

AFRICAN DEVELOPMENT BANK GROUP



REVIEW OF THE BANK'S RURAL FINANCE EXPERIENCE

**OPERATIONS EVALUATION DEPARTMENT
(OPEV)**

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LIST OF ACRONYMS AND ABBREVIATIONS

AgDB	:	Agricultural Development Bank (Ghana)
ADB	:	African Development Bank
ADF	:	African Development Fund
AMINA	:	ADF Microfinance Initiative for Africa
BDM	:	Banque de Développement du Mali
BNA	:	Banque Nationale Agricole (Tunisia)
CGAP	:	Consultative Group to Assist the Poorest (World Bank)
CNCA	:	Caisse Nationale de Crédit Agricole (Morocco)
CSP	:	Country Strategy Paper
GDP	:	Gross Domestic Product
LABD	:	Lesotho Agricultural Development Bank
LOC	:	Line of credit
MFI	:	Micro-Finance Institution
NACB	:	Nigerian Agricultural Cooperative Bank
NTF	:	Nigeria Trust Fund
OCDs	:	Country Departments of the Bank Group
OVI	:	Objectively Verifiable Indicators
PCR	:	Project Completion Report
PIU	:	Project Implementation Unit
PMIA	:	Agricultural Modernization and Intensification Project (Senegal)
PPER	:	Project Performance Evaluation Report
PRP	:	Poverty Reduction Project
RMC	:	Regional Member Countries
SDA	:	Social Dimension of Adjustment
UA	:	Unit of Account
USAID	:	United States Agency for International Development
WID	:	Women in Development

Executive Summary and Conclusions

1. Context of Rural Finance Projects

The African Development Bank Group has always considered credit a prime mover of rural development. Hence, lines of credit (LOC) always featured among a mass of other components of agricultural projects in the 80s when the integrated rural development approach was predominant. Subsequently, LOC featured in the agricultural projects of the 90s and were then handled by more specialized financial institutions, namely agricultural banks or national agricultural credit intermediaries which were generally specially created to target support to agriculture, and were under strong State influence.

With the adoption of ADF VI (1991), and the women in development policy adopted in November 1990, LOC earmarked for agriculture started including poverty reduction and women in development (WID) or gender issues among their concerns, notably for rural dwellers. Alongside agricultural projects, other specific projects in these two domains were approved with major "credit" components. Such rural finance projects were formulated and implemented without clear and coherent terms of reference, as reflected in the definition of their objectives, their implementation procedures, as well as the objective criteria and indicators for monitoring and evaluating their performances.

However, some improvements have been noted since ADF VII (1996) in on-going project trends and notably in efforts to target the poor as well as women through agricultural and rural development projects. Significant progress has been made recently at the Bank with the reassertion of its objectives of poverty reduction, the participatory approach and gender, use of private intermediaries, associations and mutual societies in rural finance, with the new vision, the new agricultural and rural sector policy and the on-going formulation of a rural finance sector policy. It is also worth mentioning that in January 2000, the Bank adopted the "ADF micro-finance strategy and assistance to regional member countries".

2. Methodology

The review uses the evaluation method adopted for drawing up PCRs and PPERs at the Bank. However, in order to take into account specifically the performances generally expected in rural finance, the study focused on two essential criteria proposed in a USAID study conducted by Lieberson in 1985¹: i) small farmers' and women's access to credit; ii) financial viability and sustainable development of institutions that have benefited from support. The indicators used in this study to appraise the first criterion are : a) the share of loans granted them ; b) how beneficiaries used the credit granted them ; c) the impact of the investments made on agricultural production levels, on producers' incomes and more generally, the spin-offs on rural employment. Three indicators were also used to assess the second criteria concerning financial institutions, namely : a) the loan recovery rate and transaction costs ; b) capacity to deliver appropriate financial services to an ever-growing clientele; and c) capacity to mobilize rural savings thereby reducing subsidy dependence.

¹ Lieberson J., Kotellos K.A. and Miller G.G., A Synthesis of AID Experience : Small Farmer Credit, 1973-1985. Washington DC : USAID, 1985.

The review of the Bank's experience was conducted on an initial sample of 20 projects in 15 RMCs distributed in all the regions of intervention, over a 15-year period (1983-1998). However, some ten projects fulfilling the criteria for microcredit activities under AMINA were examined following the recommendations of the in-house task force.

3. Performance Evaluation

3.1 Relevance and Achievement of Objectives

Projects focused on objectives of increased crop and livestock production, food security and contribution to the GDP. As such, they were responding to the agricultural development strategies of RMCs and of the Bank, but the achievement of objectives is difficult to measure in the absence of a sub-project monitoring system as well as performance indicators. The analysis of their relevance to macro-economic and sectoral policies of RMCs and to government policy reforms was also limited to agriculture-related aspects as well as the notion of consistency, but not to those of project impact or project contribution to the implementation of the said policies. This is probably why monetary, financial and exchange policies which can determine the success or failure of rural finance programmes were not considered during project design and appraisal.

Project achievements have generally been analyzed in terms of increased production and, in rare cases, the volume and number of credits distributed as against available funds, without a qualitative analysis of loan portfolios (social categories of beneficiaries, repayment rate, savings collected). Through such an analysis, the review noted that in several agricultural banks LOC have not always been used solely for agricultural investment, let alone in rural areas and, in this case, small farmers, the poor and notably women were the least affected.

Agricultural credit institutions were unable to strengthen their solvency, profitability and autonomy; with some having to scale down their activities in rural areas. This situation was due mainly to the extremely low recovery rate (below 50%), as a result of the poor operational performance of agricultural banks in this domain.

3.2 Institutional Building

Institutional building should have been geared more to greater specialization in the needs and priorities of an agricultural bank and to intermediary bodies, beneficiaries' associations and to the overall institutional framework within which these different stakeholders operate, but such was not the case. In fact, efforts at restructuring in several institutions were limited to those institutions and remain inadequate to establish a monitoring and evaluation system for the activities financed. Furthermore, except for Tunisia, the management information system remained manual and inadequate, which is cause for concern in terms of transparency of the operations undertaken and the efficacy of the institutions in question.

3.3 Sustainability

Except for Nigeria, Mali and Lesotho, sustainability prospects were generally measured essentially on the basis of borrower commitment, political environment,

performance and competency of the technical supervisors, and the absence of negative environmental impacts. While such factors may be important in performance analysis, they are largely inadequate to serve as a basis for determining the sustainability of rural finance projects.

In fact, the interference of public authorities in the decisions of agricultural banks led to the cancellation of beneficiaries' debts in certain countries, and consequently farmers are increasingly tending to consider credit as a gift from the State rather than a debt that must be reimbursed. It has also led to subsidies being granted to financial institutions that are unable to balance their operations. This risk is all the more disturbing as the performance of most of the financial institutions are rather unsatisfactory, notably with regard to recovery and collection of savings.

The lack of collaboration between agricultural banks and relay structures specializing in microfinance (credit mutuals, cooperatives, etc..) and the non-specialization of bank staff in rural finance particularly limits the performance of technical supervisors, even if their level of competency in the new banking professions is fairly satisfactory and is sustained by continuing training.

All in all, none of the agricultural banks studied has sufficient equity capital to sustainably grant loans to the rural sector. Donor contributions remain indispensable since savings, as well as banks' equity capital, are low taking into account the high level of demand, agricultural risk and the chronically low recovery rates.

4. Conclusions

The projects studied under the review were not fully consistent with the guidelines on poverty reduction and women in development in rural areas. Their design and implementation are not actually geared towards overall rural sector development. In practice, all activities of these projects are focused on financing agricultural sector development and their effects in this domain are difficult to measure in the absence of objective indicators, and of a monitoring and evaluation system that can generate data on the sub-projects financed.

The projects studied have not yet been able to put in place or use an effective and operational financial intermediation system. Experience has shown that agricultural banks and PIUs responsible for managing lines of credit have no expertise or experience despite a lot of effort in the area of sustainable financial services to small farmers, the poor, women and the non-agricultural sector. Furthermore, they have been unable to establish partnership networks with savings and loans societies specializing in the management of such low-income rural and peri-urban clients. As a result, the latter were little affected, loan repayment rates were generally very low and the savings collected insignificant. This jeopardizes the sustainability of agricultural credit systems supported by the Bank in RMCs.

Institutional support and capacity building were not sufficiently geared towards resolving the aforementioned problems, but rather focused on the acquisition of sometimes non-essential equipment and logistics exclusively for the agricultural banks whose staff are often trained in banking techniques other than those that are more useful in rural finance, and PIUs which often disappear after the implementation phase with their staff still untrained and inexperienced in rural credit and microcredit.

However, recent generation projects, most of which are on-going, women in development and agricultural LOC have made significant progress in targeting beneficiaries and in participatory implementation procedures. Moreover, the guidelines defined in the Bank's new vision, in the new agriculture and rural development policy as well as the new ADF microfinance strategy and assistance in RMCs should provide adequate solutions in the short and medium-term.

5. Lessons and Recommendations

5.1 Main Lessons of the Review

5.1.1 The Bank is constantly striving to make rural finance a key instrument of rural development and poverty reduction; its efforts concern i) streamlining the approach; procedures and tools; ii) building local capacities in agricultural and rural credit; and iii) macro-economic (financial) and sectoral policy reforms; etc.

5.1.2 In general, project objectives concerning poverty reduction and women in development do not always feature among the evaluation criteria, with verifiable and measurable performance indicators. The poverty reduction dimension is rather perceived absolutely as a spin-off from increased crop and livestock production.

5.1.3 Agricultural credit projects were not designed to foster the emergence of structured rural financial markets. That is reflected mainly in the lack of collaboration with relay credit institutions capable of effectively carrying out rural intermediation and financing the full range of rural activities.

5.1.4 Any objective evaluation of the level of attainment of these objectives faces the difficulty of determining the contribution of the ADF credits pumped in, owing to the lack of exhaustive and reliable rural sector statistical data, as well as that of monitoring and evaluation of agricultural activities in terms of the direct beneficiaries of projects.

5.1.5 The absence in many cases, of a holistic approach to the rural community taking into account the various development concerns and poverty reduction, limits the efficacy of direct credit, notably to agriculture.

5.1.6 There is a need for the diversification of financial and non-financial services, notably the collection of savings and recovery of credits, stakeholder capacity building and ownership of a real participatory and community-based approach.

5.1.7 The consideration of rural finance problems (overall and variegated demand, diversification of financial services and products, legal and regulatory framework) in sectoral policies and poverty reduction strategies provides planners and other development agents with an appropriate framework for analyzing and designing rural credit projects.

5.1.8 In many cases, public authorities use subsidies to ensure the financial equilibrium of financing institutions and pursue credit operations. This practice should be abandoned to foster professionalism in these institutions, as well as rural credit efficacy.

5.1.9 A sufficiently profitable interest rate which takes into account the different handling costs is a guarantee of the viability of the financial institution, the success and sustainability of the credit systems.

5.1.10 Substantial efforts in project design, monitoring and evaluation and capacity building are required and need to be pursued in order, on the one hand, to make projects more consistent with the guidelines in the vision and, on the other hand, to foster greater stringency in their implementation and evaluation of the results of the credits and the institutions concerned.

5.1.11 The Bank's new option geared towards poverty reduction has led to the inclusion in project formulation of criteria specific to participation and decentralization which provides sufficient guarantees for the empowerment of beneficiaries and proper ownership of projects by the populations.

5.1.12 The diversification and extension of the portfolio to a clientele that is not directly agricultural is a necessary measure to mitigate operational risks of projects and unit costs of transactions.

5.1.13 It is important for the Bank's institutional support do RMCs to lead locally to the development of partnership relations between agricultural banks and micro-credit institutions, with a view to putting in place coherent and effective rural financial intermediation systems.

5.2 Main Recommendations

5.2.1 On the whole, there is a need for the design of all Bank projects to be reworked and attuned to the adopted guidelines of the vision, (poverty reduction, the participatory approach and gender concerns), although some progress has been noted in several on-going projects.

5.2.2 The Bank's strategy of assisting the poor and vulnerable groups through substantial support to rural finance systems should translate into better rural financial intermediation. Technically, this concern should lead to a revision of the operations manual, to include additional norms on the analysis of rural finance and poverty reduction projects.

5.2.3 Besides the need to have an analytical grid, the setting of objectives and particularly of viability indicators (institutional, financial and technical) for the financial institutions concerned should be a requirement during project evaluation.

5.2.4 The taking into account of indicators of a socio-economic nature should create positive synergies between the different policy guidelines, the different strategies, as well as the different services of the Bank responsible for implementing these guidelines.

5.2.5 The use of State subsidies as a rural sector credit management system must be prohibited or else practiced prudently and moderately and at best on a short-term basis. Such a practice could conceal the inefficiency and insolvency of credit institutions: it may be considered only in case of setting up local savings and credit mutual societies and/or associations, and building their capacities.

1. Introduction

1.1 Context and Objectives of the Review

1.1.1 The Bank's new vision targeting year 2005 focuses on poverty reduction with special emphasis on agriculture and rural sector development. Accordingly, the guidelines previously used to support the sector in accordance with the 1990 Bank policy document, which concentrated efforts essentially on agricultural development, have been significantly modified in the Bank's new policy. It is no longer merely a question of agricultural development, but rather of agricultural and rural sector development thus covering agricultural and non-agricultural activities in rural areas.

1.1.2 Hence, agricultural credit, which was also designed to help raise beneficiaries' income levels and, as a knock-on effect, improve the living conditions of rural dwellers through activities aimed at increasing agricultural production must be revised and broadened to cover the entire rural sector and to become rural credit, to be able to reach all stakeholders as well as the full range of essential economic activities in rural areas. While the loan policy under ADF VI in 1991, and ADF VII in 1996 was being put in place, the Bank financed projects and programmes directly targeting poverty reduction. The majority of these projects comprise a micro-credit component, a considerable share of which is earmarked for rural dwellers and notably women.

1.1.3 The Bank has already initiated the formulation of a rural finance policy. As the process is on-going, it would be necessary to select from among the loans financed, those operations that are related to the concerns clearly expressed in the Bank's new Vision. Accordingly, the operations to be considered rural finance activities are: (i) lines of credit or credit funds for rural development projects, (ii) the "credit" components provided for in the poverty reduction projects; (iii) women's advancement projects with a credit component designed for rural and peri-urban areas and, (iv) where applicable, AMINA-backed micro-finance programmes conducted in rural and peri-urban areas. These different types of credit funds are managed either by agricultural banks or by PIUs or, in certain cases, by microfinance institutions.

