

The International Fund for Agricultural Development (IFAD) is a specialized UN agency working to improve the lives of poor people in rural areas of developing countries. IFAD works through loans (and some grants) to governments, packaged with technical and management support services throughout the project cycle. IFAD's rural finance projects account for about 15 percent of the ongoing loans and grants portfolio approximately (\$1 billion). A small team of rural finance experts is based in the Policy and Technical Advisory Division, which works to support IFAD's operations in Regional Divisions.

IFAD's operations in rural finance were re-focused following independent evaluations: the Corporate Level Evaluation and the CGAP Donor Peer Review

(predecessor to SmartAid). Both the 2006 IFAD Corporate Level Evaluation and the CGAP Donor Peer Review processes highlighted the need to update IFAD's Rural Finance Policy, bringing it in line with current international best practice.

In response, the IFAD Rural Finance team, with inputs and reviews from the institution's Rural Finance Thematic Group as well as external expertise, launched a significant update of the Policy. The Fund's highest governing body approved the Policy in 2009. What has followed—and has been highlighted in follow-up SmartAid reviews—is a focus on how to best implement the Policy to ensure consistency in the quality of IFAD-supported rural finance interventions.

2 A Valuable Process based on IFAD's Experience

Three important mechanisms and reforms were introduced at IFAD to help operationalize the Rural Finance Policy: guidance tools, a requirement for technical inputs earlier in the project review cycle, and capacity building of IFAD staff. The guidance tools include the IFAD Decision Tools for Rural Finance, which translated the Policy into key principles and practices to follow throughout the project cycle, and "How To" notes providing in-depth guidance on specific rural finance topics.

At the process level, IFAD introduced a quality check and technical support earlier in the project cycle. This required that IFAD's rural finance experts get involved in the project design phase and also increase their role in project supervision. Because

of limited staff capacity and resources, IFAD identified partners that could serve as centres of excellence to support internal quality review processes. Ultimately, operationalization also requires staff with the right training and expertise to deliver on project outcomes. As such, IFAD has also invested heavily in capacity building efforts for staff. An in-house training plan was developed and delivered, with the involvement of both regional divisions and the Human Resources Department. IFAD also worked with the MIX to develop an online course for staff. To provide ongoing support, IFAD has also strengthened its institutional partnerships with centres of excellence and other donors allowing the organization to source external technical input and expertise to leverage its own internal capacity

3 Challenges and Successes

The Rural Finance Policy and the measures taken to date to operationalize it have been successful in

shifting focus to promote a wide range of financial institutions and financial services that increase the

long-term access of rural poor people to a wide range of financial services. This has allowed IFAD operations to move away from the old paradigm of providing targeted credit lines, resulting in a drastic reduction of subsidized lending and credit lines across IFAD's rural finance portfolio. At the same time, we've seen more agency-wide commitment to the role and importance of rural finance within IFAD's diverse portfolio. The latest measure to begin the process of introducing standardized performance-based agreements (together with the legal department) is expected to result in a more systematic use of results-based performance indicators to improve project implementation.

4 Results

Following the implementation of these important operational changes at the project level, we see better designed rural finance projects that are more in-line with best practices. We also see a greater institutional commitment to focused rural finance sector projects with a systemic approach

A number of institutional barriers have made the operationalization process challenging. IFAD is a large, multi-sectoral organization that is highly decentralized, is not responsible for direct implementation and has limited enforcement mechanisms. Bringing about system-wide changes related to quality enhancement processes, project coding and M&E systems requires consensus at all levels of the organization and willingness to change. One area requiring additional work is how to ensure that partner government approaches and policies are always aligned with IFAD's own.

(including three levels of macro, meso and micro intervention) as opposed to multi-sectoral projects with rural finance as one component. At more senior management levels, we see greater buy-in to the six guiding principles of rural finance projects and interventions outlined in the Policy.

5 Learning and Recommendations

Since the approval of the Rural Finance Policy in 2009, IFAD has introduced several changes in its systems and procedures to improve its effectiveness in rural finance, albeit more work needs to be done to fully align operations with the best-practice vision presented in the Policy. Several key lessons emerge from IFAD's work to date:

- Pay attention to strategic alignment throughout the agency, particularly as growth plans may outstrip staff capacity at the field level.
- Ensure technical consistency during project implementation across the whole portfolio.
- Limit credit components in larger non-financial sector projects, and identify them so that they receive appropriate technical assistance.
- Adopt strong policy enforcement mechanisms to reduce disbursement pressure and to maximize project compliance with policies.
- Boost expertise at country level for design, implementation and supervision through improved knowledge management. Develop partnerships with technical centres of excellence at field level.
- Strengthen coding and performance monitoring systems, including the use of performance-based agreements (PBAs) in order to better recognize potential areas of weakness and target support.

The CGAP SmartAid 2013 Report for IFAD can be downloaded at: <http://www.cgap.org/publications/ifad-smartaid-report-2013>

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