

## Study report

# Rural Finance Policy Development in Eastern and Southern African Countries: Contribution of IFAD-Supported Rural Finance Programmes





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# Executive summary

## 1 Introduction

The study on Rural Finance Policy Development in Eastern and Southern African [ESA] countries was made possible with funding support from IFAD. The objective of the study was to produce a knowledge management document for use by stakeholders of rural finance programmes being implemented by IFAD in eight countries of ESA region. The Rural Finance Knowledge Management Programme (KMP) and the Africa Rural and Agricultural Credit Association (AFRACA) facilitated visits and discussions with the stakeholders of five of the targeted countries between 23 July and 9 August 2014.

The study was undertaken using a questionnaire, review of available literature and by direct inputs from stakeholders through interviews and other forms of communication. Efforts were made to capture various policy initiatives, positive developments and best practices as well as project outcomes in all the target countries, implementing RF programmes.

## 2 Common findings and recommendations on policy trends and emerging issues

### 2.1 General legislative initiatives for rural finance

1. *Government policy thrust for rural development:* The question has been raised in the RF policy-making circle as to what should be the appropriate policy thrust and institutional framework for rural development in the Government; should it be microfinance (MF), financial inclusion or rural development? Whether it should be cell, unit, directorate, department or ministry in the government to provide adequate policy and developmental thrust for rural sector? What should be its mandate?
2. *Definition of MF services:* What should be proper definition of MF services that should be adopted in the countries' contexts, considering varying interpretations of MF in Zambia/ Uganda? Should it be linked to size of financial product or modality of delivery?
3. *Microfinance policy development process:* the issue has cropped up, particularly in Tanzania as to what should be the sequence/step-by-step process? Should the sequence be (i) Formulating MF Policy, (ii) drawing the road map/ strategy, (iii) passing MF regulation Act, (iv) putting in place MF regulatory authority and (v) framing the necessary regulations/supervisory framework?
4. *Managing MF interest rates:* Should there be a cap on interest rate in MF at the ultimate borrowers' level to avoid excessive rates as done in Zambia? Whether financial institution's borrowing rate should be the bench mark and financial margin of the financing institutions should be capped as being adopted in Kenya?



5. *Differential regulatory frameworks for different segments of financial sector:* Should the CB be the regulator for all financial services including Credit, MF, insurance including micro insurance, pension, leasing, warehousing or cooperatives? Or, should there be a separate regulatory authority for each of the segment should be in place? While in Kenya, separate authorities for various important segments exist; in Ethiopia, the Central Bank has so far assumed regulation of the financial sector including insurance (except capital/ commodity market).
6. *Dual regulatory system for cooperatives:* None of the Governments except that of Kenya had so far framed separate law for financial cooperatives such that the Cooperative Societies Act covers all kinds of cooperatives. In Kenya, a separate SACCO Societies Regulations Act had been framed besides setting up a separate SACCO Societies Regulatory Authority (SASRA). Or other countries a “Dual regulatory system” has emerged - regulation for deposit-taking cooperatives by Central Banks and for others by the Department of Cooperatives (as in Lesotho) or Cooperative Development Commission (as in Tanzania).
7. *RFFs increasingly in use but mostly lack legal status:* Microfinance / Rural Finance Forums, with varying names, origins, status, mandates and effectiveness exist in different countries for consultation/ discussion on policy issues with stakeholders. In Uganda, it is informal and voluntary. Proper legal status, terms of reference, structure and strategy should be put in place for their effectiveness. What should be its framework?
8. *Transparent engagement of the public in policy-making:* Central Banks and Governments take recourse to seeking public opinion on the proposed draft legislation/regulation through websites, discussion in consultation forums and communication with stakeholders. There is varying degrees of transparency in this regard. National Bank of Ethiopia stands out as the most transparent in MF policy and regulation-making. In Uganda, the proposed MF Act is still not available in the public domain! What should be the modus operandi in policy-making?
9. *Federations/Unions/Alliances involved in RF policy advocacy are generally weak:* The Associations of MFIs, Apex Cooperatives and Bankers’ Associations undertake policy advocacy, promoting standards and fair practices in financial services, awareness-building of issues, documentation, studies and dissemination, etc. They have been partners in IFAD’s Rural Finance Programmes, with different degrees of involvement. Some are having heterogeneous membership as in Kenya. In Kenya, the Association of Credit Providers has been set up besides AMFI and KBA. Amongst them, AEMFI (Ethiopia) and AMFU (Uganda) have assumed multiple roles in influencing policy in RF in the country. The co-operative federations/unions/alliances are generally weak with the exception of Uganda. How could these institutions be made more effective in policy-making process?
10. *Credit information sharing frameworks generally weak:* There have been initiatives in formulating regulation for credit information-sharing, setting up of credit bureaus in the countries. Sharing of both positive and negative information is in vogue in Kenya. Information-sharing and database on borrowers in RF need to be strengthened.

11. *Status of rural finance in ESA countries needs annual updating:* Fin Scope Surveys which are conducted every 3-4 years in the countries provide useful information on financial inclusion. However, the progress and trends in rural finance need to be updated on annual basis. To carry forward rural financial services on more systematic basis, concrete arrangements to have annual document on State of Rural Finance should be made in each country.
12. *Institutional architecture for policy research in rural finance is limited:* Central Banks have Research departments, but action research in rural finance is very few and far between. Some of the institutions like Zambia Institute for Policy Analysis and Research, the Economic Policy Research Centre in Uganda, etc., have potential for undertaking research studies in RF themes. However, institution-building with thrust on research in RF is not yet given due focus.

## 2.2 Initiatives focusing on financial inclusion

1. *Incentives for rural banking:* Whether there should be differentiation in regulatory prescriptions of the Central Banks for financing banks to encourage them to provide financial services in rural areas or it should be left to the market forces? None of the Central banks studied provide any incentive for rural banking.
2. *Microfinance sector still generally under-developed:* Micro insurance as part of rural financial services has been getting attention of policy-makers. Working Groups under FSĐT, ILO interventions and insurance regulatory authorities (Tanzania Regulatory Authority, National Bank of Ethiopia, Insurance Regulatory Authority in Kenya, etc.) have initiated studies, drawing road maps, framing regulations for micro insurance, but it is long way to go to upscale Micro insurance significantly in rural areas. The sector is in infancy in every country. Micro insurance should be the integral part of financial inclusion plan/Rural Finance Programmes.
3. *Mobile banking still in infancy in most countries:* Mobile banking has been getting increased attention by the central banks, telecom authorities and commercial banks for speedier financial inclusion. Except Kenya, all other countries are in the formative stage in mobile banking. Central banks have recently issued mobile banking regulations / guidelines. With increasing popularity of mobile phones in rural areas, mobile banking need to be up scaled significantly in the years ahead, with necessary policy and regulatory safeguards.
4. *Need to intensify agency banking for financial inclusion:* The Central Banks have issued agency banking regulations for accelerating financial inclusions recently in the countries to accelerate financial inclusion. Agency banking needs to be intensified for faster and cost-effective financial inclusion.
5. *Central Banks' role as nodal agency for RF policy framework needs boosting:* Central Banks have acted as nodal agency for Financial Inclusion policy framework, including financial education, and commenced multi-pronged campaigns encompassing most of the financial and development agencies. However, the efforts in that direction are mostly in the formative stage and there is scope for IFAD's participation in the whole effort for rural sector.
6. *Micro payment operations need deepening:* National payment system/payment regulations have been in place in the countries to facilitate remittance and

clearing transactions. Still, cooperative institutions, MFIs, NBFIs have not been fully integrated with the mainstream remittance operations in several countries. Payment and micro remittance operations need to be deepened for financial inclusion.

7. *Micro pension/social security payments need strengthening:* Payment of pension/social security benefits through channels of banking and financial institutions has been commenced. Retirement Benefits Authority in Kenya has been set up for putting in financial discipline in the segment. Micro pension is emerging as a potential instrument of financial services.
8. *Deposit protection should be introduced / enhanced:* Deposit Insurance Fund with organizational framework of Deposit Insurance Corporation, etc has been set up for deposit safety for small savers. Deposit Insurance Act/regulations have been enacted in countries like Kenya. Deposits of financial institutions other than regulated entities need to be protected.
9. *Linkage banking needs policy thrust:* Linkage banking by way of linking informal groups with formal financial institutions/community banks/SACCOs has been commenced. IFAD has been supporting the informal sector, community-based institutions, NGOs, etc in this direction. However, linkage banking is in infancy in the region. Much more policy thrust and developmental interventions are needed for deepening the emerging rural finance channel.
10. *Converging efforts of development partners:* Besides IFAD, other donor agencies like World Bank, UNDP, DFID, GIZ, ADB, ILO, KFW, etc. have been participating in rural finance sector, often focusing on financial inclusion and dealing with the same set of stakeholders. IFAD has, however, been very prominent player consistently in rural finance sector through RIFIP I and II in Ethiopia. With a view to coordinating with donor agencies in the whole effort, consultative forums/working groups with representation from the international donors have been constituted by the Governments. It is however felt that there is more scope for mutual consultation, exchange of experience, collaborative efforts in planning, designing and implementation of RF programmes.
11. *Agriculture financial service needs policy thrust and innovation:* Notwithstanding the policy focus on financing of agriculture, livelihood finance and value chain finance, and huge potential for financial inclusion, credit flow for agriculture has been very low (e.g. in Kenya, agriculture credit shares only 6%). Much more effort and policy thrust need to be directed for enhancing financial services for agriculture. There is considerable scope for innovative financial products and services in this regard, besides policy explorations.

### **2.3 Issues and lessons relating to IFAD interventions**

1. *Procurement policies—bottlenecks to programme implementation:* There have been delays in implementation of the envisaged activities under some of the projects of IFAD due to differences/difficulties in adhering to the procurement policy of IFAD by the implementing agencies. In Zambia, delegation in procurement at project level was adopted to tide over the delays. What should be done to remove bottlenecks and ensure alignment in procurement policies?
2. *Exit strategy during transition to new program:* Considerable time lag in completion of IFAD's rural finance programme and commencement of the new programme was witnessed notwithstanding timely design of the new

program, as in case of Zambia/ Uganda. What should be the exit policy / strategy, when many of the backlog activities under the current programme need to be completed and stakeholders need to comply with conditions for commencement of the new program?