1.1.4 In this review, the investigation of the Bank's experience covers operations for which loans were approved to be used wholly or partially as lines of credit for rural area operators, notably the poor and women. These operations will be examined on the basis of a sample of projects, proposed in the terms of reference of the mission and examined in the light of the Bank's agricultural policy adopted in 1990. This 1990 agricultural policy document which noted many weaknesses in the management of credit funds by PIUs had consequently recommended that, as much as possible, the funds be entrusted to financial institutions "specialized" in this domain, rather than to PIUs. Hence, the review will focus mainly on the overall analysis of the efficacy of this system which was recommended and has been predominant over the last ten years, its effects in terms of sustainable increase in the incomes of rural dwellers, notably the poor, but also in terms of institutional, technical and financial viability of the financial intermediaries managing the lines of credit.

1.1.5 During the same period, poverty reduction was also covered by the policy guidelines of ADF VI in 1991 and should equally to be taken into account in agricultural projects. Similarly, the gender dimension covered by the November 1990 policy guidelines was also to be incorporated in agricultural projects, independently of the specific projects in this domain, financed by the Bank. The analysis will therefore be supplemented by a study of the operations managed during the said period by microfinance institutions or by PIUs, whether concerning rural development projects, poverty reduction and/or women's advancement projects. The lessons learned will make for a better approach to rural credit, in compliance with the Bank's new policy guidelines and best practice in rural finance.

1.2 Available Data and Sampling

1.2.1 The projects selected for the review fall under two distinct generations: on the one hand, completed projects on which there is a project completion report (PCR) and/or a project performance evaluation report (PPER), and on the other hand, on-going projects. For completed projects, the analysis will seek to assess the relevance of their social objectives, the efficacy of their implementation and their impact on the economic and social development of RMCs. The study on on-going projects will be conducted according to the terms of reference of the mission, "in terms of compliance and consistency with Bank policies and guidelines. The idea is therefore to evaluate quality-at-entry of the portfolio and the degree of relevance of these operations in the light of the Bank's policy and strategy in the domain" (See Annex for proposed sample in the terms of reference and other projects examined).

Completed Projects of the Sample

1.2.2 They concern 11 (eleven) projects in 7 (seven) countries, namely: Tunisia, Morocco, Mali, Ghana, Nigeria, Uganda, and Lesotho. In 6 (six) of these countries, they are agricultural lines of credit. For Uganda, the review chose the first poverty reduction project financed by the Bank in 1993; it had a credit component designed to foster access to credit for the needy, particularly in rural areas, and for women to constitute at least 60% of micro-project beneficiaries. It was also provided that microfinance intermediation bodies be used for its implementation.

1.2.3 In 5 (five) of the countries selected, the evaluation was on several successive lines of credit of which at least 2 (two) were considered in the sample. The period covered by the sample runs from 1983 for the oldest one², to 1998 for the 3rd line of credit to Banque Nationale Agricole de Tunisie. On the whole, 5 (five) agricultural lines of credit among the selected projects were approved between 1983 and 1986 and 5 (five) others, between 1992 and 1998, which is a total of ten (10) loans concerning agricultural lines of credit in 6 (six) RMCs. The amounts granted per agricultural development project range from UA 4 to 5 million for the 2 lines of credit to Lesotho and Mali, UA 13 to 23 million for projects in Ghana, UA 30 to 60 million for projects in Morocco and Tunisia, and UA 73 to 99 million for Nigeria.

² Notably the 2nd line of credit to "Caisse Nationale de Crédit Agricole" of Morocco

1.2.4 It should be noted that half of the completed projects in the sample were approved before the adoption of the 1990 agricultural policy document. Hence, the guidelines and directives underpinning these projects were somewhat different from those of the 5 (five) other operations financed after 1990. Furthermore, Morocco, Tunisia and Nigeria are countries of the ADB window from which their lines of credit were financed, for higher average amounts and with more productivity-inclined than socio-economic targets, without however excluding poverty reduction and gender dimensions, by accommodating small holders and women in agricultural projects. The National policies which incorporate these projects as well as the Bank's CSPs for these countries are also different between the 6 (six) lines of credit of the 3 (three) ADB countries concerned (Morocco, Tunisia and Nigeria) and the 5 (five) other lines of credit distributed to Ghana, Uganda, Lesotho and 1 (one) NTF loan for Mali. However, the commonality between the different ADB or ADF projects is that the financial institutions responsible for the credit funds should ensure their institutional and financial viability by reaching a mostly rural clientele, including the poor and women.

1.2.5 From the foregoing, the sample chosen may therefore be considered representative as it takes into account: i) all of the Bank's successive loan policies since 1983; ii) various types of projects that are different in terms of credit to the populations, rural development, poverty reduction and women's advancement; iii) loans of the different windows of the Bank Group, ADB, ADF and NTF; iv) as well as loans of different amounts, ranging from UA 4 million to 100 million for completed projects and UA 0.5 million for the smallest on-going project; v) and also all the regions covered by the Bank's country Departments.

On-going Projects in the Sample

1.2.6 The sample also includes on-going or recently completed projects whose completion reports (PCRs) are being drawn up. These projects which are either based on a line of credit or comprise a major credit component are 9 (nine) in number and concern eight (8) countries (Cameroon, The Gambia, Ghana, Mali, Mauritania, Senegal, Chad, Mozambique). They are mainly poverty reduction projects, with special emphasis on women (5 projects) or rural women's advancement and entrepreneurship (3 projects). Also featuring in this group is 1 (one) agricultural development project which gives pride of place to microfinance institutions as operators in implementing the agricultural line of credit (Senegal). These projects are of two generations and types: on the one hand, those of the 1990-1992 generation, which are all women's advancement projects (Gambia, 1990; Senegal, 1991; Mozambique, 1992) and, on the other hand, poverty reduction projects which were launched in 1997 under ADF VII, except for that of Mali which started in 1995.

1.2.7 For on-going projects, the choice of the sample reflects the evolution of Bank policy in favour of poverty reduction and women's advancement. As agricultural projects were faced with the difficulty of managing such aspects, specific projects were financed to operationalize the guidelines defined. However, such projects which came up mostly after ADF VII are also rural finance projects in that they have an essential rural credit component (generally credit funds managed outside agricultural banks) as well as a capacity building component for microfinance institutions operating sometimes as intermediaries in the implementation of the said projects.

1.2.8 These recent projects therefore constitute an indicator of the evolution of the Bank's rural finance operations.

Broadening of the Sample

1.2.9 Following the recommendations of the interdepartmental Task Force, the sample was broadened to include projects identified by AMINA in January 2002, in collaboration with Departments of the Bank, and in which microfinance operators are already operational or provided for in order to implement the credit aspect. Unfortunately, they are mostly on-going projects, without any PCRs. Moreover, microfinance activities only started in 16 cases out of the 79 identified (i.e. 20% of the total), and the information is incomplete and concerns mostly the 1999-2000 period. The information available is therefore inadequate for an exhaustive assessment to be made in this domain. However, the results obtained from monitoring these projects may be used to assess their quality at entry, as well as current trends.

1.2.10 The fact remains that the census carried out by the Bank covers all projects concerning poverty reduction, rural development, women's advancement, etc. and comprising a micro-credit component. Based on this principle contained in the ADF strategy paper on microfinance in RMCs, our methodological approach will distinguish two categories of operations in the Bank's rural finance experience: on the one hand, lines of credit managed under the responsibility of agricultural banks or development banks (with or without the collaboration of relay microfinance operators) and, on the other hand, microcredit managed directly by PIUs and/or microfinance institutions. The African experience of donors has been extended to World Bank and IFAD operations.

1.3 Methodology

1.3.1 The review of the Bank's experience in rural finance was based on a selection of projects involving or having as direct expected outcome rural financial intermediation. It also considered projects whose implementation involved rural finance intermediaries, receiving or not receiving support to ensure more efficient intervention, as the concept of rural finance had not been formally taken into account in the policies, guidelines and strategies of the Bank during project design and financing. It was, therefore, necessary to identify with hindsight those responding, or that were expected to respond, even if only implicitly, to the requirements for rural financial intermediation either in their objectives or in their implementation.

1.3.2 The review was also conducted on the basis of documents on the projects selected in the sample, the CSPs of the countries concerned and the portfolio review reports. Meetings and discussions with Bank experts in charge of selected projects and officers of the sectors concerned generated further information notably on the results of the projects and the factors that influenced them significantly.

1.3.3 The elements contained in the PCRs and PPERs were taken into account and examined, as a first step, using the standard methodology of project outcomes analysis at the Bank (methods used for PCRs and PPERs). The outcomes mentioned in the PPERs were maintained as such. In one case where the PPER was not yet ready (Tunisia: 3rd Line of Credit), we took into account the information and conclusions found in the completion report. Based on this information, a first summary analysis of all the outcomes was conducted.

1.3.4 Secondly, the results shown in the different reports were re-examined using indicators for evaluating a rural financial intermediation system, namely the system's efficacy in reaching rural people in a profitable and sustainable manner. This mostly implies the promotion of technically and financially viable intermediaries, in an enabling environment ensuring beneficiaries' participation and a real increase in their incomes, the enhancement of their capacities and strengthening of their autonomy. Even if the project designers' ideas were not necessarily based on such concerns, they should be introduced in order to correct on-going projects and, above all, to orientate future Bank projects.

1.3.5 To this end, the criteria usually used in PCRs and PPERs were used in the review, but with different indicators that are more consistent with the rural finance issue. For instance, project efficacy will not be measured on the basis of the number of credits distributed in general, but on the share granted to rural operators, and on the impact of such distribution on the capacity of beneficiaries to better manage their credits and micro-projects, on their participation in credit management, on their propensity to save and on the real amount of their voluntary savings, etc.

1.3.6 Thus, the analysis already conducted in the PCRs and PPERs could be re-assessed on the basis of indicators generally used in rural finance. The sustainability of the system put in place and even the viability of the financial institutions that participated in the implementation of the project will also be assessed on the basis of other indicators belonging to the same register of rural finances taking into account their sustainability as private-type institutions, gradually being freed from subsidy-dependence and adopting management rules that are consistent with best practice in the domain.

1.3.7 Nevertheless, the fact that the review was based on available documents and discussions with Bank experts, without meeting project staff, the responsible authorities in RMCs and representatives of beneficiaries in the countries concerned, constitutes a weakness in the approach adopted.

2. The Bank's Rural Finance Policy

2.1 Lines of Credit

2.1.1 The Bank Group's mission is to participate in the economic and social development of Regional Member Countries (RMCs). In fulfilling this mission, the Bank has always considered lines of credit (LOCs) a prime mover of rural development. The lines of credit allocated to agricultural development banks have thus represented a common component of the Bank's agriculture and rural development projects.

2.1.2 In the 80s, when the integrated rural development approach was predominant, credit always featured among many other components of rural development projects, alongside aspects such as infrastructures, agricultural extension, production, supply, marketing, health, training, etc. Credit therefore featured but was submerged in a mass of activities, above all, managed directly by the same Project Implementation Unit (PIU), which was neither sufficiently qualified nor experienced to do so under the supervision of a technical ministry. This credit was mostly designed to support the purchase of agricultural inputs and farm tools and the marketing of the produce targeted by the project. This project implementation formula is still in use.

2.1.3 Agricultural lines of credit began to feature increasingly in Bank projects, with the introduction of the agricultural sector policy approved in 1990. Credit management was increasingly entrusted to “specialized” structures, outside PIUs, namely agricultural development banks or agricultural credit intermediaries, which in theory, were more professional, but often were created for the occasion with no special guarantees as to their medium-term viability. Lines of credit were considered an instrument used to provide RMCs with the foreign exchange needed to import agricultural inputs for the most part and, to a lesser extent, to finance the operational needs of agricultural and agro-industrial enterprises. They were also used to promote a given type of agriculture or a well-targeted type of farmer, through credit delivery activities as attendant or support actions to other components. States therefore intervened directly on the financial market, and where necessary, with subsidies to interest rates and/or directly to credit institutions, thus concealing the inefficiency or insolvency of the latter.

2.1.4 Other lines of credit were also financed from ADF loans, notably ADF VI (October 1991) whose loan policy guidelines recommended poverty reduction. A strategy consistent with this policy was adopted and was to be implemented through better targeting of the poor in priority sectors which were agriculture, health and education. Most agricultural projects proposed in this context then mentioned, even if only in principle, the objectives of poverty reduction, because of the credit aspect, but rarely with evaluation criteria and objective indicators for project efficacy and efficiency assessment in this domain.

2.1.5 Subsequently, ADF-VII gave added priority to poverty reduction which became a separate sector like agriculture, health and education, while remaining a core concern in the other sectors. In the ADF-VII guidelines where access of the poor to credit is considered a key means of fighting poverty, lines of credit continued to be given priority in Bank policy, both in agricultural and social sector projects. The tendency to formulate poverty reduction objectives without evaluation criteria or performance indicators also increased and even expanded during this period, with new objectives: job creation and promotion of SMEs in rural areas. Lines of credit to support rural finance were therefore always a priority concern in Bank activities, even in the absence of a formally developed policy or strategy thereon.

2.1.6 The Bank’s new vision is based on the fact that 40% to 45% of Africa’s 730 million people live in absolute poverty; of these, 30% fall in the extremely poor bracket, 70% of whom are women. Poverty reduction is thus the key challenge to be met. Hence, at the country level, the Bank has decided to concentrate on 3 (three) areas, namely : i) agriculture and rural development, ii) human resource development and, iii) private sector development. In 2 (two) of these areas of concentration, namely rural and private sector development, the problem of rural finance is a priority.

2.1.7 Regarding the first area of concentration which is agriculture, the Bank is placing emphasis on agriculture and rural development, on the strength of the fact that African economies are still largely dependent on agriculture and that the vast majority of Africans live in rural areas, and also that poverty is an essentially rural phenomenon. Within this framework, the Bank has reaffirmed in its new vision, its determination to facilitate “rural financial intermediation by supporting bottom-up, demand-driven, micro and rural finance systems aimed at assisting the poor and vulnerable groups of society”.

2.1.8 Concerning the second area of concentration which is private sector development, the Bank also reaffirms its option to facilitate the establishment and development of more efficient private financial networks, particularly in rural areas (institutional framework, infrastructure and microcredit and private savings services). As for the third area of concentration, human resource development, priority is given to building the capacity of grassroots and professional associations in general, including associations involved in rural finance.

Agriculture and Rural Development Sector Policy (2000)

2.1.9 In the new policy paper, it is stated that the Bank will focus its “priority assistance programmes” on specific areas including the “development and capitalization of more effective private sector financial networks, with capacities to mobilize savings and facilitate direct on-lending to rural communities and groups on a viable basis; this would help deepen rural financial intermediation and improve investment in agriculture to generate and sustain growth of rural economies”.

2.1.10 The new policy translates into innovative strategies aimed at: i) broadening the scope of agricultural credit to rural credit, ii) introducing a full range of financial products, services and instruments, inter alia : credit and guarantee funds, mutual guarantee funds, venture capital, new savings products, etc, iii) creating linkages between the traditional banking sector and rural finance associations, and iv) facilitating the creation of viable rural or even peri-urban finance institutions. Agricultural lines of credit previously allocated to agricultural credit banks will be directed to the entire formal banking sector, notably private banks, and mostly to those which are able to link up with microfinance institutions.

2.2 Micro-Finance in Bank Policy

2.2.1 From the 90s, the Bank Group, in its operations policy, introduced the problem of access of the poor to credit. This concern was part of the policies relating to the social dimension of adjustment, poverty reduction and lastly, women in development. The projects designed under these policies provided for substantial social development funds or micro-credit funds.

2.2.2 Bank policy on women in development approved in 1990 gave rise to several projects targeting mainly women’s access to credit. Although the modus operandi for the micro-credit aspect was not uniform, the idea was to use intermediary organizations or create most often credit management units within Project Implementation Units (PIUs), to distribute credits to borrower groups or individuals. The fact remains that such activities are more micro-finance than traditional finance activities and were implemented as such. Projects of this type were approved for The Gambia in 1990, Senegal in 1991, Mozambique in 1992, and later Mali in 1995³. Ghana and Mali, among others, also benefited from similar projects.

³ These four projects are part of the review sample, but under on-going projects for most of them, since completion was postponed for a few years..

2.2.3 However, regarding Bank policy, it was under ADF VII (1996-1998) that microfinance became formalized at the Bank⁴. Hence, the decision to implement a pilot microfinance project was taken in 1996, leading to the approval of the AMINA programme in 1997 and its launching in 1998. In the ADF VII guidelines, the AMINA programme's main purpose was to help develop a poverty reduction strategy, notably among women, through the objectives which were: i) building of MFI capacity, ii) policy dialogue, iii) coordinating donor action, iv) information gathering and dissemination, and v) integration of best microfinance practice in Bank operations.

2.2.4 On the whole, the benchmarks and guidelines indicated could be used to assess the results of projects with a micro-credit dimension, in the light of best practices in this domain. Prior to AMINA, and in the absence of a reference at the Bank on project design in this domain, the micro-credit component proposed in projects varied immensely in substance and aspects according to the different designers consulted, their evaluation criteria as well as their performance monitoring indicators. Similarly, execution and management procedures were not well defined. This made evaluation quite difficult, as the assessment criteria currently used in PCRs and PPERs and for rating project performance are quite different from those generally accepted in micro-finance (such as CAMEL or other recognized evaluation indicators).

2.3 Place and Evolution of Rural Finance in the Bank's Portfolio

a) Lines of credit managed by agricultural banks

2.3.1 "Lines of credit to development banks represent \$ 1,722 million, or 23.5 percent of the Bank's agricultural portfolio. ADB countries have received the largest share (88 percent) of this total. Foreign currency risks and the closing of development banks in most ADF countries have caused a significant drop in the demand for lines of credit for which institutional strengthening has rarely been provided to development banks by the Bank".

2.3.2 "In North Africa, lines of credit have had a relative success in terms of financial institution capacity to follow up farm activities and diversify financial products for poor clients. The experience has not been satisfactory in other parts of Africa because of the following flaws: top-down approach, inability to mobilize savings and to develop risk-sharing mechanisms, weak institutional capacity, information asymmetry, lack of field-level presence, high transaction costs and interest rate subsidies. Credit programmes of the 80s also focused on farm production instead of the overall rural and peri-urban economy, thus contributing to increasing the risk level in credit portfolios and inducing credit diversion by borrowers to other activities. Lax credit recovery procedures and government interventions to forgive loan indebtedness have resulted in a general perception among borrowers that credit is more of a free entitlement rather than a loan, which needs to be reimbursed".

⁴ That was when, besides consolidating policies in favour of micro-credit, it was indispensable to improve micro-credit program efficacy.

2.3.3 “With the demise of development banks in most RMCs, the Bank has shifted toward private commercial banks and other structures to fill in the intermediary gap in rural finance. This strategy, however, has been constrained by the general aversion of private banks to agricultural credit for small-holders with its high transaction costs. The Bank has integrated local credit unions, their regional and national apex structures and NGOs”⁵.

b) *Microfinance operations*

2.3.4 Since the early 90s, the Bank has given pride of place to poverty reduction and women’s advancement, particularly in rural areas. Hence, one of the Bank’s priorities was to promote rural finance so as to ensure access at low cost to grassroots financial systems for the poor and women in particular. To this end, specific projects targeting smallholders, disadvantaged areas, the poor and women were approved but their modus operandi were dominated in the early years by PIUs which exclusively managed credits, or through a so-called ‘supervised credit’ system whereby a bank supports the PIU without taking responsibility for follow-up and recovery of credits and also without bearing related costs and risks. These credit components targeted amongst others improvement of the living conditions of rural households by facilitating their access to credit, without any special concern for sustainability of the operators thus empowered.

2.3.5 On the other hand, microfinance started off rather slowly with ADF VI (1991) under poverty reduction projects (with for instance, the Uganda project in 1993), aimed at delivering financial services and building the capacity of rural financial intermediaries (microfinance institutions and, where necessary, in collaboration with banks or agricultural banks that were able and willing to work with the poor), in order to perpetuate the system. It is more especially as from FAD VII (1996) that poverty reduction projects increased in number and gave pride of place to microfinance operators. However, very few of these projects have launched their microcredit component so far.

2.3.6 According to Bank statistics, approved loans for the 1996-2000 period for “micro-finance and poverty reduction” projects stand at UA 196 million. Their weight in the Bank’s portfolio may be more clearly understood through the information provided by the mid-term review of the AMINA programme, published and updated by the Bank’s services⁶. These documents report some fifty on-going projects comprising micro-finance activities in 21 RMCs, for a total budget of ‘ 818 million USD’, of which “123 million USD’ is allocated to credit projects and 65 million to the establishment and consolidation of micro-finance institutions and other civil society organizations operating in the micro-credit sector”.

2.3.7 The mid-term review of the AMINA programme conducted over the first 18 months of its operation considered the results rather unsatisfactory, owing mainly to the poor quality at entry “worsened” by poor implementation (cf. executive summary, chapter C conclusions). The review also made recommendations geared towards : i) supporting MFIs and banks lending to the poor in particular, with priority to women ; ii) promoting replicable solutions to satisfy the needs for financial services to the poor, giving priority to remote rural

⁵ Except from: “Agriculture and Rural Development Sector Bank Group Policy” OCOD, January 2000.

⁶ Cf. Document titled «ADF Strategy and Assistance in Micro-Finance to Regional Member Countries», ADF, July 2001, plus Add. 3 and 4 of December 2001 and January 2002.

areas; iii) strengthening technical support to the Bank's operations departments in the domain of microfinance. These recommendations were used to prepare and adopt a document titled "ADF Strategy and Assistance Microfinance to Regional Member Countries" in January 2002.

3. Performance of The Bank's Rural Finance Operations

3.1 Recap of The Performance Evaluation Method

3.1.1 The project performance analysis approach proposed by the Bank using evaluation criteria, takes into account all the aspects generally used as indicators in rural credit operations. The Bank seeks to: i) analyze the relevance of the objectives set, ii) measure the efficacy of the project in terms of its capacity to achieve the objectives set, through the results obtained, iii) analyze its impact on institutional development and lastly, iv) examine the sustainability of the actions undertaken.

3.1.2 This reminder serves as an introduction to the performance evaluation process adopted by this review, and whose rural finance aspects have for several years been largely developed notably by USAID (see Lieberson, 1985)⁷, namely: i) access of smallholders and women to credit; ii) financial viability and sustainable development of the supported institutions. The indicators used in this study to assess the first criteria concerning beneficiaries are: a) the share of loans granted them ; b) how beneficiaries used the credit received ; c) the impact of the investments made on the agricultural production level, on producers' incomes and, more generally, on rural employment. There are also three indicators for assessing the second criteria concerning financial institutions, namely: a) the loan recovery rate and transaction costs ; b) the capacity to deliver appropriate financial services to an ever-growing clientele; and c) the capacity to mobilize rural savings and thereby curb subsidy-dependence.

3.1.3 This approach was adopted and enriched by 'Développement International Des Jardins' to accommodate macroeconomic, agricultural sector and agricultural banks' financial policies (cf. Calkins P. et al, Université Laval, 1999)⁸. In short, the performance evaluation approach that will be constantly kept in mind, while still following the Bank's proposed grid, makes for a mainly three-tier analysis in order to accommodate all the parameters and indicators of the Bank's approach): level I will be performance evaluation in terms of national development objectives, ii) level II will concern the financial institutions' viability objectives and, iii) level III, the project's impact on target populations, in this case, the rural poor and notably women. This method of analysis is well suited to the assessment of Bank policy on rural development which has macroeconomic and sectoral objectives, while targeting specific segments of the population and expecting sustainability of the operations financed.

⁷ Lieberson J ; Kotellos K.A., and G.G. Miller A Synthesis of AID Experience : Small Farmer Credit, 1973-1985. Washington, DC, USAID, 1985.

⁸ Calkins P., Larivière S., Martin F., and Nteziyaremye : «Facteurs de succès et d'échec du Crédit Agricole dans les pays économiquement moins développés» Research series No. 0663, August 1999, Laval University, DID Publication.

3.1.4 The main performance criteria under the first level of analysis (i.e. those concerning the achievement of *national development objectives* are:

- Distribution of income to the rural poor;
- Increased agricultural production;
- Improved food security level;
- Improved food self-sufficiency level ;
- Sustainable development of agriculture, fisheries and forestry; and
- Use of new technologies which mitigate agricultural risk or which impact positively on targeted groups (smallholders, fishermen or other targets) ‘

The improved rural intermediation system criterion may be added.

3.1.5 The performance criteria that will guide evaluation of *financial institutions' viability* (level II of the analysis), will seek to determine whether the institutions responsible for managing lines of credit have been able to:

- be independent of external funds;
- cover administration and transaction costs;
- provide the financial services deemed necessary for the development of rural operations;
- serve an ever-growing clientele;
- deliver (offer) a wide range of financial services to their clients;
- actively seek ways and means of improving their operations by cutting costs as well as the fees and interests charged.

These operations must be spread over a long period so as to win customer trust⁹. In fact, alongside the macroeconomic and sectoral policy objectives, agricultural lines of credit must also seek to ensure the viability of the financial institution (s).

3.1.6 The evaluation grid proposed by the Bank takes such elements into account, but Bank-financed projects must in addition target the rural poor in particular, giving priority to women, in conformity with ADF-VI and VII as well as the women in development policy. Performance criteria concerning targeted beneficiaries are thus introduced in the analysis. These criteria may be classified as follows.:

- easier access to credit on better terms;
- access to agricultural technologies or increased productivity in general;
- access to inputs; and
- increased beneficiary income;
- greater participation of beneficiaries and building of their technical and managerial capacities.¹⁰

⁹ Calkins P. and Al, op.cit.

¹⁰ Calkins P et alii, op. cit.

3.2 Relevance of objectives and evaluation of quality-at-entry

a) Relevance

i) Consistency with the country's general development strategies

3.2.1 Lines of credit financed in the domains of agriculture, poverty reduction or women's advancement projects responded to the strategies of the countries concerned. In agriculture, the projects essentially concerned increasing agricultural or fish production, improving food self-sufficiency, improving food security and consequently improving the trade balance, beneficiary incomes, and agriculture's contribution to GDP growth. This would all lead to a general improvement of rural living conditions and, above all, to poverty reduction; for certain countries job creation was added to the above objectives. Specific projects concerning poverty reduction and women's advancement were rather centred on improving incomes and access to basic socioeconomic services.

3.2.2 Concerning expressed intentions, the objectives pursued in LOC to banks, as well as projects comprising microcredit activities, conform to the development strategies of the countries concerned, in the area of integrated rural development, women's advancement and/or poverty reduction.

ii) Consistency with the Bank's aid strategy

3.2.3 In agriculture, the objectives of LOC to banks are partially consistent with the Bank's aid strategy, as the latter also included poverty reduction and women in development. These aspects are not reflected in the project objectives, except for Nigeria as concerns poverty reduction. In Nigeria's case, the objective is mentioned but not taken into account in the evaluation criteria and indicators.

3.2.4 Conversely, the projects where credit operations targeted well identified beneficiaries and were entrusted to micro-credit operators seem more consistent with Bank guidelines. Projects concerning women's advancement, poverty reduction as well as rural development in disadvantaged areas attempted grassroots credit schemes, even if the latter did not always represent best practice in this domain.

iii) Macroeconomic policies

3.2.5 In principle, agricultural credit projects entrusted to banks, as well as poverty reduction or women's advancement projects must be integrated in a well-defined macroeconomic policy framework for each RMC. They must contribute to the success of this policy and also enjoy the attendant and support measures provided for under this policy in order to be successful. Some of the macroeconomic policy measures directly concerning rural credit are fiscal, monetary and exchange rate measures, which may impact on credit supply, aggregate credit demand, demand by beneficiary income bracket, profitability of rural activities which make loan repayment possible, etc. All these policy factors may either attract or repel small farmers and the poor, and may also have a measurable impact on their incomes and living standards.

3.2.6 Such aspects are not tangible in the macroeconomic concerns developed in appraisal reports. The macroeconomic objectives are very broad, namely sustainable economic growth, or even general economic and social development ; such objectives can apply to virtually all productive projects. Yet, it would be better to link a specific rural credit project to more limited macroeconomic aspects to which it is more directly linked, notably for instance, the effects on credit supply and demand, development of rural savings in particular and mobilization of the latter, etc.

iv) Sectoral policies

3.2.7 Agricultural credit project objectives are quite pertinent in terms of the agricultural sector policy. Similarly, the projects comprising micro-credit aspects focused on other sectoral aspects which credit was simply to support or facilitate. Yet, rural credit must also respond to another sectoral policy: the country's financial policy. As usual, there is no mention of this in the objectives of any of the projects. The financial policies generally concerned in this domain essentially deal with the organization of rural financial markets, including ideas and actions concerning credit supply and demand, the agents involved, interest rates, regulations on the arbitration, exercise or facilitation of rural and peri-urban financial intermediation.

3.2.8 However, certain constraints may be mentioned in defense of project designers : i) first rural credit was perceived as an instrument of agricultural policy or a social policy instrument of RMCs ; ii) RMCs generally had no financial policies clarifying the role of rural credit and rural finance specifically, iii) the Bank itself had no strategy to give rural credit a definite role in the financial policies of RMCs in national financial systems, in general, and more particularly, in rural ones. The Bank's new vision better takes into account the financial sector policy dimension in rural credit projects.

v) Government policy reforms

3.2.9 Rural credit projects did not mention any objectives of facilitating or initiating government policy reforms. They may fit into such a context, as was the case in Nigeria where a government policy banning the importation of grain and cereals in order to encourage local produce had an immediate effect on the success of the project whenever the various changes in government policy occurred. Such measures are rather taken into account just as a contextual fact, during evaluation under the section on agricultural sector policy or in the project assumptions and risks.