3. *IFAD programmes introduce participatory approach to policy and strategy development:* Whether a comprehensive Rural Finance Policy and Strategy as evolved through participatory approach, with support of IFAD and accepted by the for Government of Zambia could be replicated in other countries with similar approach?
4. *IFAD demonstrates importance of policy intervention component in programmes:* Should policy component be mandatory in rural finance programmes? In most of the Rural Finance Programmes of IFAD, a specific component on developing/ strengthening policy, regulations and supervision exist with a few exceptions like Kenya. Should it be a mandatory and prominent component for all Rural Finance Programmes due to its attendant long term benefits?
5. *Strengthening of development banks as RF partners:* Development Banks in various countries, which were primarily set up with Government support have been rendering valuable financial and developmental support for rural financial institutions. These include Development Bank of Ethiopia, National Savings and Credit Bank (NCSB) in Zambia, MF Support Centre Ltd in Uganda, FARE in Mozambique which have received also support from IFAD. Recently, Agriculture Development Bank of Tanzania has been set up. Such apex development banks could be perspective partners for Rural Finance Programmes of IFAD.
6. *Capacity building needs emphasis in RF programme design:* institutional strengthening. Considerable funds are invested for capacity building of different stakeholders of Rural Finance Programmes. However, most of the training and capacity-building efforts have been ad-hoc and sporadic. For a sustainable impact, institutionalization is necessary in every country and support for appropriate institution-building for training and capacity-building in RF should be focused in RF programmes. An institution of excellence at the national level for rural finance with series of accredited training institutions at decentralized levels should be built up for sustainable training interventions.

## **2.4 Findings and suggestions relating to KM&L**

1. *Knowledge management interventions need country-based expertise:* IFAD's country Project Offices should have KMP official to carry forward KM interventions under the ongoing programmes. The community of KMP officers should assume greater responsibilities in terms of implementing and monitoring KM interventions, accountability for reporting to KMP, Nairobi and exchange of experience, value additions to knowledge products, etc.
2. *Enhanced KM and learning needed to improve sharing of experiences:* Each country in the ESA region has innate potential, uniqueness and available opportunities. There are however, similarities in terms of emerging challenges, such as financial exclusion, regional imbalance, rural poverty, infrastructural constraints in rural areas, lack of financial literacy, etc. Thus, ESA as a region could benefit from KM perspectives through greater exchange of learning, innovative solutions, best practices and results of policy explorations/pilots in

the countries, documentations and studies under the aegis of KMP. Accordingly, KMP IV framework should be broad based and deepened in the years to come.

### 3 Country-specific initiatives and contributions of IFAD

A number of innovative initiatives in rural finance have been witnessed in various countries. Those contributed by IFAD (*marked with \**) are outlined below:

#### 3.1 Federal Republic of Ethiopia

- Improved regulation and supervision of expanding MFIs through the National Bank of Ethiopia (NBE) - Transformation of MF Cell to MF Directorate under RUFIP I and II regime\*.
- Meticulous process of the stakeholders' consultation for regulation-making by NBE- internalizing users' suggestions\*;
- Multi-pronged role of AEMFI in RF sector-Policy dialogues, study and research-Support from IFAD in the areas of Training and capacity-building, IT infrastructure and mobility-Twinning arrangements\*.
- Strengthening supervision of SACCOs through Federal Cooperative Agency- Transformation avenues- Ongoing Support of IFAD through Irish Cooperative Agency\*.
- Supplementary Support of ILO-led supplementary project for RUFIP II covering mapping, supervisory capacity-building, ICT in SACCOs, branchless and mobile banking, financial literacy ,lease financing and micro insurance\*.
- Commitment of Government for RF- Government-owned MFIs- RF strategy - Exchange visits for policy-makers\*.
- Conducive policy environment for MFIs - their growth and diversification in savings, credit and insurance.\*

#### 3.2 Republic of Kenya

- Prudential regulation of SACCOs - setting up of SACCO Societies Regulatory Authority (SASRA)
- Amendments to MF Act - DTMs' role, agents/sub-agents, Auditors, Prompt Corrective Action (PCA), third party guarantees.
- Setting up of Deposit Protection Board
- Kenya Deposit Insurance Corporation - Deposit Insurance Fund
- Mobile Banking Platforms
- Strengthening Financial Leasing
- Full file Credit Information sharing (CIS) from 2014
- The Livestock, Fisheries and Food Security Act - Setting up an Authority
- The Land Act envisaging 10% earmarking for agro forestry\* - Automatic land registry
- The Water Act- water resource management through community participation\*

- Positioning of full-fledged Country Programme Management Team of IFAD\*
- Initiatives of KMP,AFRACA,IFAD-AFRICA in knowledge - sharing
- Implementation of IFAD's PROFIT - Possible development of innovative RF Products and instruments as also RF policy reforms\*
- Initiatives in micro insurance, financial literacy and consumers' protection
- Sensitization of parliamentarians by IFAD - Paradigm shift in Government role in RF
- New money remittance regulations from the CBK.

### **3.3 Kingdom of Lesotho**

- Transformation of Lesotho Postal Services to Lesotho Postal Bank\*.
- Institution of Credit Guarantee Fund\*.
- Policy reforms by the Central Bank of Lesotho (CBL) and Department of Cooperatives (DOC), leading to new legislations and regulations, Financial Institutions Act/regulations, evolving cooperative sector policy and improving legal framework for financial cooperatives/non-banking FIs\* and money lenders,
- Institution of Microfinance Forum for discussions of RF policy issues\*;
- Rural Financial Intermediation policy of the CBL, linking informal sector with formal sector\*

### **3.4 Republic of Mozambique**

- Support for policy, legislatives and institutional support under the specific component of IFAD's Rural Finance Programme (RFIP) 2005-13\*
- Strengthening Supervision Department of BOM, National Directorate of Promotion of Rural development (DNPDR), Association of Mozambique MFIs (AMOMFI) and Directorate of Investment and Cooperation (DIC); Opening a Rural Finance Policy Unit in DNPDR\*.
- Support for venture capital, guarantee fund and public sector development\*.
- Setting up of wholesale FI - The FARE - Its statute provides for engaging different types of financial operation including guarantee fund management and management of loans and grants, promotion of innovative financial products and services\*.
- Opening up of six regional hubs of Bank of Mozambique-international exposure visits for regulators/supervisors\*.
- Evolving/approving RF Policy and Strategy framework by the Government\*.
- Constitution of RF Reference Group- convening major MF conferences\*.
- Implementation of Multi-donor framework- PAFIR\*. Supporting formation of producer groups, leading to legislation on registering Producer Associations.
- With IMF assistance, a consumer protection framework is envisaged to be designed for furtherance of financial services. Steps are being taken to set up Deposit Insurance Fund (DIF) with support of IMF and KFW. Based on IMF TA, the Bank of Mozambique has approved a Payment System oversight policy /strategy.

### **3.5 Kingdom of Swaziland**

- Under the Rural Finance and Entrepreneurship Development Programme (RFEDP), support has been extended for MSME policy for business start up and growth, Microfinance Policy for improving financial sustainability and outreach of the sector, Consumer credit policy for enhancing credit referencing and consumer protection and the financial inclusion policy for developing framework to support an all inclusive financial system\*.
- Development and drafting of the Consumer Credit Bill of 2013, RFEDP facilitated the stakeholders' consultation, development of the landscape mapping study and drafting of the policy and the Bill, in collaboration with the Ministry of Finance, Central Bank and the Financial Services Regulatory Authority (FSRA)\*.
- IFAD programmes have contributed in the areas of land tenure issues- Facilitation of land policy (*Most of the rural population, including the poorest communities in the country, lives on Swazi Nation Land. This land is held in trust for the nation by the king and it is administered by the chiefs. It makes up about 75 per cent of the country's total land area. Most of the people who live on Swazi Nation Land farm small plots, cultivating maize and keeping cattle, and occasionally producing a cash crop.*)
- Supporting participatory approaches through effective engagement of key stakeholders, comprehensive situation analysis, and utilization of technical experts to translate stakeholders' inputs in to plausible policy action and engagement of agreed output in to legal documents.

### **3.6 United Republic of Tanzania**

- New Cooperative Societies Act 2013, with special provisions relating to Financial Cooperatives including their transformation/graduation, code of conduct, Cooperative development Plan, internal audit, time limit for audit, regulatory action by the RCS, etc.\*
- Setting up Tanzania Cooperative Development Commission (TCDC) with special arrangements for inspection and supervision of SACCOs\*
- Financial Inclusion Framework (FIF) launched by Bank of Tanzania;
- Setting up of Cooperative Audit and Supervision Corporation (COASCO) for audit of cooperatives;
- Enforcing reliable electronic payment system, credit reference system/ credit reference arrangements; National Payment System Bill;
- Setting up of Tanzania Insurance Regulatory Authority (TIRA) - initiatives in Micro insurance;
- Outsourcing of private auditors for Cooperatives in Zanzibar.

### **3.7 Republic of Uganda**

- Institution of Microfinance Forum for all stakeholders, convened by MFEPD for discussion of policy issues in RF - informal, but sustained for decade.
- Strengthening of SACCO sector - development of performance parameters- Involvement and umbrella of Uganda Cooperative Alliance and Uganda Cooperative Union\*.

- Communication, propagation and policy advocacy pursued for regulatory framework for Tier IV institutions including SACCOs under the Rural Financial Services Strategies (RFSP) since concluded - Proposed New MF Act and MF Regulatory Authority - Insistence by IFAD for Compliance thereof prelude to implementation of Project for Financial Inclusion in Rural areas (PROFIRA)\*.
- Financial Inclusion initiatives-Bank of Uganda's Four Pillar interventions
- Development Partners' Group constituted by Government for donors' harmonized strategy and for coordination with the "sector working groups" (including IFAD\*) with the relevant Ministries\*.

### **3.8 Republic of Zambia**

- RF Policy and Strategy accepted/adopted by the Government of Republic of Zambia (GRZ), based on study by the Oxford Policy Management, supported by IFAD\*.
- Setting up of the Rural Finance Unit in MOF, GRZ.\*
- Institution of Rural Finance Forum including all stakeholders besides IFAD\*.
- Amendments to the Banking and Financial Services Act, incorporating the provisions relating to corporate governance, fair competition and consumers' protection, financial accountability, prudential regulation and supervision, etc\*
- Delegation in procurement at the project level in IFAD programmes\*
- Collateral registry system- registration of property.