3.2.10 Financial sector reforms such as bank restructuring in general, the reform of agricultural credit banks partially financed from projects, and specifically concerning the legal and regulatory framework of micro-finance institutions are sometimes mentioned without any particular objectives set in that regard in the projects, in which case, it would moreover have necessitated defining the evaluation criteria for such reforms, as well as their monitoring and evaluation indicators. The project designers were more concerned with using the existing framework to reach the agricultural production targets fixed or allocating micro-credits to targeted populations, than influencing any reforms of such framework, notably in its financial policy aspects, which seemed either non-existent or left to other stakeholders or co-financiers. It should however be noted that in the case of Tunisia, SAPs I, II and III led to in-depth reforms of the financial sector resulting in the creation of a solidarity bank specially designed for the rural poor, with methods and procedures adapted to beneficiaries' living and

working conditions even if this does not quite represent best practice in micro-finance. Therefore, projects with a micro-credit component did not seek to influence or initiate reforms on government policy in this domain (micro-finance, poverty reduction, women's advancement policies).

vi) Poverty reduction

3.2.11 Poverty reduction seldom features as an objective of the agricultural credit projects in the sample, except for Nigeria's 2nd line of credit. In the lines of credit allocated to banks, the targeting of smallholders or fishermen is sometimes mentioned in the projects studied, as well as the creation of more jobs, where it is considered implicitly as a poverty reduction option. However, such a policy could have been better reflected in the project objectives, with performance criteria and evaluation indicators, but such is not the case. There is generally no clear explanation of the poverty reduction objective in the agricultural projects studied. And when it features in the sector goals of a project like that of Nigeria¹¹, the objective is not reflected in the corresponding OVI¹² and, in the expected outcomes of project activities; there is no clear targeting of beneficiaries from among the rural poor.

3.2.12 Conversely, rural development projects run by PIUs or involving micro-finance operators are more consistent with the guidelines on poverty reduction in poor areas. Similarly, specific projects on women's advancement and poverty reduction feature pertinent objectives in these domains. However, the problem of specifying performance indicators and qualitative evaluation criteria remains.

vii) Social justice and gender equality

3.2.13 The gender dimension is not reflected in the sector goals and the specific objectives of rural finance projects run by banks or PIUs as the production activities targeted are not directly undertaken by women. However, in the case of Ghana's 3rd line of credit approved in 1993, part of the credit funds earmarked for women processing fish products was provided for explicitly in the project activities. Yet, the Bank had adopted women in development policy since 1990, but the gender issue had not been adequately taken into account in rural finance projects. However, this problem was addressed satisfactorily in specific projects concerning poverty reduction and women's advancement.

viii) Environmental issues

3.2.14 Environmental concerns were also taken into account, but more in terms of a non-negative or neutral impact of projects on their environment, than producing positive effects through agricultural and micro-credit activities. The real difficulty in this exercise lies in the fact that the credit in itself has no direct impact on the environment, but the action it is financing and which can be undertaken without using credit, can actually impact on the environment. It is therefore the activity itself which must be targeted and credit may simply serve as a pretext, or even confer the right to supervise and orientate the environmental impact of the activity financed. The case of the PRP in Uganda is one of the rare cases with a

¹¹ Eg. "Sustainable economic growth and poverty reduction in rural areas".

¹² "% increase of the share of agriculture in the GDP".

linkage between credit and improvement of the project environment (to a lesser extent Morocco), through the financing of productive activities with a direct positive impact on their environment.

ix) *Human resource development*

3.2.15 Human resource development should also feature among the concerns of loan funds or lines of credit according to the expectations and policies of RMCs and of the Bank. However, there is a limitation: i) capacity building was only provided for Bank and PIU staff, and not for credit beneficiaries or their associations ; ii) the training provided for bank staff did not include the development of competency in adapted banking techniques, to make for a better approach to a poor clientele. The training was rather geared especially for banks, towards the most sophisticated commercial bank management techniques and practices, or even the management of stock exchange operations. This inappropriate training occurred because the capacity building objectives expressed in the appraisal reports were not explicitly geared towards rural finance problems.

b) *Quality at Entry*

3.2.16 The quality at entry of credit lines and funds is deemed unsatisfactory. Identification and preparation are not always done: only preparation is carried out in certain cases, but without much rigour as concerns the collection and analysis of reliable, verified and fairly comprehensive basic data to make for proper appraisal. Project appraisals have not been able to translate into clear actions, the objectives pursued by RMCs and consistent with Bank policies. The evaluation criteria and indicators used in the logical framework matrix of projects are generally irrelevant and incomplete; those used are also imprecise and the verification methods proposed do not make for the monitoring of projects and evaluation of the results obtained. Credit and financial intermediary monitoring mechanisms were not defined. Hence for instance, the conditions, objectives and schedule of viability of financial institutions were not determined during evaluation.

3.2.17 Rural development projects generally presented one main objective of contributing to raise agricultural production and a secondary objective focusing on institutional support to the management structure, which support is generally used for setting up the premises, acquisition of office equipment, computers, logistics and staff training.

3.2.18 Ensuring the technical and financial viability of the agricultural credit institution was absent or left to other donors, notably the World Bank as concerns Mali and Ghana. Accordingly, financial performance criteria gave way to physical achievements, for instance, the expected portfolio quality of the institution managing the credit does not feature among the project evaluation criteria, while the number of credits to be distributed is clearly stated. Similarly, the quantities produced in the various agricultural forecasts are monitored by all means, notably with national statistics, while the development of the institution (its profitability, productivity, solvency, growth, impact on targeted clientele) does not feature in the project evaluation criteria either. In this regard, it is worth noting for instance, that the arrears owed even without considering the entire risk portfolio, are particularly high, while the projects are considered successful for having attained other quantitative objectives such as number of credits granted, rate of disbursement of credit funds, areas covered for aggregate agricultural production in the country, but without the link between this and the project being shown.

3.2.19 The agricultural credit projects studied are not designed to impact on the rural financial market, by opening up for instance, to other relay financial intermediation bodies, and non-farm rural activities. Poverty, gender and rural financial market issues should have been integrated subsequently into the first concern of increasing agricultural production, once they are covered by Bank policy and guidelines, for, while rural credit is certainly an agricultural sector policy element, it is also a financial sector policy instrument.

3.2.20 The rural finance projects studied do not have any financial objectives in terms of operational viability, financial autonomy, coverage of expenses, credit recovery, collection and management of savings, in short, the usual financial and management objectives which financial institutions forecast. Yet, such parameters serve as a basis for the delivery of sustainable rural financial services. Consequently, in the appraisal reports of indicators used to assess the achievement or non-achievement of such objectives, these parameters do not feature as such. Hence, most of the projects which not only have extremely low recovery rates and high risk portfolios, but also show high running costs, chronic operating losses and almost no savings collected, are nonetheless considered successful. The said parameters therefore did not play decisive role as performance monitoring and evaluation indicators.

3.3 Achievement of Objectives and Outputs : "Efficacy"

3.3.1 All the generally used rural credit project evaluation criteria feature in the Bank's evaluation grid and are consistent with its agricultural, financial, institutional and social policies and strategies. However, the objectives set in the appraisal reports are imprecise and the indicators ill-defined. The assessment of project efficacy will concern not only the assigned objectives, but also those normally pursued in this type of operation, notably the viability and sustainability of project management structures. Concerning the efficacy of social projects with a credit component, there are few completed projects, and assessment is then based on data available in supervision reports and, where applicable in mid-term reviews.

a) Achievement of Macro-Economic Policy Objectives

3.3.2 In most agricultural projects, the objectives set concern agriculture's contribution to the GDP and improved food security. In general, the verification indicators are not defined, let alone the project's expected level of contribution. This explains why it was not possible in the PCRs and PPERs to make an assessment based on such indicators. According to these sources, the results are considered satisfactory on the basis of the same argument of "consistency with the macro-economic framework" or "with the country's development plan". Only Morocco's line of credit evaluation attempted to determine in its PCR, this contribution to the GDP, but unfortunately on the basis of extrapolations on overall data on the country's agriculture and not on actual data obtained from the sub-projects financed, as there were none.

3.3.3 Owing to the lack of a monitoring and evaluation system for the sub-projects financed, the PPERs and PCRs could not give an objective appraisal of the achievement or non-achievement of the macro-economic objectives set. The same applies to the increase in the income of smallholders and food security as a result of the project. They were not calculated as concerns beneficiaries. Other macroeconomic objectives concerning agricultural credit (cf. paragraph 3.2.4), such as their effects on the adoption or implementation of fiscal, monetary and exchange measures were obviously not assessed since they were not considered during project formulation.

b) Achievement Of the Agricultural and Financial Sector Policy Objectives

3.3.4 As financial sector policies (cf para. 3.2.6) did not feature among the rural credit project objectives, only agricultural sector policy objectives were considered, namely increased agricultural, and poultry production, food security, food self-sufficiency and increased income for small farmers, or job creation. Concerning agricultural sector objectives, increased agricultural production was an absolute priority. However, fisheries as well as the agro-industry are also targeted by projects such as those in Ghana and Morocco; Services and notably tourism were introduced in the BNA's line of credit in Tunisia.

3.3.5 The extrapolation-based results give the impression that a large majority of the agricultural sector objectives have been achieved, except for Mali where the funds were not used for agriculture, Nigeria where there was deviation from the objectives and Lesotho. However, a definite trend was observed in the results of the sample projects: the agricultural commitments of banks dropped considerably compared with commercial commitments, without an agreement having been reached to that end between all the parties to the project. Such changes in the use of funds earmarked for rural credit do not often result from a consensus between the Bank and the Borrower, except for the 2nd line of credit of the BNA in Tunisia where part of the funds were clearly earmarked for tourism at project appraisal. The average share of agricultural commitments stands at 40 to 50 % of the overall commitments. In the absence of data on the sub-projects financed, the same problem of objectively evaluating the project's contribution to the country's increased agricultural production arises. Increased agricultural production resulting from the financing of the project is not monitored properly owing to a lack of domestic monitoring structures for credit institutions which consider this activity unproductive. It is thus difficult to appraise the impact of LOCs on the achievement of agricultural policy objectives.

3.3.6 Other difficulties of a technical nature could also arise as concerns determining the contribution of the credit to the beneficiaries' increased agricultural production, given that such increased production results from a combination of several factors. All these reservations on project evaluation without reliable data, underscore the need to formulate objectively measurable indicators and put in place a sub-project monitoring and evaluation system capable of generating data for a more comprehensive and rigorous analysis. In the absence of such a data base, sector policy objectives will be evaluated, as is often the case currently, in terms of "consistency" or "inconsistency" of results rather than in terms of the measurable contribution of the project to the achievement of the country's defined sectoral policy objectives.

c) Achievement of Physical Objectives

3.3.7 Regarding physical objectives, the evaluation criteria and indicators are clear and explicit for all the sample projects. The results are generally satisfactory in terms of quantitative objectives and of the few estimates contained in the appraisal reports. However, an analysis of the quality of the physical results obtained could moderate the positive rating of certain projects, for by going beyond mere counting, qualitative analysis should be carried out of the populations and sectors affected, for a better assessment of project efficacy.

3.3.8 Thus, the objectives of the projects selected in order to examine credit distribution are always indicated in terms of the number of credits distributed or number of persons

reached. It is, therefore, not uncommon that the volume to be distributed is attained but: the credits are used elsewhere other than for agriculture (as was the case in Mali:90%, and Tunisia : 79% of the third line of credit, and Nigeria; ii) that the credit repayment rate stands at 50% or even less : Nigeria 43%, Tunisia 50% on average, Morocco from 72% to 35% and declining steadily, Mali 0% in 1988. Such credit management does not make for the establishment of a correlation between increased agricultural production or increased contribution of agriculture to the GDP and the project impact, since the loans granted are often diverted to other uses than the initially targeted agricultural investment.

3.3.9 In-depth sectoral studies are thus necessary prior to project launching, or even completion of appraisal for a better grasp of the potential beneficiaries' actual situation, and in order to have a more objective reference data on which to base the outcomes evaluation at the end of the project. With the information currently available evaluation can be based only on assumptions or interpretation of national or agricultural statistics.

d) Achievement of Financial Objectives

3.3.10 The financial objectives generally expected of agricultural credit projects are those that contribute to the viability of financial institutions responsible for managing such projects. Such institutions must at least seek to ensure a balance between their stable resources in relation to their applications, profitable operation, and efficient and ever increasing services to their clients. The implementation of an agricultural credit programme must also be underpinned by an enabling financial policy to whose success it contributes in return. This problem was not examined while designing the Bank's agricultural credit projects. No objectives were defined in this domain. However, the financial viability concern features in a project such as Tunisia's 2nd line of credit not under objectives of course, but at least among the expected outcomes and explicitly so. But, this viability concern was finally limited to certain aspects without taking into account measures aimed at improving its low recovery rate which poses a severe threat to its financial standing and consequently the continuation of rural finance. However, even if this does not feature in the sectoral and specific objectives of projects at appraisal, almost all PCRs and PPERs include an analysis of financial performance of projects and notably of agricultural banks, even in the absence of previously defined objectives to be achieved. In general, such analyses are pertinent. They cover the financial statements of the institution concerned and provide an insight into its financial viability (cf Morocco, Tunisia, Mali, Nigeria, Ghana).

3.3.11 This vital aspect of analysis should be extended to all projects and such is not yet the case. Above all, however, it is necessary to learn all the lessons regarding to the formulation of financial viability objectives in case of further lines of credit or when designing new projects. For, even with these well-conducted analyses, it is often difficult to compare the results obtained with the forecasts made earlier on the same aspects. That is why comparisons are made temporally and also on the basis of the normative ratios in the country. The establishment of performance criteria of this type of institutions at the Bank would be most useful and the choice of pertinent indicators in this domain would also help avoid the elements to be analyzed varying from one financial analyst to another. Indeed, the indicators are numerous and variegated in each of the aspects of the financial situation of a credit institution (portfolio quality, profitability, financial solvency, growth, impact, productivity, etc.) and each country has its bank accounting principles and its normative bank management ratios. It is therefore difficult to monitor performances in each country without :

- i) a reference analysis framework, as for instance that of the World Bank “CGAP” which can be used for different financial statements, where necessary after reprocessing the information, and
- ii) precise objectives to be achieved for each project, based on a rigorous analysis of the financial situation at ex-ante evaluation, if not at the start of the project, as well as the drawing up of a realistic schedule for ensuring viability of the financial institutions concerned.

3.3.12 Based on available information, the financial results obtained by the agricultural banks concerned remain poor on the whole, however with a less alarming situation concerning BNA (Tunisia).

3.3.13 The results of BDM (Mali) for the period covered by the Bank loan for the 2nd line of credit (1985-1989), are as follows:

- i) loan approvals for sub-projects witnessed a 78.94% drop, commitments declined by about 56.44%, while disbursements showed a 63% decrease; BDM even suspended loan grants except for those financed from external resources and those derived from the recovery of frozen debts;
- ii) compared with forecasts, loan approvals represented only 20.66% in 1985 (highest rate) and 2.31% (lowest rate), disbursements 13.95% and 5.36% ;
- iii) the portfolio deteriorated significantly during the period, the ratio of arrears to medium and long-term outstanding loans increased from 78.29% in 1985 to 128.15% in 1989, and dropped to 61.3% in 1989. Concerning the trend of arrears as against overdue credit, they increased steadily from 16.79% in 1985 to over 100% as from 1988; and
- iv) the financial structure is also unbalanced, with a debt-equity ratio of 97.73% in 1985 which rose to 185.98% at 30/9/89.

3.3.14 However, a rehabilitation plan was drawn up for subsequent financial years which might have mitigated the extremely inadequate financial results, but at the expense of the rural orientation of BDM. However, the fact remains that the line of credit objectives were not attained: few credits were granted to the agricultural sector (1 subproject out of 17 financed which is 2.7% of the amount of the loans granted from Bank funds), agro-industry had one sub-project representing 4.7% of the amount of the loans granted, the rest was used to finance the manufacturing industry (14.7%) and especially services (77.9%) including transport (38%) and others (26%). Of all these projects, only two were in a regular and satisfactory situation according to the PPER (a maternity home and a dental surgery). In all, of the 27 sub-projects financed over a 5-year period, 17 have come on stream of which only three were running at the time of the PPER, including two in a satisfactory repayment situation.

3.3.15 For NACB (Nigeria), the overall situation in a nutshell is one of steady annual losses since 1993 which accumulated to 20 billion naira at 31/12/99. These losses were due to a combination of factors, including : i) substantial losses owing to the application of a low rate to the loans, well below market rates, ii) chaotic management, using credit lines to make unauthorized investments in shady financial institutions which subsequently collapsed, leaving the NACB with a principal loss of about 161 million naira, iii) unjustified increase in operating costs and also, iv) substantial arrears (57%), v) laxity in the procurement of goods

and services, which led to the purchase of 60 computers at uncompetitive unit prices after several years' delay during which 46 computers were installed, but of which due to incompatibility, only 2 were working and were even used for purposes other than those provided for in the appraisal report. On the whole, neither management rules nor loan conditions were observed and the NACB is in a state of bankruptcy.

3.3.16 The LADB (Lesotho) does not have any viable financial statements. The conclusions drawn in the PPERs based on available non-accounting documents that are limited and old, show low recovery rates (53% of outstanding payments on average in normal years with a record 93% reached in 1993), overstaffing, constant operating deficits over the entire period due also to the heavy recurrent costs. The bank's equity capital was also considered inadequate.

3.3.17 The other banks of the sample (BNA in Tunisia, CNCA in Morocco, Ag.DB in Ghana) were in delicate but not yet desperate situation during the period considered. They each have their particularities, but also have certain common features : i) their outstanding payment rate is relatively high (on average above 50%) ; ii) their equity capital is insufficient and they are heavily dependent on external resources to pursue their activities in rural areas. However, these resources are not always used judiciously. For instance, at the AgDB, there were slippages in the choice of investments, notably with the group purchasing of 70 (seventy) luxury vehicles at the end of the 2nd line of credit) probably to improve the disbursement rate, among other measures, and this did not attract any sanctions or warnings from the Bank.

3.3.18 The financial results analyzed for projects with micro-finance activities are limited, in the PCRs and PPERs, to recovery rates, since a large majority of them are managed by PIUs which do not conduct the financial analysis of structures. However, some experiments are still being conducted with MFIs as credit operators in the PRP in Burundi, PRP in Mauritania, and the SOWEDA and MIDENO projects in Cameroon; here as well, the elements for financial viability analysis are not yet available. Completed experiments involving intermediate operators are quite rare, but among them is the PRP in Uganda, and the Jahaly-Pacharr rice farming project for which the Gambian cooperative Union was responsible before this formula was abandoned with the coming of Gambia's Structural Adjustment Programme.

3.3.19 The experience of credit fund management by PIUs did not produce satisfactory results, as they generally have no reliable loan accounting and monitoring system, let alone transparent procedures for checking the real identity and quality of beneficiaries as well as the utilization of credit provided in cash; credits in kind therefore became a common practice. Almost everywhere, this system recorded very low recovery rates – about 20% in the 2 phases of the “IRDP of the most disadvantaged areas of Tunisia”, 24% for the “ Tunisia : Madhia: Internal Delegation”, project or even less in other situations where data is not easily explorable, owing to the transformation of credit into grants and subsidies as in the “Arable lands development” project in Botswana or, to a lesser extent, the investment subsidies granted to beneficiaries from part of the funds received, as in the case of the Tsiribihina–Manambolo project in Madagascar.

3.3.20 However, the results of a few projects of the sample are not as poor, but remain inadequate, with a recovery rate of around 50 to 55% : CAR - MBaïki and Berberati, 50% ; Lesotho / Phuthiatsanan PDRI between 47 and 59% ; Rwanda : Byumba II agricultural

development project, 44% on average with 55% for the best recovery rates. That of sales and seed multiplication had poor recovery rates, so were community associations and women's associations (6% recovery) whose credit was finally stopped. In this group of credit fund management by PIUs, the PAGPF of Senegal was able to obtain a 63% recovery rate thanks to the creation of women's savings and loan societies.

3.3.21 Other projects had better results in terms of recovery rates e.g. the Uganda PRP with 92%, PRP Mauritania with 98% and the Gambia-Jahaly Pacharr with 95% prior to restructuring which removed the Gambian Cooperative Union from the credit fund management process. MFIs obtained far better recovery rates than agricultural banks which are themselves better from this standpoint than PIUs which are trying to grant loans directly. However, using MFIs or cooperatives does not always guarantee satisfactory credit recovery, for instance Cameroon's SOWEDA and MIDENO projects had a recovery rate of only 46% and 43.79 respectively.

d) Achievement of Institutional Development Objectives

3.3.22 Concerning specific rural finance objectives such as improving laws and regulations, strengthening financial intermediation institutions and, financial, technical and institutional sustainability, etc. : these were not taken into account by the projects (except in the case of Uganda which is a poverty reduction project). National capacities specialized in this domain were not created to a significant extent either as concerns human resources or the emergence of viable institutions capable of playing a role as effective financial intermediaries for the poor. However, the experience acquired and the training received in the area of banking in general and agricultural banking in particular could serve as a basis for future specialization.

e) Achievement of Social Objectives

3.3.23 In general, agricultural lines of credit considered poverty reduction at best as an indirect concern, addressed by the potential knock-on effects of the projects. The gender issue is also mentioned occasionally without defining precise criteria. Even if clear indicators had been given on the percentage of women to be attained, in a few projects (Nigeria, Mali), the objectives in those cases remain quantitative, for the women's categories targeted (rural and poor), the quality of services to be delivered, the support measures such as capacity building were not specified. Furthermore, the results obtained in this domain remain insignificant (5% for Ghana), or even not available for other projects.

3.3.24 Ghana's case is a clear example of the gap than can exist between the analysis of the actual situation and the project rating. Indeed, in spite of the satisfactory rating given it on that score, the AgDB was for some 3 (three) to 4 (four) years unable to use the funds clearly earmarked for women in the appraisal report, owing to the apparent inconsistency between the general purpose of the line of credit which was designed to be used for foreign exchange expenditure, while the clients needed financing in local currency. This constraint was removed subsequently for the next line of credit (the third), but the results obtained remained very poor, on account of the fact that demand was inadequate as women were not informed. Given these failures, the situation of the AgDB should not have been considered satisfactory.

3.4 Impact on Institutional Development and Private Sector Development

Impact on institutional development

3.4.1 The institutional development targeted was also limited to agricultural development banks responsible for line of credit management, without being geared towards improving their rural finance and micro-finance aspects, namely improvement of the quality of financial intermediaries, as well as their legal and financial environment. Besides, the principal operator on which institutional development was focused was generally not diagnosed before, or at the start of the project, and the objective set by its institutional support process was not stated in clear performance indicators, geared towards its institutional or even financial and technical viability. Hence, appraisal reports contained no forecasts in terms of structuring agricultural banks (information on registered capital and its breakdown), and notably their solvency which is indispensable for their sustainability.

3.4.2 Decentralization policies (good local governance are simply mentioned in terms of compliance and consistency with the objectives pursued by agricultural and rural development projects. In the implementation of the projects studied, they do not lead to concrete capacity building measures for decentralized operators (institutional support, training, delegation of project ownership to rural stakeholders), which at the end of the project may encourage the communities or associations to take over and manage access to financial services. However, such an idea is under study in one of the on-going projects studied in the sample (agricultural intensification and modernization project –PMIA Senegal).

3.4.3 Conversely, social projects, as well as rural development projects run by PIUs, notably those that are still uncompleted were slowly beginning to undertake capacity enhancement in the MFIs set up and NGOs and to use them as technical and/or financial intermediate operators. This led to the creation of budding savings and loan groups in certain RMCs and an improvement in the participation of the targeted populations.

Impact on private sector development

3.4.4 The lines of credit are partially consistent with Bank and RMC strategy on private sector development. Even if lines of credit were not managed by private banks, they were mainly designed for private sector beneficiaries. However, there are few countries like Mali where line of credit clients were the State (30% of the portfolio) and public and national enterprises (40%). In other countries also, the importation of agricultural inputs or marketing of produce was entrusted to public or semi-public enterprises (eg. Ghana). There are essentially no guidelines on the privatization of their capital, private management of agricultural banks or use of private sector financial and technical intermediaries, associations or mutual societies. The objective of promoting rural SMEs does not feature in project results, except for the BNA, but the results in this case are difficult to verify and cannot be extrapolated from.

3.5 Sustainability

3.5.1 The PPERs considered the sustainability of projects satisfactory, except for Nigeria and Mali essentially on the basis of borrower commitments, political environment, the performance and skills of technical supervisors, and the absence of negative impacts on

the environment. While such factors may be important in analyzing performance, they cannot adequately serve as a basis for sustainability of rural finance projects. The review has shown that, besides those factors, there are a number of permanent constraints and limitations that could jeopardize project sustainability in all the countries concerned.

3.5.2 For instance, interference by public authorities in agricultural bank decisions may lead to poor financial management. It has led to the consolidation of beneficiaries' debts (as in Tunisia), setting of low interest rates making it impossible to cover operating costs, overstaffing or even the administration of banks by ministries (as in Nigeria). This risk is all the more serious as the current situation of financial institutions, notably as regards recovery, collection of savings and portfolio management is rather poor.

3.5.3 Furthermore, rural finance is not considered an essential concern in the institutional framework of banks. Hence, the lack of collaboration with relay structures specialized in micro-finance and of specialization in rural finance on the part of staff notably limits the performance of technical supervisors whose competency in the new banking professions is satisfactory for that matter. Similarly, owing to the absence of an internal monitoring and evaluation system in the majority of projects, the activities undertaken could not be supported, corrected and adjusted as necessary at the end of each stage. Lastly, it is worth noting that, concerning the environment, performance and sustainability are measured not only in terms of absence of negative impacts but also in terms of direct positive impacts.

3.5.4 All in all, sustainability defined as the probability of maintaining in the long-term the permanent flow of benefits and resistance to the risk of flows of net benefits of projects over time “(assets, skills, improved facilities or services)” is based in rural finance, essentially on the financial, technical and institutional viability of agricultural banks and MFIs. The sustainability of rural finance implies not only that micro-projects should be self-sustaining, notably in management and self-financing of beneficiaries, but also and above all, that the process of access to credit should be perpetuated with the banks' and MFIs own resources. But, none of them yet has the necessary equity to grant loans to the rural sector sustainably. The contribution of donors remains indispensable since savings as well as the equity capital of financial institutions are low compared to the high demand to be met, agricultural risk and the low recovery rate.

3.6 Socio-Economic and Financial Impact

3.6.1 Regarding methodology, credit impact studies are based on the so-called ‘impact’ method developed by French cooperation to evaluate development projects, and which consists in identifying the changes and modifications brought about by the introduction of credit, and analyzing them in terms of value added generated and breaking down the latter among the different economic agents involved. This method poses a number of problems linked, on the one hand, to credit fungibility which does not make for an accurate tracking of the utilization of the credit funds and, on the other hand, to the presence of other financial flows used in the production unit which obtains the credit. Hence, at the operations level, appropriate investigations are necessary on the basis of a survey of clients' individual files and credit statistics, on a carefully chosen sample of borrowers and non-borrowers and/or the regular monitoring of a sample representing the various borrower categories. Since not all these investigative methods have been used, the socio-economic impact was assessed only in the PPER and using a theoretical approach.

3.6.2 Using such an approach based on empirical comparison between the various facts observed, it was noted that, in general, the credit funds earmarked for beneficiary populations were distributed, diversion from targets was observed in Mali in particular with an 82% estimated failure rate. Hence, thanks to the credits distributed, beneficiaries were at least able to increase their agricultural production even if the quantitative estimates of progress made as a result of the projects in this domain were not always possible, owing to the lack of sub-project monitoring and evaluation indicators.

3.6.3 With the increased production facilitated by the availability of inputs and equipment, it could be considered that producer incomes also increased overall. The effects of such an increase would then be noticeable on the food security of the populations concerned, on their incomes and on their living conditions in general, and in particular for export crop producers, fishermen, poor regions and the socio-professional groups not reached by conventional commercial banks, notably smallholders and women. Although the latter may not be directly concerned, they however could benefit from the sub-projects some of which employ mostly female labour.

3.6.4 The credit access constraint was thus mitigated in the countries concerned at least for the rural populations reached and, conditions for the mobilization of rural savings were facilitated even if effective collection is still limited. Hence, the achievement of physical objectives relating to the agricultural and fisheries sector had a non-negligible economic and social impact.

3.6.5 However, the differentiated analysis of the targets reached showed the existence of situations specific to each country. In Uganda the poor, 62% of whom are women, were reached thanks to a decentralized intermediation system with both NGOs and mutual societies as intermediaries. In Ghana, several thousand small fishermen and small farmers were reached, but “women’s direct participation was virtually non-existent”, according to the PPER. The women are only concerned as farm workers. However more efforts were planned. In Tunisia, analysis of beneficiaries showed that LOC were more beneficial to average-size operators than small-size operators and that women were not directly concerned. Conversely, in Morocco, LOC were able to reach smallholders even if the women concerned represented only 5% of beneficiaries.