## **4 Conclusion**

The ESA countries have made reasonable effort in rural finance policy development with the depth of growth varying from one country to another. IFAD's RF programmes with specific policy, regulation and supervision component had visible impact in the rural finance scenario. The report provides 14 general suggestions for to be considered in the action plan for implementing the findings and recommendations of the study during the next phase of KMP. In addition the report outlines the following six points that should be given highest priority in future programmes for implementing RF development:

- Participatory role of stakeholders and development partners in policy development;
- Institutional strengthening to include policy thrust, infrastructure and HR needs;
- Enhanced regional cooperation and replication of best practices in the region;
- Effective knowledge management systems and processes;
- Convergence of effort through networking and collaboration; and



# Abbreviations

AEMFI	Association of Ethiopian Microfinance Institutions
AFI	Alliance for Financial Inclusion
AFRACA	African Rural and Agricultural Credit Association
AKCP	Association of Kenya Credit Providers
ALF Act	Agriculture, Livestock, Fisheries, Food Security Act
AMB	Association of Mozambique Banks
AMFIN	Africa Microfinance Institutions Network
AMOMFIs	Association of Mozambique MFIs
ANM	Asset Network Manager
APR	Annual Percentage Rate
ATA	Agricultural Transformation Agency
BFSA	Banking and Financial Services Act
BIFSMO	Building Inclusive Sector in Mozambique
BOM	Bank of Mozambique
BOS	Board of Supervision
BPR	Business Process Reengineering
CGF	Credit Guarantee Fund
CMA	Capital Market Authority
CBK	Central Bank of Kenya
CBs	Commercial Banks
CBS	Core Banking Solution
CIS	Credit Information System
CPM	Country Programme Manager
CKMO	Chief Knowledge Management Officer
CLO	Chief Learning Officer
COBAT	Community Banks Association of Tanzania
COSOP	Country Strategic Opportunity Program
CRAR	Capital to Risk-weighted Assets Ratio
CRB	Credit Reference Bureau
CRMP	Cooperative Reforms and Modernization Program
DAI	Development Alternative International
DBE	Development Bank of Ethiopia
DFPB	Deposit Fund Protection Board
DIC	Directorate of Investments and Cooperatives
DOC	Department of Cooperatives
DPF	Deposit Protection Fund
DTM	Deposit-Taking Microfinance
DUAT	Direito Approveit Ammento De Terra
EIFS	Ethiopian Institute of Financial Studies
EIFTRI	Ethiopian Inclusive Finance Training and Research Institute
ESA	East and Southern Africa
ESRF	Economic and Social Research Foundation
FARE	
FCA	Federal Cooperative Agency
FCMC	Financial Crisis Management Committee
FLDSTAP	Financial and Legal Sector Assistance Program
FOSA	Front Office Saving Activity
FSDS	Financial Sector Development Strategy

FSDT	Financial Services Development Trust
FSRA	Financial Services Regulatory Authority
GOL	Government of Lesotho
GOT	Government of Tanzania
GTP	Growth and Transformation Plan
HDI	Human Development Index
HID	Human and Institutional Development
IBDP	Institutional and Business Development Plan
ICT	Information Communication Technology
IFAD	International Fund for Agriculture Development
ILCUF	Irish League of Credit Union Foundation
ILO	International Labor Organization
IMF	International Monetary Fund
KBA	Kenya Banks' Associations
KIPPRA	Kenya Institute for Public Policy Research and Analysis
KM	Knowledge Management
KMP	Knowledge Management Partnership
KYC	Know Your Customer
MAFS	Ministry of Agriculture and Financial Services
MAP	Making Access( to Financial Services) Possible
MDG	Millennium Development Goals
MFB	Microfinance Bank
MFI	Microfinance Institutions
MFISD	Microfinance Institutions Supervision Directorate
MFSDS	Mozambique Financial Sector Development Strategy
MFU	Microfinance Unit
MOA	Ministry of Agriculture
MOF	Ministry of Finance
MOF&ED	Ministry of Finance and Economic Development
MUCCOB	Moshe University College of Cooperative and Business studies
NBE	National Bank of Ethiopia
NDWA	National Directorate for Women Affairs
NFCU	National Financial Coordinating Unit
NRMFPSC	National Rural Microfinance Policy Steering Committee
NSDP	National Strategic Development Plan
NSFE	National Strategy for Financial Education
OPM	Oxford Policy Management
OSS	Off-site Surveillance System
PBL	Postal Bank of Lesotho
PCA	Prompt Corrective Action
PCGS	Partial Credit Guarantee Scheme
PMCU	Project Monitoring Coordination Unit
PCR	Project Completion Report
PMT	Performance Monitoring Tools
PROFIRA	Project For Financial Inclusion in Rural Area
RBA	Risk-Based Audit
RBA	Retirement Benefit Authority
RBS	Risk-Based Supervision
ROA	Return on Assets
RCPB	Regional Cooperative Promotion Bureau
RFEDP	Rural Finance Enterprise Development Program
RFF	Rural Finance Forum
RFI	Rural Finance Institutions

RFPS	Rural Finance Promotion Strategy
RFPU	Rural Finance Policy Unit
RFSS	Rural Finance Services Strategy
ROSCA	Rotating Savings and Credit Associations
RSA	Rural Savings Account
RUSACCOS	Rural Savings and Credit Cooperative Society
RUFIP	Rural Finance Intermediation Programme
SASRA	SACCO Societies Regulatory Authority
SCCULT	Savings and Credit Cooperative Union League of Tanzania
SHGs	Self Help Groups
SME	Small and Micro Enterprises
SPM	Social Performance Management
SSELG F	Small Scale Enterprises Loan Guarantee Fund
SUFIL	Support for Financial Inclusion in Lesotho
TADB	Tanzania Agriculture Development Bank
TAMFI	Tanzania Association of Microfinance Institutions
TCDC	Tanzania Cooperative Development Commission
TFSF	Tanzania Financial Sector Forum
TIRA	Tanzania Insurance Regulatory Authority
TNA	Training Needs Assessment
ToR	Terms of Reference
UCA	Uganda Cooperative Alliance
UCSCU	Uganda Cooperative Savings and Credit Unions
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Program
ZIPAR	Zambian Institute of Policy Analysis and Research
MSMEs	Microfinance SMEs



## Chapter 1

# Background and framework of the study

The Eastern and Southern Africa region comprises of 22 countries—Angola, Botswana, Burundi, Comoros, Eritrea, Ethiopia, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Rwanda, Seychelles, South Africa, South Sudan, Swaziland, Tanzania, Uganda and Zambia. According to the UNDP Human Development Index (UNDP, 2013), the population of the region is about 341.8 million with 73.7% living in rural areas, while approximately 50.6% of the population live in extreme poverty with incomes of less than US \$ 1.25 a day. The region includes some of sub-Saharan Africa’s poorest and most fragile states including Eritrea and South Sudan. Global poverty remains massive and predominantly a rural phenomenon: 70% of the developing world’s 1.4 billion people living in rural areas are extremely poor. This is more so in the Sub-Saharan Africa where 60% of the population is engaged in agriculture (IFAD Rural poverty Report, 2011).

Location of residence, rural or urban, has significant bearing on individual’s access to and financial transactions with formal financial sector. According to a report on financial inclusion (World Bank, 2011), only 22% of rural residents in low income economies had a formal financial account, compared to 35% among their urban counterparts. Globally 50% of people had accounts with formal financial institutions, whereas in Sub-Saharan Africa, it was 24% (World Bank, 2011). The same data showed that 2.5 billion adults worldwide were not using the formal financing system. In response to the huge financial exclusion among populations, more so in rural areas, there have been global efforts for accelerating financial inclusion.

IFAD recognizes the vast potential to improve livelihood of the rural people by enhancing and diversifying their access to financial services through sound and sustainable institutions. To this end IFAD has brought out two key strategic documents—*IFAD Rural Finance Policy* (IFAD, 2009) and *IFAD Decision Tools for Rural Finance* (IFAD, 2010)—that spell out strategic thrusts, directions and approaches in this regard. IFAD’s website brings out reports and documents highlighting progress and trends in Rural Finance Programmes implemented by it. The microfinance movement across the world has an enormous impact on rural development. Over the years, there have been paradigm shifts in the nature and structure of financial services. A wide range of financial services – credit, savings, insurance, remittances, and pension, leasing, value chain, livelihood, etc have been introduced in the rural sector. Various institutions- formal, semi-formal and informal have emerged with expanding vista of financial services in new directions, using technologies and innovations aimed at catering for the needs of diverse clients in the remote rural areas and excluded regions.

As of December 2013, IFAD's ongoing investments in rural finance (RF) programmes were worth approximately US\$1,087 billion. IFAD is one of the world's largest lenders with 10% of the portfolio dedicated to rural finance. In ESA countries, there are 44 ongoing projects and programmes in 18 recipient countries with investment of US\$1,183.8 million, which include rural finance programmes in eight countries: Ethiopia, Kenya, Lesotho, Mozambique, Swaziland, Tanzania, Uganda and Zambia. IFAD has provided US\$15.8 billion as grants and low-cost loans to the projects that have reached 430 million people in the region.

The GDP growth has been positive, as much as 4.9% growth rate has been registered in eastern Africa countries and 4.3% in southern African countries in 2012. However, high levels of hunger, disparities and inequalities in income and significant variations in poverty levels persisted among and within the countries. According to the, Global Hunger Index ranking in 2012, 18 countries in the region are considered to have serious, alarming or extremely alarming levels of hunger (International Food Policy Research Institute, 2012). The IMF has projected that Ethiopia, Mozambique, Tanzania and Zambia will be among the 10 fastest growing countries in the world by 2015. Swaziland and Uganda have been able to reduce external poverty by half. Considerable efforts have been directed by the policy-making authorities for creating congenial and enabling environment for addressing the above-stated poverty and financial exclusion through financial services in rural areas. IFAD has supplemented their efforts through rural finance (RF) programmes.

## 1.1 Background to the study

In the backdrop of IFAD's effort to improve livelihoods by enhancing access to financial services among rural communities. KMP carried out a study on the 'Contribution of IFAD-Supported Rural Finance Programmes on Policy Development in the ESA countries'. The focus of the study was on countries with active rural finance programmes and components and included Ethiopia, Kenya, Lesotho, Mozambique, Swaziland, Tanzania, Uganda and Zambia, where IFAD had been increasingly engaged in policy dialogues with a view to influencing policy. The IFAD-supported programmes seek to influence policy to minimize adverse effects of global trends and maximize incentives and opportunities for the rural poor. Apart from challenges in the area of rural infrastructure, capacity of financial service providers and clients, other factors such as legislative, regulatory, supervisory and overall policy constraints often stand in the way of delivery of need-based financial services in the rural area. IFAD has been supporting capacity building of policy-making bodies, development of appropriate decentralized policy and practices, evolving market-oriented research and studies and dissemination of learning.

Considering the critical importance of creating finance policies that are appropriate to rural settings, KMP identified a consultant, Biswa Bandhu Mohanty, with expertise and experience in rural finance, to carry out this consultancy.

## 1.2 Objectives

The overall objective of the study was: To produce a KM document for use by the stakeholders of RF programmes being implemented by IFAD in the eight selected ESA countries. The Terms of Reference are in Appendix 1. The specific objectives were to:

- Identify major policy issues in ESA countries which IFAD projects have enabled to sort out/address during the course of implementation in the countries;
- Bring out successful strategies adopted/ institutional mechanism used to influence policy issues, leading to fulfillment of programme objectives;
- List out country-specific policy issues in ESA, which have regional and global implications/impact;
- Suggest sustainable institutional mechanisms that have to be put in place for policy exploration, research, debates and discussions for sharpening and furthering poverty reduction, access to financial inclusion, livelihood promotion and inclusive growth; and
- Suggest ways and means for enhancing knowledge management, sharing of experience/ best policy solutions among the IFAD programme managers, partners and stakeholders for better programme implementation and speedier/effective policy development.

## 1.3 Target organizations

In the eight selected countries (Ethiopia, Kenya, Lesotho, Mozambique, Swaziland, Tanzania, Uganda and Zambia) the study targeted public and private institutions that have national responsibility for, as well as commercial interests in, rural development. They included central banks; insurance regulatory authorities; co-operative regulatory authorities; ministries of the national governments including ministry of finance (MOF), ministries of agriculture/cooperatives (MOA); MF associations, co-operative unions / alliances; apex development banks; policy research agencies; and leading civic society organizations (NGOs, community-based organizations, etc).

## 1.4 Data collection methods and tools

Three main methods or tools were used to gather data.

(i) A questionnaire was designed to solicit views / inputs from IFAD officers at the project level in all eight countries. The questionnaire is shown as Appendix 2.

(ii) Interviews and consultations were used through face-to-face meetings and by e-communication. The consultant visited the capital cities of five of the target countries from 23 June to 9 July 2014; they, included Lusaka (Zambia), Dar es Salaam (Tanzania), Kampala (Uganda), Addis Ababa (Ethiopia) and Nairobi (Kenya). The visits facilitated interviews and discussions with officials of the institutions targeted in those countries. During the short period of two to three days at each centre, 84 persons from these select institutions were consulted. The

list of institutions visited and persons met and consulted through face-to-face interviews is given as Appendix 3.

(iii) Intensive literature survey was used to collect information at country/institutional as well as regional and global levels. Documents spelling out regional, national and institutional RF policies, strategies and programmes were studied. The report on scope and perspectives of policy on rural finance which is presented in Chapter 1 was assembled mainly out of literature survey. The list of reference documents studied is presented as Appendix 4.

## 1.5 Structure of this report

The study report consists of a main report, individual country reports and case studies. The main report is presented in four sections. While Section 1 is mainly introductory, the Chapter 2 covers the scope and significance of rural finance policy for fulfillment of the objectives of rural development, access to financial services/financial inclusion and improving quality of livelihood in rural areas. Chapter 2 is the result of literature review that aimed to provide background to the intervention options available and the potential contributions of such interventions to rural finance development. Chapter 3 covers the findings and specific recommendations of the study, which are presented in four parts: (i) Country-specific achievements and contributions of IFAD in RF development in each country are presented. (ii); Broad issues and recommendations for RF policy development; (iii) Best practices in RF with prospects for regional and global replication and (iv) Promoting Knowledge Management and Learning (KM&L) in RF policy development in ESA region. Chapter 4 presents general conclusions and recommendations, covering suggestions for action in the implementation of study findings, and concluding remarks and perspectives for the future.

The report incorporates appendixes (attachments to the main report) and annexes (as standalone documents). Appendixes 1–4 explain issues relating to the approach and methodology of the study. To support the recommendations of the study, two appendixes have been included; they are: broad outlines of the interventions that could be covered in the next phase of KMP (Appendix 5) an outline for a logical framework for policy-oriented projects (Appendix 6). The next four appendixes are *Case Study Reports* of good policy initiatives and institutional interventions, they include the MFI Supervision Directorate (MFSD) of the National Bank of Ethiopia (Appendix 7), Association of Ethiopian MFIs (AEMFI) (Appendix 8), Microfinance Forum in Uganda (Appendix 9) and Developing Rural Finance Policy and Strategy in Zambia (Appendix 10). Detailed findings of the study on the status of rural finance and the contributions of IFAD programmes in each target country are presented in standalone *Country Reports* that are filed as annexes that should be studied alongside this report. They include Country Reports for the Federal Republic of Ethiopia (Annex 1), Republic of Kenya (Annex 2), the Kingdom of Lesotho (Annex 3), Republic of Mozambique (Annex 4), the Kingdom of Swaziland (Annex 5), United Republic of Tanzania (Annex 6), Republic of Uganda (Annex 7), and Republic of Zambia (Annex 8).



## Chapter 2

# Scope and perspectives of policy in rural finance

## 2.1 Meaning of policy

The term ‘policies’ can denote a variety of mechanisms and arrangements – usually at the national level, but on occasions at a higher (regional level) or lower (state or provincial level) – that come in various forms such as legislation and regulation; public policy statements and documents, sector plans, strategies, programmes and budgets; the high level rules of government agencies as well as institutions – the vehicles to implement policies. For example, the UK Cabinet Office defines policy “as the process by which governments turn their political visions into programmes and actions to deliver outcomes—desired changes in the real world”. IFAD’s interest remains exclusively in those public policies that shape the economic opportunities in agriculture and the non-farm rural economy to enable rural people move out of poverty (IFAD, 2014b).

The three key ingredients of a good policy-making process are the political will, the evidences and the do-ability. Thus, policy making needs corridors of power for decision making, channels of communication for influencing the contents and contours of policy and a strategic framework for implementing the policy. Figure 1, which is adapted from Coffey (1998), depicts the basic framework for policy-making in rural finance as illustrated by the inter-relations among the numerous stakeholders—government departments dealing with agriculture, co-operation and finance, central banks, interest groups, research agencies, industry associations and donors, etc.

## 2.2 IFAD policy and approach

IFAD has been playing a critical role in influencing national policy in rural finance while providing financial and technical assistance for rural development projects in the target ESA countries. IFAD’s approach is reflected in the following quotes: (i) “Sustainable poverty reduction requires the political will of the government and a conducive policy framework. ++ Together with other donors and stakeholders, IFAD, as an advocate of the rural poor, will participate in policy dialogue in order to create a conducive macro-economic and policy environment” (IFAD, 2014a). (ii) “Rural Finance is one of several essential tools to be used in contributing rural poverty reduction. The purpose of IFAD’s rural finance policy is to increase the productivity, income and food security of the poor by promoting access to sustainable financial services; IFAD will strengthen the capacity of Rural Financial Institutions” (IFAD, 2014b).

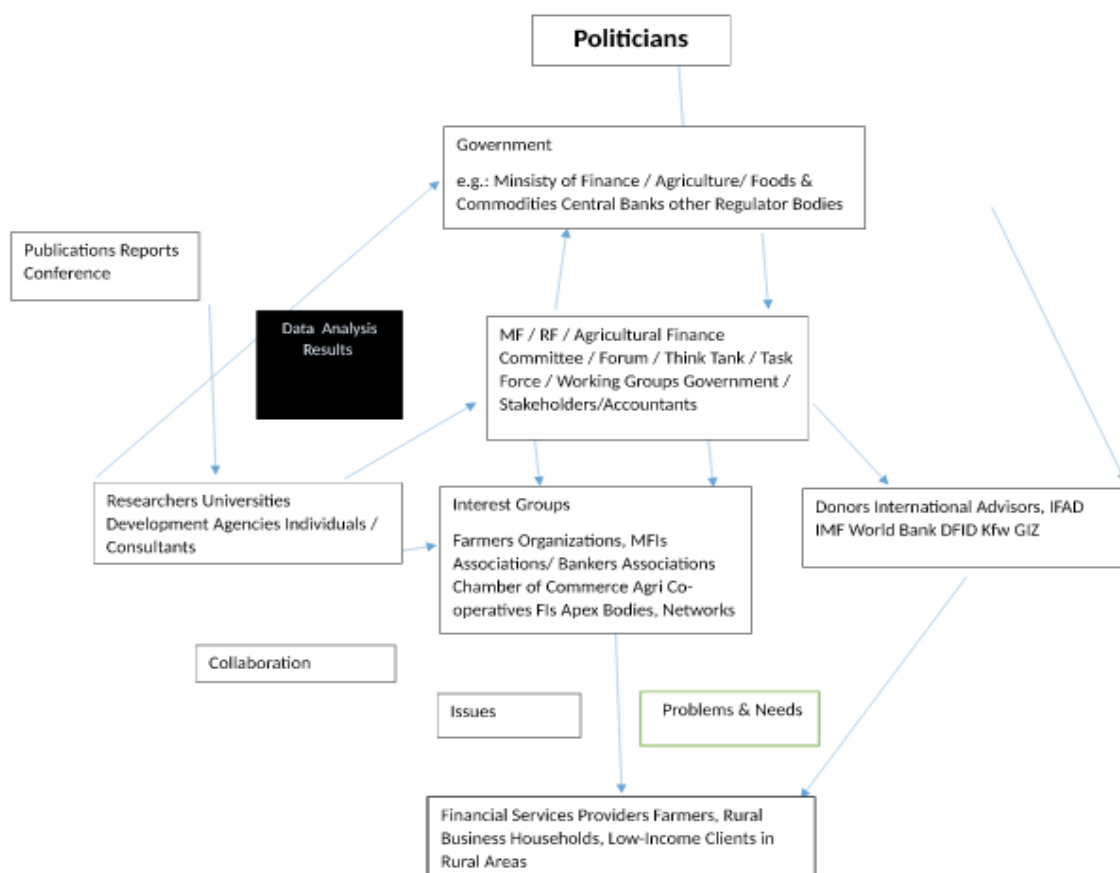


Figure 1. Framework for policy making in rural finance

IFAD’s approach emphasizes on stakeholder participation, policy framework conducive to rural financial services, rural infrastructure development and strengthening regulatory and supervisory arrangements to ensure sustainable financial services, improved livelihoods and rural outreach. In the publication *Rural Poverty–New Realities, New Challenges, and New Opportunities for Tomorrow’s generation*” (IFAD, 2011a), IFAD *inter alia* declares the following approaches:

- Improving the overall environment of rural areas;
- Reducing the level of risks that rural people face and helping them to improve their risk management capacity;
- Advancing individual capabilities, and
- Strengthening the collective capabilities of the rural people.