3.6.6 All in all, the impact of LOC in rural areas as a whole is real because of the knock-on effects of sustained agricultural activities. However, better targeting of beneficiaries, as well as the adoption of stringent management procedures involving field-level operators would have made it easier to directly reach smallholders and also women. Such an approach would require more specialized rather than general banks as noted in many projects in the sample. To ensure a better LOC input in rural areas, it would be necessary to reverse the trend observed of ‘reducing agricultural commitments’ in favour of ‘commercial commitments’ of agricultural banks. To this end, a new definition of the missions, objectives, the organization and methods of such banks is necessary. In this light, the Ugandan model which has improved in terms of professionalism (accounting, management control, cash), seems to make for a far more significant and above all, direct impact on the rural poor.

4. Main Lessons of the Review

4.1 Lessons Learnt from the ADB's Experience

4.1.1 The Bank is constantly striving to make rural finance a key instrument of rural development and poverty reduction; its efforts concern i) streamlining the approach; procedures and tools; ii) building local capacities in agricultural and rural credit; iii) macro-economic (financial) and sectoral policy reforms; etc.

4.1.2 In general, project objectives concerning poverty reduction and women in development do not always feature among the evaluation criteria, with verifiable and measurable performance indicators. The poverty reduction dimension is rather perceived absolutely as a spin-off from increased crop and livestock production.

4.1.3 Agricultural credit projects were not designed such that they would foster the emergence of structured rural financial markets. That is reflected mainly by the lack of collaboration with relay credit institutions capable of effectively carrying out rural intermediation and financing the full range of rural activities.

4.1.4 Any objective evaluation of the level of attainment of these objectives faces the difficulty of determining the contribution of the ADF credits injected, owing to the lack of exhaustive and reliable rural sector statistical data as well as that of monitoring and evaluation of agricultural activities in terms of the direct beneficiaries of projects;

4.1.5 The absence in many cases, of a holistic approach to the rural community taking into account the various development concerns and poverty reduction, limits the efficacy of direct credit, notably to agriculture.

4.1.6 There is a need for the diversification of financial and non-financial services, notably the collection of savings and recovery of credits, stakeholder capacity building and ownership of a real participatory and community-based approach.

4.1.7 The consideration of rural finance problems (overall and variegated demand, diversification of financial services and products, legal and regulatory framework) in sectoral policies and poverty reduction strategies provides planners and other development agents with an appropriate framework for analyzing and designing rural credit projects.

4.1.8 In many cases, public authorities use subsidies to ensure the financial equilibrium of financing institutions and pursue credit operations. This practice should be abandoned to foster professionalism in these institutions, as well as rural credit efficacy.

4.1.9 A sufficiently profitable interest rate which takes into account the different handling costs is a guarantee of the viability of the financial institution, the success and sustainability of the credit systems.

4.1.10 Substantial efforts in project design, monitoring and evaluation and capacity building are required and need to be pursued in order, on the one hand, to make projects more consistent with the guidelines in the vision and, on the other hand, to foster greater stringency in their implementation and evaluation of the results of the credits and the institutions concerned.

4.1.11 The Bank's new option geared towards poverty reduction has led to the inclusion in project formulation of criteria specific to participation and decentralization which provides sufficient guarantees for the empowerment of beneficiaries and proper ownership of projects by the populations.

4.1.12 The diversification and extension of the portfolio to a clientele that is not directly agricultural is a necessary measure to mitigate operational risks of projects and unit costs of transactions.

4.1.13 It is important for the Bank's institutional support to RMCs to lead locally to the development of partnership relations between agricultural banks and micro-credit institutions, with a view to putting in place coherent and effective rural financial intermediation systems.

4.2 Lessons Learnt from the Experience of Other Donors

a) *Lessons from the World Bank's Experience*

4.2.1 Analyses conducted by World Bank experts in order to develop its strategy for the "development of micro-finance and financial services to SMEs in Sub-Saharan Africa's rural sector" concluded that access to economic activities for the rural self-employed and the rural poor is essential for their survival. Furthermore, private sector development by nationals is crucial and the latter should "both contribute to growth and be its prime movers". Financial institutions throughout the world have been able to make credit to the poor a viable activity. Africa's challenge is to build financial sector capacity by learning from the experience of world-renowned institutions in the domain of micro-finance and financial services to SMEs and the rural world".¹³

4.2.2 On the strength of this fact, the following fundamental measures are necessary : i) adoption of an appropriate policy as well as a legal and regulatory framework making for the development of innovative financial institutions and tools, ii) strengthening of institutions including the popularization of good practices, the building of capacities based on measurable objectives, iii) innovative approaches at the World Bank in order to develop loans and other Bank instruments and services making for increased access to financial services for micro-enterprises, SMEs and households of the rural informal sector.

4.2.3 For financial institutions to be able to deliver financial services to rural clients while remaining financially profitable, the World Bank works from the premise that rural financial systems with satisfactory results are those which are based on the local economy characteristics and which build on the social organization and dynamics of their milieu. Accordingly, Bank-supported actions focus on three essential points ; i) supporting or creating community-based intermediation institutions or associations to assist potential actors of the financial system (smallholders, craftsmen, traders, etc.) to form groups striving for

¹³ in : "World Bank strategy for the development of micro-finance and financial services to SMEs in rural sub-Saharan Africa, world Bank, August 1998.

access to financial markets and services, ii) bringing banks closer to the rural clients by streamlining the business environment and creating products attractive to both the banks and their clients, iii) creating linkages between the financial and non-financial services in rural areas, notably as concerns the processing, input procurement, marketing, etc. The success of such linkage implies coordination of various aid instruments notably social development funds and investment funds which can supplement lines of credit while also building the capacity of beneficiaries to organize themselves, manage their economic activities and effectively act as relays in the mobilization of savings and monitoring of credits in their areas.

4.2.4 The African Development Bank could also draw on such an approach which would associate agricultural credit projects, poverty reduction or social fund projects, women in development projects and the AMINA programme, coordinating actions both at the headquarters and at the field level in RMCs.

b) Lessons Learnt from the Asian Development Bank's Experience

4.2.5 An analysis of the rural finance operations undertaken by the Asian Development Bank services for the 1960-1999 period identified, on the one hand, the factors of failure, and the factors of success, on the other. The factors of failure may be summarized as follows: i) interest rates were often maintained at a level not permitting coverage of operating costs, owing to political pressures; ii) countries belatedly adopted a rural financial markets approach and only embarked on direct credit exclusively to agriculture, the subsidized refinancing funds, the restriction of the delivery of services to a given category of clients prevailed for a long time while the viability of financial institutions remained a secondary concern; iii) many rural financial institutions were not viable and only survived thanks to subsidies; iv) the mobilization of savings was neglected despite the fact that it had long been successful with rural cooperatives in Japan, Korea and the two Chinas; v) sectoral policies continued to focus on agricultural problems, while overlooking the demand for financial services from non-agricultural rural stakeholders; vi) many rural finance institutions were not equipped to grant medium and long-term loans.

4.2.6 The success factors identified by the Asian Development Bank represent corrections of the weaknesses that led to the failure of certain programmes: (cf previous paragraph). These corrections translate into a different approach as well as appropriate strategies in rural finance. The essential ideas are: a holistic approach to rural financial markets, including all rural stakeholders in terms of financial services demand, ii) a strategy of diversification of the products offered and of large extension of the portfolio, a more accurate targeting of beneficiaries, notably the poor, coupled with a participatory and community-based approach, which has led the Asian Bank to include in its rural finance policy for over ten years now, a supplementary micro-finance development strategy.

4.2.7 Several lessons have been learnt from the experience of the Asian Bank in the microfinance sub-sector over the last eleven years. The main lessons summarized in the micro-finance strategy paper are as follows: i) the adoption of a financial system development approach is key to obtaining sustainable impact and maximizing such impact. This approach places emphasis on the legal and regulatory framework and the promotion of viable financial intermediaries within a reasonable period to deliver a wide range of services to the poor and not only credit; ii) microfinance clients are more concerned about access to the services tailored to their needs than about service costs (provided that their activities can bear such costs); iii) a diversity in institutions is necessary to respond to the diversity in demand; iv) solid relay intermediation institutions are essential to extend permanent access to financial services and to impact significantly on poverty reduction; hence, the building of the capacities of these institutions is vital for reaching the poor; v) demand for savings

products by the poor and micro-enterprises is as significant as demand for credit. The development of savings products can increase the impact of programmes while at the same time ensuring institutional sustainability and poverty reduction; vi) institutions providing micro-finance services in most countries need technical assistance in capacity building, and this is all the more necessary for institutions targeting poor areas and the most needy clients; vii) given that microfinance principally targets the poor, social mobilization is necessary for the latter in an institutional environment based on market logic. This is particularly true for women and the most needy. However, it is important to clearly distinguish between financial intermediation and social intermediation in designing projects and programmes.

c) *Lessons Learnt from IFAD's Experience*¹⁴

Much progress has been made in the domain of rural microfinance particularly in the 90s. However many shortcomings continue to hamper expansion and sustainability:

Theme	Progress	Shortcomings
Political or institutional framework	Macro-economic stability : deregulation of interest rates ; facilitating the creation of banks or subsidiaries; reduction of the equity capital required for the creation of MFIs.	Inadequacy of the legal and institutional framework ; slowness of deregulation ; inadequacy of property rights and judicial procedures.
Micro-finance institutions	New legal formulas for the creation of MFIs run on a commercial basis, private financing for the creation of MFIs ; increase in the number of self financed MFIs.	Lack of an appropriate legal framework; excessive level of required equity capital.
Informal financial institutions	New legal framework through which informal institutions can be transformed into official institutions and be integrated into the financial market.	Insufficient consideration of possibilities of reclassifying millions of informal financial institutions.
NGOs	Innovative approaches to credit for the poor in a hostile environment ; some cases of successful transformation into official intermediaries.	Insufficiency of efforts by NGOs to mobilize national resources and ensure their autonomy ; donor support to non-viable NGOs.
Agricultural development banks	Launching of reforms aimed at ensuring autonomy, viability and self-financing with or without privatization.	Political interventions ; insufficient viability ; incapacity to respond to the demand for credit and deposit services.
Regulation and supervision of MFIs	Debate on the need for effective regulation and supervision of MFIs.	Incapacity of financial authorities to supervise MFIs ; lack of supervision of agricultural development banks; lack of self-regulation by MFIs.
Agricultural finance	Replacement of preferential financing with self-financing using profits and savings and through non-targeted commercial credits.	Insufficiency of self-financing and commercial credit to respond to demand for short and long-term financing; insufficient mobilization of savings.
Access of the poor to financial services	Considerable improvement of access of the poor to viable MFIs (including rural and other banks) as users and as proprietors.	Lack of access to savings and credit services for many poor, especially in marginal areas.

¹⁴ Except from IFAD-Rural finance for the poor : from unsustainable projects to sustainable institutions. Documentation Website, June 2002

5. Policy Options and Strategies for the Future

5.1 Current Trends of On-Going Projects

5.1.1 The new projects place more emphasis on poverty reduction and diversification of sectors of intervention in rural areas and as such are more compliant with ADF VII and ADF VIII guidelines. However, projects would be even more effective if there were better synergy between these different objectives within each project. A cross-cutting approach whereby the same project would have poverty reduction-specific objectives as well as agriculture support objectives would be recommended.

5.1.2 However, design approaches have improved, with better participation of populations in selecting the objectives and defining the conditions of implementation. This resolves one of the weaknesses noticed so far in previous projects of the Bank. Furthermore, this approach should translate into accommodation of the peoples' expectations and their full participation in project implementation and, above all, into tangible outcomes for women and sustainability of the impact.

5.1.3 Hence, poverty reduction projects especially in rural areas have increased in number and comprise a credit aspect. The results obtained by these projects show a non-negligible performance (in some cases, credits had a 100% reimbursement rate). Furthermore, rural credit projects, notably the agriculture modernization and intensification projects (AMIP) studied in the sample attach importance to the role of savings and loan societies in implementation. The AMIP approach brings together the national agricultural credit intermediary, mutual societies, NGOs and private operators (consulting firms, enterprises, etc) in undertaking project activities, thus assigning the implementation of various aspects of the project to specialized structures and maximizing performances.

5.1.4 Conventional formal development banks and agricultural credit intermediaries which then act as general banks, cater more to credits exceeding a certain ceiling per person, leaving the management of credits with a relatively low unit amount to mutual societies and NGOs. Supervision, women's advancement, training, monitoring and evaluation are entrusted to NGOs and consulting firms. Furthermore, the targeting of beneficiaries takes into account not only the diversity of socioprofessional associations but also the sectors and domains in which they intervene. The project is also concerned about production activities as well as the processing, preservation and primary marketing of farm and non-farm products in rural areas.

5.1.5 However, the improvements noted in project formulation must be better monitored in the effective implementation during mid-term supervision and review missions in order to ensure the actual achievement and quality of the results obtained. To that end, the useful indicators must be improved and serve as a guide for the implementation of these projects, especially as there are still inadequacies in the mastery of logical frameworks. Indeed, it has been observed that different project designers have different understandings of this and that there are even clear cases of confusion between objectives and OVI's on the one hand, and between specific objectives and results, on the other. Efforts at harmonizing the understanding of logical frameworks and their complete mastery should be pursued notably through quality in-house training at the Bank.

5.1.6 Weaknesses were also noted in the monitoring of project impact on the productive sectors of the economy, such as agriculture, for, projects focused on increasing beneficiaries' incomes without any specific concern for the sectors to be supported and with no monitoring and evaluation mechanism to ensure improvement of beneficiaries' incomes. It was thus observed that these projects are not always so designed as to have a significant impact in well defined economic sectors and for the benefit of specific categories of persons.

5.1.7 Furthermore, these projects do not always resolve the problem of the lack of an institutional framework for stakeholders and the improvement of their legal and regulatory environment. Implementation is very often entrusted to project implementation units, which hampers their sustainability in terms of the pursuit of their activities with the phasing out of these implementation units at project completion, which is legitimate cause for concern about the generally planned take-over by private operators or associations who do not really participate in implementation.

5.2 Rural Finance Policy Guideline and Strategy

5.2.1 Considering the results described in this review, the Bank should define its finance policy by first defining the objectives pursued, the clients targeted and the RMCs concerned. Hence, rural finance should be clearly geared to poverty reduction and rural and peri-urban private sector development by providing sustainable financial services.

5.2.2 Such policy guideline would determine the choice of the types of action to undertake in the rural sector as well as the types of stakeholders to mobilize: agricultural development banks, commercial banks and the unstructured financial sector, and also the types of beneficiaries: micro-enterprises, rural households, SMEs. The success of such a policy combining conventional agricultural credit with micro-finance presupposes on the part of the Bank and RMCs, guidelines and policy measures whereby the following may be created and/or supported:

- an enabling legal and regulatory framework in the country,
- viable financial institutions both in the structured and the unstructured sector, notably in terms of solvency, profitability and competency of their human resources;
- appropriate loan instruments both between the Bank and RMCs and between local financial institutions and beneficiary populations ;
- an enabling policy framework for the overall and harmonious development of all economic sectors up rural areas.