IFAD has comparative advantage in addressing the issues and challenges of rural finance because to its intimate understanding of the grassroots issues, working with stakeholders at all levels in the course of implementation of rural development projects, as well as extensive experience and insight of rural finance projects across the globe.

## 2.3 Approaches of other development agencies

Other international development agencies such as the World Bank, IMF, DFID, GIZ, KfW, UNDP, USAID, Care International, among others, have been working for rural finance services and participating in policy advocacy role using approaches that are similar to and compatible with those of IFAD. For example, in the publication titled “Putting Policy-making into Practices at Care International” Care International has highlighted the relevance of policy-making efforts in its development interventions in the following ways:

- Influencing the policies of government can have multiplier effects on the international agencies and private sector companies;
- Integrating policy influencing into programmes can lead to more sustainable outcomes e.g. a change in law or practice;
- Policy-influencing can help and shape and access to funding opportunities; and
- Policy influencing helps to respond to development threats and opportunities.

## 2.4 Common challenges in rural finance interventions and programmes

In the development literature, rural finance, microfinance and agriculture finance are used inter-changeably. Microfinance generally connotes the financial services meant for the poor and low income people. Agriculture finance implies financing of agriculture and allied activities, from production to marketing in the rural and urban areas. Rural Finance encompasses financial products and services of all types catered to clients located in the rural areas for production and consumption of all kinds.

Various study reports and experiences in rural finance bring out the following general disadvantages and challenges confronted in the rural sector.

- a) Risk perception of financial institutions and service providers towards rural finance – typical of urban orientation of human resources (HR) deployed;
- b) Inadequacy of rural infrastructure (e.g. communication, power, etc.)
- c) Huge financial exclusion due to difficulties in access to financial services including inadequacy in outlets for financial services
- d) High cost of service delivery due to dispersed population bringing in the issue of sustainability of traditional business and limitations of various models;
- e) Constraints in the provision of wholesale credit funds for MFIs and RFIs;
- f) Lack of collateral security as also inability of the financial institutions to accept collateral substitutes;
- g) State-led interventions in economic development with inadequate private sector participation;
- h) Lack of demand for financial services due to inadequate financial literacy among the clients;
- i) Wide variations in the size and structure of the target market in rural areas and limited range of need-based differential financial products in RFIs;

### **Box 1. IFAD policy on rural finance**

“Rural finance is one of several essential tools to be used in combating rural poverty. The purpose of IFAD Rural finance policy is to increase the productivity, income and food security of the rural people by promoting access to sustainable financial services. IFAD will strengthen the capacities of rural financial institutions to mobilize savings, have their costs covered and loans repaid; and make a profit to increase their saver and borrower outreach. It may also assist in bridging gaps in equity or loanable funds until the institutions are fully self-sustained. Creating rural finance system is not a panacea nor is it without challenges, among them: assuring the participation of all stakeholders, building rural infrastructures that are diversified according to local conditions, and enhancing institutional sustainability with outreach to the poor and fostering a conducive policy and regulatory environment. IFAD’s policy will support solutions to these challenges and promote a diversity of strategies, among them, networking among MFIs and establishing apex services; upgrading and mainstreaming informal finance, linking banking with local finance institutions and self-help groups, transforming agricultural development banks. Through its policy and strategies, IFAD confirms its commitment to continually seeking more effective ways of enabling-and empowering- the rural poor to create a sustainable means of livelihood for themselves and for generations to come.”

IFAD Executive Board, May 2000

- j) Changing demographics and slow rate of rural employment creation and the rural migrants’ flow in peri-urban areas;
- k) Lack of managerial capability at all levels, weak governance and inadequate technology adoption in RFIs, particularly co-operative credit institutions;
- l) Insufficient avenues for capacity building, knowledge management and awareness for the HR of RFIs and
- m) Lack of appropriate and effective rural finance policy framework, regulations and supervisions for rural segments.

## **2.5 Emerging positive trends in rural finance**

Worldwide the potentials and challenges of rural finance have been recognized by the policy-making institutions and, accordingly, policy initiatives and strategic interventions have been initiated to utilize the rural potentials and address the emerging challenges. The broad trends in this regard are outlined hereunder:

- a) Emerging focus on financial inclusion framework to reduce financial exclusion, particularly in rural areas
- b) Growth and expansion of MFIs, Community Banking Institutions [CBIs] to meet the growing needs of financial services in rural and remote areas;
- c) Increasing application of technology – introduction of devices, particularly mobile banking for accelerating/ deepening financial inclusion;
- d) Introduction of agency banking, correspondent banking, branch-less banking frameworks in rural areas;

- e) Development of linkage banking by informal groups with formal financial institutions for delivery of cost-effective, hassle-free and need-based financial services for the poor;
- f) Enhanced participation and support of donor agencies in the financial inclusion, rural financial services, livelihood finances, agriculture value chain finances;
- g) Setting up of credit references bureau for developing and sharing credit history of borrowers of RFIs and MFIs;
- h) Paradigm shift in micro financial products and services – credit, savings, insurance, pensions, guarantees, warehouse receipts, leasing, etc.
- i) Encouraging public–private partnerships (PPP) and B2B (Business-to-Business) alliance to boost agricultural value chain financing, agricultural and rural enterprises finance;
- j) Ongoing efforts for evolving rural finance policy framework in the country’s contexts;
- k) Legislative and regulatory reforms in co-operative as also microfinance sectors;
- l) Focus on capacity building and sensitization of the participating rural financial institutions; and
- m) Stakeholder consultations in framing rural financial policy and strategies.

## 2.6 The Eastern and Southern Africa (ESA) region

It is interesting to assess the challenges and emerging opportunities of rural finance in the ESA region, particularly in the countries where IFAD’s rural finance programmes have been implemented. The study intends to bring out the initiatives and developments and outcomes in RF policy, and highlight the support and contribution of IFAD and possible strategies for the future.

## Chapter 3

# Findings and specific recommendations

The findings and specific recommendations of the study are presented in four parts: (i) Country-specific achievements and contributions of IFAD in RF development in each country are presented. (ii); Broad issues and recommendations for RF policy development; (iii) Best practices in RF with prospects for regional and global replication and (iv) Promoting knowledge management and learning (KM&L) in RF policy development in ESA region. In addition, detailed *Case Study Reports* capturing best practices of selected institutions on tackling rural finance issues are presented appendices. They include: MFI Supervision Directorate (MFSD) of the National Bank of Ethiopia (Appendix 7), Association of Ethiopian MFIs (Appendix 8), Microfinance Forum in Uganda (Appendix 9) and Developing Rural Finance Policy and Strategy in Zambia (Appendix 10). As already stated under structure of this report the findings on the status of rural finance and the contributions of IFAD programmes in each target country are presented in detailed standalone *Country Reports* for Federal Republic of Ethiopia (Annex 1), Republic of Kenya (Annex 2), Kingdom of Lesotho (Annex 3), Republic of Mozambique (Annex 4), Kingdom of Swaziland (Annex 5), United Republic of Tanzania (Annex 6), Republic of Uganda (Annex 7), and Republic of Zambia (Annex 8).

### 3.1 Country-specific achievements and IFAD contribution

IFAD's rural finance projects have been implemented in eight countries –Ethiopia, Kenya, Lesotho, Mozambique Swaziland, Tanzania, Uganda, and Zambia. With a view to capturing the general status of rural finance policy development and implementation in these countries, this study examined the (i) overall socio-economic environment, (ii) progress and initiatives witnessed in the financial sector, and (iii) current status of rural financial services in each of the countries. In that perspective, a number of innovative initiatives in rural finance have been witnessed in various countries. The country-wise position and trends are outlined below, those marked with an asterisk (\*) have been contributed by IFAD.

#### 3.1.1 Republic of Ethiopia

- a) Improved regulation and supervision of expanding MFIs by the National Bank of Ethiopia (NBE) Transformation of MF Cell to MFI Supervision Directorate under the support of IFAD's RUFPI and II programmes.\*
- b) Improved regulation-making process by NBE through the meticulous process of stakeholder consultation created by the National Rural and Microfinance Policy Steering Committee [NRMFPSC] created through RUFPI internalization of stakeholders' views in decision-making.\*
- c) Multi-pronged role of AEMFI in RF sector: Policy dialogues, study and research; Support from IFAD in the areas of training and capacity building, IT, studies, documentation, infrastructure and mobility; twinning arrangements integrating

initiatives of development partners\*.

- d) Strengthening supervision of SACCOs through Federal Cooperative Agency: Transformation avenues; Ongoing Support of IFAD through twinning arrangement with Irish League for Cooperative Union Foundation\*.
- e) Supplementary Support of ILO-led supplementary project for RUFIP II covering mapping, supervisory capacity-building, ICT in SACCOs, branchless and mobile banking, financial literacy, lease financing and micro insurance\*.
- f) Micro Insurance development: Insurance Laws; Initiatives of Insurance Supervision Directorate of NBE in preparing regulations in micro insurance.
- g) Commitment of Government for RF: Government-owned MFIs; Effective RF strategy; Exchange visits for policy-makers\*.
- h) Conducive policy environment for MFIs: MFIs growth and diversification in savings, credit and insurance.\*

### **3.1.2 Republic of Kenya**

- a) Prudential regulation of SACCOs by setting up of SACCO Societies Regulatory Authority (SASRA)
- b) Amendments to MF Act: DTMs' role; agents/sub-agents; Auditors; Prompt Corrective Action (PCA); third party guarantees
- c) Setting up of Deposit Protection Board
- d) Kenya Deposit Insurance Corporation: Deposit Insurance Fund
- e) Mobile Banking Platforms
- f) Strengthening Financial Leasing
- g) Full file Credit Information sharing (CIS) from 2014
- h) The Livestock, Fisheries and Food Security Act: Setting up an Authority
- i) The Land Act: Envisaging 10% earmarking for agroforestry\*; Automatic land registry
- j) The Water Act: Water resource management through community participation\*
- k) Placement of full-fledged Country Programme Management Team of IFAD\*
- l) Enhancing knowledge sharing: Initiatives of KMP, AFRACA, IFAD-AFRICA
- m) Promoting outreach of financial innovation and technology: Implementation of IFAD's PROFIT; Possible development of innovative RF Products and instruments as also RF policy reforms\*
- n) Initiatives in Micro insurance: Financial literacy; Consumer protection
- o) Sensitization of Parliamentarians: Paradigm shift in government role in RF\*
- p) New money remittance regulations from the CBK.

### **3.1.3 Kingdom of Lesotho**

- a) Transformation of Lesotho Postal Services to Lesotho Postal Bank\*.
- b) Introduction of Credit Guarantee Fund\*.
- c) Policy reforms by the Central Bank of Lesotho (CBL) and Department of Cooperatives (DOC) leading to new legislations and regulations, Financial Institutions Act/regulations, evolving cooperative sector policy and improving

legal framework for financial cooperatives and non-banking FIs\* and money lenders

- d) Institution of Micro Finance Forum for discussions of RF policy issues\*
- e) Rural Financial Intermediation policy of the CBL, linking informal sector with formal sector\*.

#### **3.1.4 Republic of Mozambique**

- f) Support for policy, legislative and institutional support under the specific component of IFAD's Rural Finance Programme (RFIP) 2005-13\*
- g) Institutional capacity building: Strengthening Supervision Department of the Bank of Mozambique; National Directorate of Promotion of Rural development(DNPDR) Association of Mozambique MFIs (AMOMFI); and Directorate of Investment and Cooperation(DIC); Opening a Rural Finance Policy Unit (RFPU) in DNPDR; Opening up of 6 regional hubs of Bank of Mozambique\*.
- h) Support for venture capital, guarantee fund and public sector development\*.
- i) Setting up of wholesale FI -The FARE: Its statute provides for engaging different types of financial operation including guarantee fund management and management of loans and grants, promotion of innovative financial products and services\*.
- j) Human resource capacity building: international exposure visits for regulators/ supervisors\*.
- k) Evolving/approving RF Policy and Strategy framework by the Government\*
- l) Constitution of RF Reference Group- convening major MF conferences\*
- m) Implementation of multi-donor framework- PAFIR\*.
- n) Supporting formation of Producers' groups, leading to legislation on registering producer associations.
- o) Consumer protection framework (to be designed jointly with IMF): Deposit Insurance Fund (DIF) with support of IMF and KFW. Based on IMF TA, the Bank of Mozambique has approved a payment system oversight policy/strategy.

#### **3.1.5 Kingdom of Swaziland**

- p) Under the Rural Finance and Entrepreneurship Development Programme (RFEDP), IFAD has supported the development of MSME policy for business startup and growth, microfinance policy for improving financial sustainability and outreach of the sector, Consumer credit policy for enhancing credit referencing and consumer protection and the financial inclusion policy for developing framework to support an all inclusive financial system\*.
- q) Development and drafting of the Consumer Credit Bill of 2013, RFEDP facilitated the stakeholders' consultation, development of the landscape mapping study and drafting of the policy and the Bill, in collaboration with the Ministry of Finance, Central Bank and the Financial Services Regulatory Authority (FSRA)\*
- r) IFAD's programmes have contributed in the areas of land tenure issues: Facilitation of land policy to incorporate private ownership (Most of the rural populations, including the poorest communities in the country, live on Swazi



Nation Land which is land held in trust for the nation by the King and is administered by the chiefs. It makes up about 75 per cent of the country's total land area. Most of the people who live on Swazi Nation Land farm small plots, cultivating maize and keeping cattle, and occasionally producing a cash crop.)

- s) Supporting participatory approaches through effective engagement of key stakeholders, comprehensive situation analysis, and utilization of technical experts to translate stakeholders' inputs in to plausible policy action and engagement of agreed output in to legal documents.

### **3.1.6 United Republic of Tanzania**

- t) New Cooperative Societies Act 2013, with special provisions relating to financial cooperatives including their transformation/graduation ,code of conduct, Cooperative development plan, internal audit, time limit for audit, regulatory action by the RCS, etc\*
- u) Setting up of Tanzania Cooperative Development Commission (TCDC) with special arrangements for inspection and supervision of SACCOs\*
- v) Financial Inclusion Framework launched by Bank of Tanzania
- w) Setting up of Cooperative Audit and Supervision Corporation (COASCO) for audit of cooperatives
- x) Enforcing a reliable electronic payment system, credit reference system/credit reference arrangements and National Payment System Bill
- y) Setting up of Tanzania Insurance Regulatory Authority initiatives in micro insurance
- z) Outsourcing of private auditors for cooperatives in Zanzibar.

### **3.1.7 Republic of Uganda**

- a) Institution of Micro Finance Forum for all stakeholders, convened by MFEFD for discussion of policy issues in RF, informal, but sustained for decade
- b) Strengthening of SACCO sector; development of Performance Monitoring Tools (PMT) parameters; Involvement and umbrella support of Uganda Cooperative Alliance and Uganda Cooperative Union\*
- c) Communication, propagation and policy advocacy pursued for regulatory framework for Tier IV institutions including SACCOs under the Rural Financial Services Strategies (RFSP) since concluded, Proposed New MF Act and MF Regulatory Authority, Insistence by IFAD for compliance thereof prelude to implementation of Project for Financial Inclusion in Rural areas (PROFIRA)\*
- d) Financial Inclusion initiatives-Bank of Uganda's Four Pillar interventions
- e) Development Partners' Group constituted by Government for donors harmonized strategy and for coordination with the "sector working groups" (including IFAD) with the relevant Ministries\*.

### **3.1.8 Republic of Zambia**

- a) RF policy and strategy accepted/adopted by the Government of Republic of Zambia (GRZ), based on study by the Oxford Policy Management, supported by IFAD\*.

- b) Setting up of the Rural Finance Unit in MOF, GRZ.\*
- c) Institution of Rural Finance Forum including all stakeholders besides IFAD\*.
- d) Amendments to the Banking and Financial Services Act, incorporating the provisions relating to corporate governance, fair competition and consumers' protection, financial accountability, prudential regulation and supervision, etc\*.
- e) Delegation in procurement at the project level in IFAD programmes\*.
- f) Collateral registry system–registration of property

## 3.2 Broad issues and recommendations for RF policy development

Based on the study and analysis of policy initiatives, emerging issues, IFAD's contributions for policy development and institutional strengthening, with special reference to each of the eight countries of the ESA region, several commonalities in the issues, trends and approaches have been noticed. These eight countries, notwithstanding their differences, have common challenges as regards to rural area/rural finance development. The main common challenges include huge poverty, financial exclusion, regional imbalance in development, inadequate financial infrastructure, and MIS gaps. Although each country is engaged in addressing the issues in their own way, these eight countries, implementing IFAD funded RF programmes could forge a regional alliance and foster rural finance in a spirit of mutual learning and facilitation. Each of their local best practices and national solutions can be tried and tested in other countries of the region. In that perspective, the following issues are identified and recommendations made for possible learning/strategic interventions.

### 3.2.1 Logical sequence for MF policy development

An issue has cropped up; particularly in Tanzania as to what should be the sequence/step-by-step process in MF policy development? Should the sequence be (i) formulating MF Policy, (ii) drawing the roadmap/strategy, (iii) passing MF regulation Act, (iv) putting in place appropriate MF Regulatory Authority and (v) framing the necessary regulations/supervisory framework. Instances have been noticed where regulations exist in the absence of specific laws and where legislations exist without proper policy. A logical sequence as given in the question format above is considered significant to ensuring harmony between policy, strategy, legislation, regulation and supervision and, thereby, to facilitating smooth preparations and enforcement of policy and rules and regulations.

### 3.2.2 Institutional arrangement RF policy and development strategy

The question has been raised in the RF policy-making circle as to what should be the appropriate policy thrust and institutional framework for rural development within the Government; should it be RF, MF, Financial Inclusion or Rural Development? Whether it should be a RF/MF/FI/RD Cell, Unit, Directorate, Department or Ministry in the Government to provide adequate policy and development thrust for rural sector? What should be its mandate? While each Government has its own vision, perception, policy and approach for implementation, every Government in the region should consider putting in place an exclusive and adequate institutional

architecture to focus and direct efforts for RF development, aimed at uplifting rural people through demand-based financial services.

### ***3.2.3 Bringing clarity on the definition, meaning and scope of MF***

There is no standard definition of microfinance in the countries and so an issue has come up as to what should be the proper definition of MF? Should it not be adopted in the countries' contexts? Should it be linked to size of financial product or modality of delivery? For example: In Zambia, initially, all consumer lending institutions were clubbed under MFIs (which was corrected subsequently). In Uganda, MF is envisaged to include a wide spectrum of institutions? There is need for evolving standard definition of MF in the region to make region-wide comparative data-building and analysis possible.

### ***3.2.4 Evolving definition of 'Rural Areas'***

It was observed that here is no clarity and uniformity of definition of rural area, urban, semi-urban, and peri-urban areas. Various programme holders carry and pursue their own perceptions of rural areas. The national statistical organizations or appropriate agencies of Government do adopt certain criteria defining rural area. However, at the operational level, people carry different perceptions; some say, any areas other than capital or major cities are rural areas. Should it be defined in terms of size of population, level of income or development or geographical setting? However, for proper planning and developmental focus, there is need for proper definition of rural area and its awareness built at all levels.

### ***3.2.5 Rationalizing interest rates for MFIs/clients***

The interest rate charged by MFIs has been the most talked-about subject in microfinance sector across the world. The predominant view is that there should not be any cap on interest rate to be charged by MFIs as it should be left to the market to determine. The interest rate cap in MF at the ultimate borrowers' level fixed by the Bank of Zambia (BOZ), in order to avoid excessive rates by MFIs in Zambia, has given rise to controversies. Should a financial institution's borrowing rate be the benchmark and the financial margin of the financing institutions be capped as being adopted in Kenya (APR system). The issue needs to be debated in the region and a standard approach to setting interest rate for MFIs be accordingly decided.