5.2.3 With such a vision, the Bank should decompartmentalize operations previously conducted by different departments and services: the Private Sector Department, AMINA, the Agricultural Divisions of the Country Operations Department, poverty reduction and women in development project officers. Rural finance operations are cross-cutting and require either a single operations department comprising all these stakeholders or, at least, a specialized Department (or even an operations structure) working in total synergy with the various other departments.

5.2.4 Similarly, country strategies should clearly indicate the place of rural finance in the economic policies of RMCs, set its objectives with leaders of the countries concerned and with measurable performance indicators. Such indicators must feature in project definition and must be verifiable especially in sub-project implementation.

5.2.5 In concrete terms, such a policy must translate into equity participation in the capital of financial institutions (carried out by the Private Sector Department), in the institutional support actions (Private Sector, OCDs, AMINA), provision of credit funds (OCDs), capacity building (OCDS, IAD, AMINA). Proper coordination of Bank resources and services would therefore be a necessity.

5.2.6 Furthermore, the Bank's microfinance policy cannot be reduced to experimental actions in a few countries over several years, as conducted by AMINA. The areas covered by rural finance (SME assistance programmes, poverty reduction, women in development, support to the agricultural sector, etc) remain a priority and require urgent and large-scale intervention in RMCs, with Bank support. Consequently, this rural cross-cutting finance policy should be immediately operationalized and implemented in many RMCs. Lessons should be drawn from AMINA of course, but also from other experiences gained throughout the world over more than a decade in order to enable RMCs to benefit from immediately applicable models extensible within each country. AMINA should be capitalized on but, above all, it should be fundamentally reoriented and be raised to or incorporated in a rural finance operations department (or unit) working of course in close collaboration with the other departments of the Bank involved in rural finance, but responsible for steering this "cross-cutting domain" which would comprise: micro-finance, agricultural banks and commercial banks (willing to intervene for the benefit of the poor), social funds as well as PIUs still managing (and this would be acceptable only as a transitional measure) credit funds. To this end, the mission, objectives, procedures and intervention methods of AMINA where applicable, or of a new structure should be redefined, but above all, the human and financial resources need to be provided for it to play such a role which surpasses the status of an experimentation, research or orientation programme.

5.2.7 In this light, rural finance policy guidelines would be a partial synthesis of previous guidelines on related domains; an institutional adjustment may therefore be necessary at the Bank (subject to that made during this review), besides that required of agricultural banks and financial operators of the unstructured sector in RMCs. Rural finance policy dialogues between the Bank and RMCs could then materialize during the preparation of CSPs and would then fall within a previously defined framework with clearly identified interlocutors. This also means that the Bank should have sufficient qualified staff in the domain of rural finance.

6. Conclusions and Recommendations

6.1 Conclusions

6.1.1 The projects examined under this review were not fully in keeping with the new agriculture and rural development guidelines. Their design and implementation are not well geared to rural sector development. In practice, all the activities of the projects studied are geared to financing agricultural sector development.

6.1.2 The projects studied have not yet been able to put in place an effective and operational rural financial intermediation system. Agricultural banks which are responsible for managing lines of credit have neither expertise, nor experience in micro-finance, in particular. Moreover, they have been unable to establish partnership networks with mutual societies specializing in rural credit. The lack of expertise and experience by agricultural development banks in the domain of micro-finance and rural credit (non-farm) have led to a lack of diversification of customer risk and sector risk which partly accounts for the low credit reimbursement rates (below 50% on average) which, in the long run, could jeopardize the sustainability of Bank-supported agricultural credit systems in RMCs.

6.1.3 The implementation procedures for the agricultural credit projects studied under the review do not provide for the involvement and capacity building of credit beneficiaries (grassroots community organizations, smallholders, poultry farmers,...). The latter are generally treated as consumers of technical equipment and processes and not as actual rural development agents. This top-down or centralized approach prevents a transfer of competency to the middle-level and may, in the long run, jeopardize the sustainability of the Bank's agricultural and rural credit projects.

6.1.4 Projects do not always have an effective monitoring and evaluation system for measuring their efficacy. Besides, there is insufficient and/or inadequate capacity of national monitoring and evaluation officers. Project objectives in terms of improved living conditions of rural populations, poverty reduction, credit distribution and reimbursement, building capacities of financial intermediaries, cannot be evaluated rigorously and objectively owing to the lack of reflection on and identification of measurable and verifiable performance indicators prior to, or at project start-up. Moreover, the active training of national officers involved in formulating and implementing poverty reduction and rural finance projects is more than necessary.

6.2 Recommendations

a) General Recommendations

6.2.1 On the whole, there is a need for the design of all Bank projects to be reworked and attuned to the adopted guidelines of the vision, poverty reduction, the participatory approach and gender concerns), although some progress has been noted in several on-going projects.

6.2.2 The Bank's strategy of assisting the poor and vulnerable groups through substantial support to rural finance systems should translate into better rural financial intermediation. Technically, this concern should lead to a revision of the operations manual, to include additional norms on the analysis of rural finance and poverty reduction projects.

6.2.3 Besides the need to have an analytical grid, the setting of objectives and particularly of viability indicators (institutional, financial and technical) for the financial institutions concerned should be a requirement during project evaluation.

6.2.4 The taking into account of indicators of a socio-economic nature should create positive synergies between the different policy guidelines, the different strategies as well as the different services of the Bank responsible for implementing these guidelines.

6.2.5 The use of State subsidies as a rural sector credit management system must be prohibited or else practiced prudently and moderately and at best on a short-term basis. Such a practice could conceal the inefficiency and insolvency of credit institutions: it may be considered only in case of setting up local savings and credit mutual societies and/or associations, and building their capacities.

6.2.6 Furthermore, with the new Bank vision, loan award conditions as well as project financing procedures should be adjusted to include specific participation criteria that should provide sufficient guarantees for project ownership by the populations:

- In practical terms, this should translate into a review of the project identification, preparation and evaluation manual, to include additional norms for rural finance and poverty reduction project analysis. Secondly, it would be useful to provide any selected project with initial indicators (basic indicators for setting project objectives) which would serve as a reference for project monitoring and evaluation (in the course of implementation), during supervision and mid-term review missions, and at project completion as well: (completion or ex-post evaluation mission). In the cases where the required information is not available, the alternative of conducting a situational analysis at the start of the project in order to obtain pertinent basic information should be considered.
- Regarding project management, much effort is needed in terms of enhancing the capacities of project managers and members of steering committees, through training in the Bank's current management norms and procedures, which generally are not properly understood by project managers, causing them serious hitches and delays. This would also make governments more supportive and would ensure a rational use of project resources specifically for project purposes.
- Considering that the Bank encourages the participation of the population in project formulation (design) and implementation, it is crucial for evaluations also seek to measure the population's participation level in implementation, and for their level of satisfaction with the project to be assessed pertinently. This should also be reflected in the analytical and evaluation grid of projects.

The above considerations generally concern most of the projects implemented by the Bank. By so doing, solutions could be developed in a harmonized manner. For this reason, it is important for a comprehensive policy to be put in place and explained (through training manuals, sub-regional guides or workshops, etc.).

b) Specific Recommendations

6.2.7 The main specific recommendations of the review of the Bank's experience in rural finance credit are as follows:

- first, project design should place more emphasis on non-farm activities in order to trigger a real rural development process ;
- second, partnership relations should be developed between agricultural banks and micro-credit institutions in order to establish an effective rural financial intermediation system;
- third, institutional capacity building activities for rural development

actions (grassroots groups, producers, ...) should be strengthened to ensure the sustainability of projects;

- fourth, monitoring and evaluation practices should be institutionalized to ensure stringent and transparent management of projects by all partners ;
- fifth, to ensure sustainability of the system, agricultural banks as well as financial intermediaries should have sufficient expertise to be able to combine financial profitability with the delivery of accessible financial services to poor clients;
- sixth, the Bank should expeditiously finalize the formulation of its rural finance policy spelling out the symbiosis expected from its policies of micro-finance and agricultural credit between agricultural banks and commercial banks ; support to rural SMEs, women's advancement, poverty reduction, sustainable participation and development, its approach to rural financial markets and, above all, its internal institutional organization to implement the rural finance policy.

6.2.8 Bank projects should be geared to building the rural financial intermediation capacities of RMCs by supporting national financial institutions (agricultural banks, savings and micro-credit societies) responsible for managing the lines of credit it puts in place in implementing agricultural and rural development projects.

Sample of projects selected for the review :

a) Completed projects with a PCR and a PPER

Tunisia : Second and third LOC to BNA ;

Ghana : Two lines of credit to the AgDB ;

Lesotho : Agricultural line of credit to LADB ;

Morocco : Three lines of credit to CNCA ;

Nigeria : First and second LOC to NACB

Uganda : Poverty reduction project

Mali : Line of credit to BDM

b) On-going projects

Cameroon : Poverty reduction project ;

Gambia : Women's advancement;

Ghana : Poverty reduction project ;

Mali : Support to women's advancement and poverty alleviation ;

Mauritania : Poverty reduction project ;

Mozambique : Green zones women development ;

Senegal : Women's advancement (PCR available during review) ;

Senegal : Agricultural modernisation and intensification project ;

Chad : Poverty reduction project .

a) Other ADB projects examined after the Task Force

Additional Sample

- 1-BOTSWANA :** Arable lands development project, phase I (PPER, Sept. 1995)
- 2-TUNISIA :** Rural development in the MADHIA region, (PPER Jan. 97)
- 3-RWANDA :** Byumba II Agricultural development project/ Health programme : final supervision report, Oct. 2000.
- 4-THE GAMBIA :** Jahaly-Pacharr village rice cultivation project (PCR, Aug. 1997).
- 5-SENEGAL :** Support to women's advancement project (PCR, August 2000)
- 6-CENTRAL AFRICAN REPUBLIC :** Rural development project in coffee-growing areas of Mbaiki and Berberati (PPER, May 2000).
- 7-MAURITANIA :** Poverty reduction project, mid-term review (Sept.2001)
- 8-GUINEE BISSAU :** Rice development project, Tombali, (PCR, July 1998)
- 9-BURUNDI :** Poverty reduction project, mid-term review and supervision report (2001).
- 10-TUNISIA :** Integrated rural development project in the poorest areas (PCR phase I March 2001, PCR Phase II, Nov. 2001)
- 11-EGYPT :** El Béheira rural development project (PPER, Jan. 98)
- 12-MADAGASCAR :** Tsiribihina-Manambolo hydro-agricultural development, Phase I PPER Jan. 98.
- 13- CAMEROON :** South West Development Authority (SOWEDA), Supervision Report
- 14- CAMEROON:** North West Development Authority (MIDENO) Supervision Report

FIDA

- **NIGER :** Proposed loan for the rural financial services development program, May 2000
 - **THE GAMBIA :** Proposed loan for the rural finance and community initiatives project (RFCIP), December 1998
 - **GHANA :** Proposed loan for the rural financial services project, May 2000
- LESOTHO :** Phuthiatsana rural integrated development project

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	<u>1. Relevance and achievement of objectives</u>	(i) Macro-economic policy	(ii) Sector policies	(iii) Physical achievements	(iv) Financial performance	(v) Poverty reduction, social justice and gender	(vi) Environmental performance	(vii) Private Sector Development
Synthesis of PPERs	All the projects studied were considered relevant and the objectives pursued were generally achieved, except for Morocco.	The objectives were considered consonant with the macro-economic context and fall within the framework of national development plans.	LOC were deemed consonant with sectoral policies and led to increased agricultural and fish production.	LOC led to an increase in areas under cultivation and a steady supply of credits and inputs that could ensure continuous production.	LOC led to the strengthening of the financial resources of institutions which must however improve their operational performances notably as regards loan recovery.	In general, LOC had knock-on effects on poverty reduction and improvement of living conditions in rural areas. However, they had no significant impact on women.	On the whole, the activities financed had no negative environmental impact, except in Lesotho where uncontrolled use of fertilizers and overgrazing caused soil erosion.	Private projects and farms were the main beneficiaries of LOC that contributed to private sector promotion and development..
Summary of the Review	The projects were limited to the objectives of increasing crop and livestock production. The achievement of objectives is difficult to measure without a sub-project monitoring system.	Analysis has often been conducted in terms of conformity and not of impact on macro-economic policies, or even the contribution of projects to the implementation of such policies.	The financial sector policies were not taken into account during project evaluation and implementation.	Achievements were based on the number of credits distributed according to available funds, with no qualitative analysis of the loan portfolio (social categories of beneficiaries and reimbursement rates).	Agricultural credit institutions were unable to strengthen their solvency and profitability and some had to scale down their interventions targeting the rural world.	Direct impacts on the poor and women were not sought and were not obtained.	The projects did not target positive environmental impacts, but were generally concerned about avoiding negative environmental impacts.	Credit beneficiaries comprised private sector agents (except for Mali and Ghana). However, private financial intermediaries were not major operators in project implementation..

	<u>2. Institutional Development</u>	(i) Institutional framework including restructuring	(ii) Financial management and management information system, including audit systems	(iii) Transfer of technology	(iv) Human Resources (including rotation, training and local counterpart staff)
Synthesis of PPERs	Through institutional development, weaknesses were corrected and competency developed.	Restructuring enhanced institutional capacity wherever it was carried out, except in Lesotho where it was not implemented according to the study relating thereto.	Except for Tunisia whose information is deemed satisfactory, everywhere else the information management and audit systems were basically manual and inadequate.	LOC contributed to the transfer of technology by providing the institutions with computer equipment, and farmers with inputs, farm tools and vehicles.	On the whole, training programmes helped to develop staff competency, correct the shortcomings observed and facilitate the mastery of new technologies by operators. However, considering the difficulties encountered as concerns project planning and financial analysis, training must continue.
Summary of the Review	Institutional development was not geared to the needs and priorities of agricultural banks and those of beneficiaries.	Restructuring efforts were made, but the results obtained are inadequate to ensure the institutional sustainability of agricultural banks.	The review confirms the conclusions of PPERs, underscoring the particularly disturbing effect of such a situation on the transparency of the operations undertaken and on the viability of the institutions concerned.	This aspect was not sufficiently studied in the PPERs. Special emphasis should be placed on this aspect by projects, in terms of both agricultural technologies and finance.	Furthermore, the training course content must better target the areas of participatory approaches, gender, poverty and micro-finance for agricultural bank staff and staff of private intermediaries to be included in the human resource development process.