### ***3.2.6 Providing incentives for RF services***

Should there be differentiation in regulatory prescriptions of the Central Banks for financing commercial banks, community banks, MFIs, Cooperative banks, etc., to encourage them to provide financial services in rural areas or should it be left to the market forces? In the absence of any differentiation in branch licensing policy, there is regional imbalance in opening of branches, reflecting concentration of branch outlets in urban areas. Thus, there is a sharp urban-rural divide in terms of coverage of people in branch banking. *None of the Central banks studied provide any incentive for rural banking.* There is hardly any significant differentiation in regulatory rigors with regard to rural branches in terms of

physical infrastructure, security arrangements or existence of any incentives for HR in rural postings, notwithstanding the constraints in rural infrastructure. Possibly, Government authorities should strive to improve rural infrastructure, to encourage banks to take up rural financial services as a profitable business proposition. In the nascent stage of rural financial services in rural areas of the region, a certain amount of policy thrust/incentives from Central Banks and or Government is deemed necessary.

### ***3.2.7 Determining structure/model of regulatory authority***

The region demonstrates varying organizational arrangements for the financial sector. While in some, Central Bank is the only regulator, in some different regulatory authorities for various financial institutions/services have been put in place. Should the Central Bank be the regulator for all financial services-Credit, MF, insurance including micro insurance, pension, leasing, warehousing or cooperatives or separate regulatory authority for each of the segment should be in place? While in Kenya, separate authorities for various important segments exist; in Ethiopia, the Central Bank has so far assumed regulation of the financial sector including insurance (except capital/commodity market). FSRA in Swaziland is an example of combined regulation by a separate authority. In Uganda, it is proposed to have one MF Regulatory Authority for overall regulation, while delegating supervision to other agencies. Each model has its own merits. Earlier, IMF had studied relative efficacy of these alternative models, i.e., Central Banks as regulator and supervisor of financial sector, separate autonomous regulatory authority outside Central Bank and Central Bank sharing of regulatory and supervisory functions with other identified institution, covering over 100 countries. None of the models proved to be perfect and each had its limitations. Now, an idea of super regulator in Government as a sort of coordinator for all regulating entities is being thought of in Kenya. Each of the countries can mutually learn from the experience of others with regard to regulatory models and practices.

### ***3.2.8 Evolving/instituting separate law and regulatory authority for financial cooperatives***

None of the Governments, except that of Kenya, has so far framed a separate law for financial Cooperatives and the Cooperative Societies Act in the countries covers all kinds of cooperatives. In Kenya, a separate SACCO Societies Regulations Act has been framed, besides setting up of a separate SACCO Societies Regulatory Authorities (SASRA). “Dual regulatory systems” have emerged; for example, regulation for deposit-taking cooperatives by Central Banks and for others by the Department of Cooperatives and Cooperative Development Commission as in Lesotho and Tanzania, respectively. The regulatory authority should be autonomous, professional and expert body and there is need for special dispensation in terms of regulation, supervision and audit of financial cooperatives in all countries. In that context, the working of SASRA should be carefully studied by other countries of the region for possible replication.

### ***3.2.9 Resolving disparity in procurement processes of the implementing agencies vis-à-vis IFAD policy***

There have been delays in the implementation of envisaged activities under some of the projects of IFAD due to the differential procurement system of the implementing agencies and their consequent difficulties in adhering to the procurement policy of IFAD. In Zambia, delegation in procurement at project level was adopted to tide over the delays. What should be done to remove bottlenecks and ensure alignment in procurement policies? It is desirable that procurement policy and system of all implementing agencies are looked in to by a joint team in the first year of the programmes and solutions found, obviating delay and difficulties in the middle of project implementation. Considerable time-lag in completion of IFAD's Rural Finance Programme and commencement of the new programme was witnessed, notwithstanding the timely designing of the new program, as in case of Zambia/Uganda. What should be the exit policy/strategy, when many of the backlog activities under the current programme need to be completed and stakeholders need to comply with conditions for commencement of the new program? Should there not be an interim arrangement at the Government level to ensure continuity of certain good practices/interventions and reform measures evolved during the IFAD project period, or even post-project period?

### ***3.2.10 Annual reporting on state of rural finance***

FinScope surveys which are conducted every 3–4 years in the countries provide useful information on financial inclusion. Sometimes, donor agencies sponsor such documentation as done in Uganda through AMFU. However, the progress and trends in rural finance need to be updated on annual basis. Even the Central Banks' Annual reports are available in the public domain, after considerable gap of 1-2 years. Mix Market data are also generated. To carry forward rural financial services on more systematic basis, concrete arrangements to have an annual report on State of Rural Finance should be made in each country. Can there be an institutional arrangement for ensuring an annual document as a sort of continuing agenda under Rural Finance Program? Possibly IFAD through KMP, or major donor agencies together, could have an understanding for supporting such arrangements for the next 5 years in ESA countries.

### ***3.2.11 Ensuring resource support for rural financial institutions***

In some of the countries, rural financial institutions are experiencing difficulties in getting adequate resources to meet increasing demand for microfinance in rural areas. IFAD's rural finance programmes have been able to meet the liquidity gap to a certain extent. Development Banks in various countries, which were primarily set up with Government support, have been rendering valuable financial and developmental support for rural financial institutions. These include National Savings and Credit Bank (NCSB) in Zambia, MF Support Centre Ltd in Uganda, FARE in Mozambique. Recently, Agriculture Development Bank of Tanzania has been set up. Such apex development banks could be perspective partners for Rural Finance Programmes of IFAD. However, CBs have been neither mandated to finance MF/rural sector nor encouraged to supplement the resources of MFIs/Community Banks/Cooperative banks in flexible/soft terms.

At this juncture, when MFIs are handicapped to fulfill rising demand of the rural sector, the following policy options are suggested:

- Policy prescription mandating CBs to provide credit support to MFIs with relaxation of government guarantee norms;
- Instituting guarantee fund mechanism to encourage CBs to take recourse in rural finance by leveraging the fund;
- Enabling the banks, through incentives, to finance microfinance sector/ rural areas, coupled with building up rural financial infrastructure;
- Popularizing collateral substitutes by promotion of group lending, linkage-banking as well as technology-led financial services such as mobile and agency-banking;
- Strengthening/instituting an apex development bank for wholesale financing for rural sector/microfinance along with developmental mandate as envisaged in the RUFIP II; and
- Tracking financial assistance provided by CBs to MFIs/Co-operatives and reviewing the same on an ongoing basis by regulatory authorities.

Policy-making institutions should examine the feasibility of various options and take appropriate steps before it is too late.

### ***3.2.12 Strengthening industry associations/umbrella organizations***

The Associations of MFIs, apex cooperatives and bankers' associations undertake policy advocacy, promoting standards and fair practices in financial services, awareness-building on issues, documentation, studies and dissemination, etc. They have been partners in IFAD's rural finance programmes, with different degrees of involvement. Some are having heterogeneous membership as in Kenya. In Kenya, Association of Credit Providers has been set up besides Association of MFIs (AMFI) and Kenya Bankers' Association. Some of these associations, such as AEMFI (Ethiopia) and AMFU (Uganda), have assumed multiple roles in influencing policy in RF in the country. Cooperative federations /unions/alliances are generally weak in ESA countries with the exception of Uganda. These institutions could be made more effective so as to play a vibrant role in the policy-making process. Rural Finance Programmes should address institutional strengthening of associations/umbrella organizations.

### ***3.2.13 Embarking on Micro Insurance Development***

Micro Insurance as part of rural financial services has been receiving attention of policy-makers. Working groups under FSĐT, ILO interventions and insurance regulatory authorities (Tanzania Regulatory Authority, National Bank of Ethiopia, Insurance Regulatory Authority in Kenya, etc.) have initiated studies, drawing roadmaps, framing regulations for micro insurance, but it is a long way to go to upscale micro insurance significantly in rural areas. The sector is in infancy in every country. Micro insurance should be the integral part of financial inclusion plan/rural finance programmes. With a view to carrying forward micro insurance in a systematic manner, besides comprehensive policy, strategy and law, detailed regulatory guidelines encompassing licensing, prudential norms, distribution channels and consumer awareness and protection should be evolved and

implemented. Supervisory manuals should be prepared for proper and systematic approach. Strategies could include financial literacy, pilot experiments for product development, capacity building of stakeholders, database management, pricing mechanism development, grievance redress, etc.

#### ***3.2.14 Increasing popularity of mobile banking***

With the increasing use of mobile phones in rural areas, mobile banking has been getting increased attention by the central banks, telecom authorities and banks for speedier financial inclusion. Except Kenya, all other countries are in the formative stages in mobile banking. Some of central banks have recently issued mobile banking regulations / guidelines. Commensurate with popularity of mobile phones in rural areas, mobile banking needs to be up scaled significantly in the years ahead, with necessary policy and regulatory safeguards.

Central banks have issued agency banking regulations for accelerating financial inclusions recently in the countries. Agency banking is also in infancy in the region. Before intensifying the channels for faster and cost-effective financial inclusion, the operational challenges need to be taken care of, with necessary supervisory, reporting and prompt corrective action mechanisms.

#### ***3.2.15 Supporting computerization, connectivity and payment and settlement***

While computerization including CBS installation has been stabilized or is in advanced stages in CBs, the same has seen varying degrees of implementation in MFIs. National Payment system/payment regulations have been in place in the countries to facilitate remittance and clearing transactions. Still, cooperative institutions, MFIs and NBFIs have not been fully integrated with the mainstream remittance operations in several countries. Payment and micro remittance operations need to be deepened for financial inclusion. The challenges of interoperability of various systems, power and connectivity, MIS, cost-effectiveness, technology adoption capacity and HR, etc., pose problems for MFIs and cooperatives, which need to be addressed.

#### ***3.2.16 Broad-basing credit reference system***

There have been initiatives in formulating regulations for Credit Information-sharing, setting up of credit reference bureaus in the countries. However, CBs and regulated entities have been mostly integrated. The incidence of double financing and over indebtedness cannot be ruled out. Some form of voluntary exchange of information on borrowers among MFIs has been in vogue in some pockets, which have not been full-proof and effective. Sharing of both positive and negative information is in vogue in Kenya. Information-sharing and database on borrowers in RF need to be strengthened, by integrating MFIs and cooperatives with credit information bureaus. It involves a lot of ground work, besides cost, technology adoption and redesigning reporting framework. Systematic efforts should be adopted by implementing institutions, policy-making and development institutions. The broad strategies suggested in this regard in case of Mozambique (Annex 3–Country Report for Republic of Mozambique) should be kept in view.

### ***3.2.17 Instituting pension reforms and micro pension development***

Payment of pension/social security benefits through channels of banking and financial institutions is also in infancy in the region although it has been commenced in some of the countries. Retirement Benefits Authority in Kenya has been set up for introducing financial discipline in the segment. Micro pension is emerging as a potential instrument of financial services. However, micro pension as a concept has not been internalized. There is need for policy, law and regulations, besides more pilot experiments, on micro pension schemes covering group / individual models for poor and low income people.