	<u>3. Sustainability</u>	(i) Constant commitment of borrowers	(ii) Political environment	(iii) Institutional framework	(iv) Technical viability and staff supervision	(v) Financial viability including cost recovery systems	(vi) Economic viability	(vii) Environmental viability	(iii) Functioning and maintenance (availability of recurrent funds, foreign exchange, etc)
Synthesis of PPERs	The sustainability of all the achievements is considered satisfactory.	Apart from Lesotho, all borrowers remain committed to increased agricultural and fish production.	Political stability in Morocco and Tunisia is a factor of project sustainability. The comments made on Ghana and Lesotho have no bearing on the question asked.	The institutional framework is considered adequate and performing well in all the cases. However, there is a need for monitoring/evaluation structure in Lesotho and Morocco.	The competency and performance of supervisors was considered satisfactory in all the cases, except for Ghana where the staff does not measure up.	Financial viability is effective only in Ghana. Everywhere else recovery systems are considered to be underperforming.	The projects are considered economically viable in Ghana and more particularly in Morocco where they have fostered further mechanization of agriculture and irrigation. No comment for the other projects.	Projects financed by LOC had no negative environmental impact.	In Ghana and Morocco, LOC finance the purchase of replacement parts. However, maintenance and servicing are handled by the private sector. No comment for the other projects.
Summary of the Review	The observations of the review should moderate this assessment, for the obvious sources of satisfaction are generally limited to borrower commitment, the lack of a negative impact on the environment and to a lesser extent, the political environment.	Real commitment in almost all the countries.	No unrest likely to disrupt project operations was noted. However, the interference of public authorities in agricultural bank's decisions limits their performance in terms of financial management.	The rural finance concern does not feature in the institutional frameworks of projects. The majority of projects are characterized by the lack of an internal monitoring and evaluation system.	The level of competency of staff is no major problem. However, there is often a lack of specialization in rural finance and macro-finance in agricultural banks.	Based on their present results, agricultural banks are underperforming. In particular, their recovery rate is disastrous and their portfolio fairly deteriorated.	The sub-projects financed are viable except for a few cases and subject to the validation of the results given. However, all the projects can be viable only the institutions responsible for their implementation are viable, which is not the case.	The projects seldom have any direct positive effects on the environment, but in the majority of cases, they do not pose any danger.	The analyses paid little attention to the sustainable availability of credit funds. However, it is clear that the recovery rates noted (below 50%) and the lack of collection of savings do not make for the sustainability of such credit systems.

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SYNTHESIS OF RETROSPECTIVE MATRICES OF LOGICAL FRAMEWORK OF PROJECTS

HIERARCHY OF OBJECTIVES	OBJECTIVELY VERIFIABLE INDICATORS		MEANS OF VERIFICATION	ASSUMPTION (Verification)
	Evaluation	Post-evaluation		
<p><u>Sector objectives :</u></p> <p>1. Contribute to increased food self-sufficiency and to GDP growth through agricultural productivity and growth</p> <p>2. Improve rural incomes</p>	<p>1. Increase of the share of the GDP through :</p> <ul style="list-style-type: none"> - Meat and milk production - Cereal production - Market gardening production <p>2. Average real income of farmers of 6000 DH (Morocco)</p>	<p>Share of agricultural production in the GDP</p> <p>1. Increased production of cereals</p> <ul style="list-style-type: none"> - Two-fold increase in market gardening production - Drop in Tunisia's market gardening production <p>2. Farmers average real income of 7000 DH. Hence, higher than forecast</p>	<ul style="list-style-type: none"> - Annual reports of ministries of agriculture and the statistics department - Project implementation status reports - Mid-term evaluation - National accounts and aggregates <p>Department of Statistics</p>	

HIERARCHY OF OBJECTIVES	OBJECTIVELY VERIFIABLE INDICATORS		MEANS OF VERIFICATION	ASSUMPTIONS (Verification)
	Evaluation	Post-evaluation		
Sector objectives :	Relative increase in :			
1. Mobilize resources in order to increase agricultural production	1.1 cocoa, cotton, maize and fish production 1.2 contribution to the creation of value added 1.3 Increased investment in the agricultural sector and in the areas under cultivation. 1.4 Delivery of specific credit to farmers	1.1 the number of fishermen has increased - as well as the number of entrepreneurs in the cotton sector. 1.2 Agriculture's contribution to the VA was positive 1.3 The objectives expected from investments in Morocco were not achieved but the areas under cultivation as well as production increased. 1.4 The number of farmers granted credit increased.	<ul style="list-style-type: none"> - Project documents - Supervision documents - Surveys by the Ministry of Agriculture Annual reports and national statistics of the Ministry of Finance and Agriculture. Reports of the Ministry of Agriculture. Reports of the Ministry of Agriculture. Annual review of projects	
2. Improve quality of life	2.1 Increase in the number of jobs created. 2.1 Increase in average income	NA Increased average income	Evaluation reports	
3. Increase the number of SMEs	3. Increase in the number of SMEs, big farms, and cooperatives.	3. the number of SMEs and big farms increased, the objectives were not achieved.	Evaluation reports	

HIERARCHY OF OBJECTIVES	OBJECTIVELY VERIFIABLE INDICATORS		MEANS OF VERIFICATION	ASSUMPTIONS (Verification)
	Evaluation	Post-evaluation		
4. Access to micro-finance services	<p>4.1 Sensitize a large number of clients and ensure their access to decentralized financial services (Uganda)</p> <p>4.2 Positive discrimination in favour of women, as concerns savings and credit.</p> <p>4.3 Diversification of sources of income, increased consumption and reduction of poverty.</p> <p>4.4 financing of a considerable number of beneficiaries and creation of micro-projects for these beneficiaries.</p> <p>4.5 Mobilization of rural savings and achieving a significant recovery rate.</p>	<p>4.1 Objective of number of sensitized clients reached</p> <p>4.2 Objective of increasing the number of women having access to financial services compared to men slightly surpassed</p> <p>4.3 Diversified incomes.</p> <p>4.4 The objective of financing beneficiaries is not fully achieved but the objective of creating micro-projects is surpassed..</p> <p>4.5 The objective of mobilization of savings is not achieved but the recovery rate is good (Nigeria)</p>	<p>Quarterly project reports</p> <p>Monitoring reports</p> <p>Monitoring reports</p> <p>Monitoring reports</p> <p>Quarterly project reports</p> <p>Monitoring reports</p> <p>Audit report</p>	
Results				

Review of the Bank's experience in rural finance
MATRIX OF SYNTHESIS OF CONCLUSIONS AND RECOMMENDATIONS

	MAIN OBSERVATIONS AND CONCLUSIONS	RECOMMENDATIONS	MONITORING ACTIONS	RESPONSIBILITY
1. <u>Project formulation and rationale</u>	<p><i>Synthesis of PPERs :</i></p> <ul style="list-style-type: none"> - Poor preparation of projects - Poor use of logical framework - Unsatisfactory evaluation - Unsatisfactory analysis 	<p><i>Synthesis of PPERs :</i></p> <ul style="list-style-type: none"> - Ensure in –depth project preparation prior to evaluation - Ensure greater involvement of the Bank - Ensure better training of and incentives to project staff - Conduct rigorous institutional analyses - Ensure better application of the logical framework - Put in place a monitoring mechanism 	<p><i>Synthesis of PPERs :</i></p> <ul style="list-style-type: none"> - Conduct mid-term monitoring operations - The Bank should : <ul style="list-style-type: none"> • put in place a monitoring mechanism incorporated into its operational guidelines. • Put in place a certification mechanism for the quality of financial and economic analyses. • Identify performance indicators. • Conduct retrospective evaluation studies. 	<p><i>Synthesis of PPERs :</i></p> <ul style="list-style-type: none"> - Bank (ADB) - Governments - OCDs
	<p><i>Synthesis of the Review:</i></p> <ul style="list-style-type: none"> - Confirmation of the conclusions of PPERs 	<p><i>Synthesis of the Review :</i></p> <ul style="list-style-type: none"> - Ensure quality of preparation and appraisal reports - Formulate precise and standardized criteria for each evaluation criterion - Systematically analyze the reference situation before the project. 	<p><i>Synthesis of the Review :</i></p> <ul style="list-style-type: none"> - Develop an analytical grid for reports including all performance indicators - Effectively control the quality of reports before their approval (pertinence, coherence), consideration of policy guidelines. 	<p><i>Synthesis of the Review :</i></p> <ul style="list-style-type: none"> - OCDs - OCOD - A service for technical control of projects, outside OCDs (to be created if there is none)

	MAIN OBSERVATION AND CONCLUSIONS	RECOMMENDATIONS	MONITORING ACTIONS	RESPONSIBILITY
2. Project implementations	<p><i>Synthesis of PPERs :</i></p> <ul style="list-style-type: none"> - Poor knowledge of Bank's procedures - Recommendations not implemented - Inadequate implementation of schedule - Delay and instability in setting up the management structures resulting in a drop in the quality of reports - Difficulties in data presentation - Poor financial management - Poor supervision by the Bank 	<p><i>Synthesis of PPERs :</i></p> <ul style="list-style-type: none"> - Better monitoring of Bank procedures - Ensure a better implementation of Bank recommendations - Better evaluation of implementation, management quality and co-financers' contribution - Ensure better internal audit of project funds - Conduct at least one multidisciplinary supervision mission per year 	<p><i>Synthesis of PPERs :</i></p> <ul style="list-style-type: none"> - Ensure that Bank recommendations are applied - Reduction of administrative red-tape - Put in place an evaluation system for : <ul style="list-style-type: none"> • The volume of sub-projects demand • The quality of senior project officers 	<p><i>Synthesis of PPERs :</i></p> <ul style="list-style-type: none"> - ADB (CLEG) - BHU (OCDW) - ADB (CAD)
	<p><i>Synthesis of the Review:</i></p> <ul style="list-style-type: none"> - Confirmation of the conclusions of the PPER 	<p><i>Synthesis of the Review:</i></p> <ul style="list-style-type: none"> - Ensure respect for criteria for the recruitment of managers and train them in Bank procedures. - Apply sanctions for non-compliance with Bank recommendations - Control each year, the results presented by project managers and supervision missions. 	<p><i>Synthesis of the Review:</i></p> <ul style="list-style-type: none"> - Create a service for the technical control and monitoring of projects at the Bank 	<p><i>Synthesis of the Review:</i></p> <ul style="list-style-type: none"> - CLEG - OCOD - A service for technical inspection of projects outside OCDs (to be created if there is none)
3. Compliance with loan conditions	<p><i>Synthesis of the PPERs :</i></p> <ul style="list-style-type: none"> - The preconditions are seldom complied with. 	<p><i>Synthesis of the PPERs :</i></p> <ul style="list-style-type: none"> - Formulate realistic preconditions and regularly submit periodic reports 	<p><i>Synthesis of the PPERs :</i></p> <ul style="list-style-type: none"> - Sensitize borrowers to the importance of reports and apply sanctions in case of non-submission of reports 	<p><i>Synthesis of the PPERs:</i></p> <ul style="list-style-type: none"> - ADB
	<p><i>Synthesis of the Review:</i></p> <ul style="list-style-type: none"> - Non-compliance with conditions is frequent but generally not sanctioned 	<p><i>Synthesis of the Review:</i></p> <ul style="list-style-type: none"> - Select essential and reasonable conditions and monitor their implementation. - Strictly sanction non-compliance with the conditions 	<p><i>Synthesis of the Review:</i></p> <ul style="list-style-type: none"> - Control the monitoring carried out by project officers of the Bank 	<p><i>Synthesis of the Review:</i></p> <ul style="list-style-type: none"> - ADB (service for technical inspection of projects)

	MAIN OBSERVATION AND CONCLUSIONS	RECOMMENDATIONS	MONITORING ACTIONS	RESPONSIBILITY
4. Evaluation of project performance and results	<p><i>Synthesis of the PPERs :</i></p> <ul style="list-style-type: none"> - Most of the projects have good results 	<p><i>Synthesis of the PPERs :</i></p> <ul style="list-style-type: none"> - Strengthen the institutional development framework and place emphasis on pertinent aspects - Ensure good quality projects 	<p><i>Synthesis of the PPERs :</i></p> <ul style="list-style-type: none"> - Create monitoring and evaluation structures in projects that do not have any and ensure the achievement of physical and financial objectives 	<p><i>Synthesis of the PPERs :</i></p> <ul style="list-style-type: none"> - ADB
	<p><i>Synthesis of the Review:</i></p> <ul style="list-style-type: none"> - Only the physical objectives are generally achieved from the quantitative standpoint, but quality and implementation period are poor 	<p><i>Synthesis of the Review:</i></p> <ul style="list-style-type: none"> - Ensure financial and institutional viability and proper targeting of beneficiaries 	<p><i>Synthesis of the Review:</i></p> <ul style="list-style-type: none"> - Define the decentralized and participatory procedures and clearly indicate them in the appraisal reports - Ensure their implementation with staff competent in this domain - Control each year, the quality of the results presented in the progress and supervision reports 	<p><i>Synthesis of the Review:</i></p> <ul style="list-style-type: none"> - ADB - A service for the technical control of projects. Outside OCDs (to be created if there is none)
5. Sustainability:	<p><i>Synthesis of the PPERs :</i></p> <ul style="list-style-type: none"> - Generally the project sustainability conditions are not fulfilled. <ul style="list-style-type: none"> • Insufficiency of budgetary allocations • Inadequate management capacities, • etc.. 	<p><i>Synthesis of the PPERs :</i></p> <ul style="list-style-type: none"> - Ensure fulfillment of conditions necessary for project sustainability through adequate budgetary allocation, and building of technical and financial management capacities through appropriate training programmes - involve beneficiaries in project design and evaluation. - Ensure coherence of performance analysis and ensure proper use of logical framework 	<p><i>Synthesis of the PPERs :</i></p> <ul style="list-style-type: none"> - Ensure the putting in place of sustainable financing mechanisms, and the training of project officers and workers - Include institutional development components in projects 	<p><i>Synthesis of the PPERs :</i></p> <ul style="list-style-type: none"> - ADB - Borrowers - OCDs
	<p><i>Synthesis of the Review:</i></p> <p>Addenda to the PPER conclusions :</p> <ul style="list-style-type: none"> - Insufficiency of stable resources - Non-profitability of banks owing to substantial arrears of payment - Management sometimes lax 	<p><i>Synthesis of the Reviews:</i></p> <p>Addenda to the conclusions of PPERs :</p> <ul style="list-style-type: none"> - Involve private intermediaries and mutual groups in project implementation - Develop savings products - Put in place rigorous and transparent management and recovery systems. 	<p><i>Synthesis of the Review:</i></p> <ul style="list-style-type: none"> - Control the real organization and implementation of projects with the support of controllers with expertise in this domain. 	<p><i>Synthesis of the Review:</i></p> <ul style="list-style-type: none"> - ADB - OCDs - Borrowers - A service for the technical control of project, outside the OCDs (to be created if there is none)