### ***3.2.18 Boosting agriculture financing***

Notwithstanding the policy focus on financing of agriculture, livelihood finance and value chain finance and huge potential for financial inclusion, credit flow for agriculture has been very low (e.g. in Kenya, agriculture credit shares only 6%). Much more effort and policy thrust need to be directed for enhancing financial services for agriculture. There is considerable scope for innovative financial products and services in this regard, besides policy explorations.

### ***3.2.19 Enhancing diversification of financial services products***

Market research and piloting, etc efforts for Product development are weak. More pilots on financial services products in livelihoods promotion projects, agricultural value chain programmes are deemed necessary, considering potential for up scaling. There is need for organized efforts for introduction of new and innovative products, based on client satisfaction survey, capability assessment of the poor/ultra poor, client profile building in various geographical locations. While replicating/up scaling good products and services, the prudential guidelines, risk-management safeguards evolved by the regulators, customers' feedback should be kept in view by the financial institutions.

### ***3.2.20 Aiding rural saving mobilization and deposit safety***

RFIs, and also informal groups, have been instrumental in mobilizing thrift and savings. More efforts should be directed towards developing a savings culture among rural people. The banks, MFIs and SACCOs/Unions could enhance their accessibility, flexibility, security and customer friendliness to attract deposits in rural areas. Deposit insurance fund with organizational framework of a deposit insurance corporation, etc has not been set up for deposit safety for small savers in all countries. Deposit Insurance Act/regulations should be enacted in all countries. Deposits of financial institutions other than regulated entities need to be protected. Savings products suited to customers' needs, convenience and interests should be introduced and popularized.

### ***3.2.21 Enhancing linkage banking***

Linkage banking by way of linking informal groups with formal financial institutions/community banks/SACCOs has been commenced. IFAD has been supporting the informal sector, community-based institutions, NGOs, etc., in this direction. However, linkage banking is in infancy in the region. Much more policy



thrust and developmental interventions are needed for deepening the emerging rural finance channel. This will augment savings mobilization, access to finance, livelihood promotion and empowerment.

### ***3.2.22 Implementing financial inclusion framework***

Central Banks have assumed roles as the nodal agencies for financial inclusion policy framework including financial education, and commenced multi-pronged campaign, encompassing most of the financial and development agencies. However, the efforts in this direction are in the formative stage and there is enough scope for the participation of other financial institutions in the whole effort for rural sector. Some of the countries have been signatory to the MAYA Declaration on Financial Inclusion and it is hoped that policy and implementation would be getting added momentum.

### ***3.2.23 Enhancing donors' convergence in RF space***

Besides IFAD, other development agencies like World Bank, UNDP, DFID, GIZ, ADB, ILO, KFW, etc., have been participating in rural finance sector, often focusing on financial inclusion and dealing with the same set of stakeholders. IFAD has, however, been a very prominent player consistently in rural finance sector. (e.g., RIFIP I and II programmes in Ethiopia). With a view to coordinating with donor agencies in the whole effort, consultative forums/working groups with representation from the international partners have been constituted by the Governments. It is however felt that there is more scope for mutual consultation, exchange of experience, collaborative efforts among development agencies in planning, designing and implementation of RF programmes.

### ***3.2.24 Facilitating public participation in policy-making for RF***

Every country should evolve a comprehensive RF policy and strategy in a consultative process. Central Banks and Governments take recourse to seeking public opinion on the proposed draft legislation/regulation through websites, discussion in consultation forums and communication with stakeholders. There is varying degrees of transparency in this regard. Microfinance /Rural Finance Forums, with varying names, origins, status, mandates and effectiveness exist in different countries for consultation/discussion on policy issues with stakeholders. National Bank of Ethiopia stands out as the most transparent in policy and regulation-making in MF. The proposed policy, draft bills and regulations should be available in the public domain for public opinion.

### ***3.2.24 Monitoring and evaluating impact of policy***

There is need to gauge the impact of a policy at the field level from time to time. Measurement tools for the purpose need to be evolved and tested. The feedback would be useful for policy refinements.

### **3.3 Best practices in RF with prospects for regional and global replication**

The study revealed a number of good initiatives and best practices in policy and regulation/supervision in RF in the countries covered. The best practices encompass policy explorations, development processes, adoption/implementation, institutionalization and knowledge management. Although such policies have been developed and implemented in the country-specific environment, some of them could be replicated in other countries in the region and the developing world in general, given similar socio-economic environment.

#### ***3.3.1 Participatory regulation-making in MF by National Bank of Ethiopia (NBE)***

As narrated in the Ethiopia Country Report (Annex 1), the MFISD of NBE has provided transformational leadership and issued forward-looking regulations for the MFIs in Ethiopia. A case study was undertaken to give an idea of its goals, processes, tools and ongoing initiatives and the report has been provided. One fact comes to the fore; that they have adopted a very elaborate and intensive consultative process in finalizing regulatory directives and supervisory guidelines. Their participatory approach in this regard deserves replication.

#### ***3.3.2 Policy advocacy through evidence-based research by AEMFI***

As explained in the Ethiopia Country Report (Annex 1) and also in the case study report for AEMFI (Appendix 7), Ethiopia has in place multipronged activities to further of MF sector in the country and ESA region. They have set up Ethiopia Inclusive Training and Research Institute to focus on training and research. AEMFI has undertaken a number of research studies having bearing on policy, regulation and supervision of MF sector, which have been documented. Their role in policy advocacy, training, studies and research needs to be replicated by the upcoming associations across the region.

#### ***3.3.3 Integration of credit reference bureau with MFIs in Lesotho***

While in several countries, credit reference system has been put in place, the same has been confined to CBs. In Lesotho, MFI and credit reference Bureau are integrated. This approach needs replication.

#### ***3.3.4 Agriculture extension officers assume nodal responsibility in financial literacy in Lesotho.***

The Government of the Kingdom of Lesotho has taken the lead in the financial literacy efforts and the agriculture extension officers in the districts have been designated as Financial Literacy officers. It is a unique approach to enhancing financial inclusion.

#### ***3.3.5 Introduction of partial guarantee scheme and fund administered by Central Bank of Lesotho***

With the support of IFAD, the Kingdom of Lesotho has taken early initiative in implementing the concept of guarantee, implementing guarantee scheme,

instituting guarantee fund. The CBL now maintains/administers partial credit guarantee fund, instituted by the Govt. of Lesotho.

### ***3.3.6 Transformation of Lesotho Postal Services to Lesotho Postal Bank with focus on the poor***

With joint support of World Bank and IFAD, the Lesotho Postal Services (LPB) have been upgraded to a licensed bank, dedicated to financial inclusion. The systematic transformation of LPB is a good initiative. In many developed and developing countries, postal banks are operating as an integral part of the finance sector. The very transformation process of postal services to postal bank with mandate for the poor shows the way to other countries in the region.

### ***3.3.7 Evolving a comprehensive RF policy and strategy through participatory mechanism in Zambia***

As illustrated in the Zambia case study (Appendix 10), a very comprehensive rural finance policy and strategy has been evolved in a participatory process involving stakeholders at various levels under the aegis of Oxford Policy Management (supported by IFAD) which has been adopted by the GOZ. Both the RF model and its development approach deserve replication in the region and globally.

### ***3.3.8 Instituting Document Centre in Zambia for all IFAD projects***

An initiative to set up a document centre, as a prelude to a repository registrar, covering all IFAD projects has been made, for reference by all stakeholders. This is a novel approach, which should be tried in the region.

### ***3.3.9 Amending procurement laws to facilitate implementation of matching grant facility in Zambia under RF programme of IFAD***

With a view to facilitating speedier use of funds through RFP, the relevant laws on procurement were amended to allow delegated authority to manage the funds. This was a positive and pragmatic approach to minimize delay in implementation of the interventions under the RF programmes.

### ***3.3.10 Harmonizing laws in the financial sector to ease implementation of RF initiatives in Zambia***

A group has been set up to review all laws, with a view to refining and bringing harmony in the relevant laws. This needs to be replicated in all countries of ESA.

### ***3.3.11 Introducing prudential regulation for SACCOs and instituting separate regulatory authority in Kenya.***

The institution of SACCO Societies Regulatory Authority (SASRA) and putting in place prudential regulation for SACCOs in Kenya, is a best practice which should be considered by all countries in the region and globally.

### ***3.3.12 Initiatives in deposit insurance in Kenya***

Kenya Deposit Insurance Act, 2012 paved the way for establishing Kenya Deposit Insurance Corporation and deposit insurance fund. This ushered the way for deposit insurance system covering financial institutions, mortgage finance company, MFBs and insuring deposits of up to 100,000 shillings (USD 1 = KES 85 in 2014). This system needs to be introduced in some of the countries of the region.

### ***3.3.13 Broad-basing credit information system in Kenya***

The credit information sharing was rolled out in July 2010 and the revised credit reference bureau regulation has been brought out in 2013 to allow the institutions licensed under the two Acts share both positive and negative information on the “credit reference bureau”. The Banking Act permitted CBK, Deposit Protection Fund Board (DPFB) and the institutions licensed under the Banking Act and MF Act to share credit information. Association of Kenya Credit Providers has been launched to bring different credit providers under one umbrella body. Such reforms can be considered in other countries in ESA.

### ***3.3.14 Establishing regional hubs by the Bank of Mozambique for closer supervision.***

The Supervision Department has established six regional hubs/outlets with inspection units in different provinces to operate closer to the supervised rural finance institutions. This strategy is replicable in other countries.

### ***3.3.15 Rural Finance pervades institutional architecture in Mozambique Govt.***

Fine examples of the plethora of institutions managing RF in Mozambique include the following: National Directorate for Promotion of Rural Development (DNPDR), the major policy and strategic body; Rural Finance Policy Unit (RFPU) within DNPDR, the nodal agency for financial sector development and deepening financial inclusion; the Working Group in RF discussing issues of fisheries sector; the Rural Finance Reference Group, convening microfinance conferences/launching savings mobilization campaign; and FARE, a unique wholesale Financial Institution, engaged in different types of financial operations including guarantee funds’ management.

### ***3.3.16 Developing new regulations for SACCOs under the Financial Sector Regulation Act in Swaziland***

While the regulation has been very comprehensive, the provision of a Statutory Manager for SACCOs and setting up of Deposit Guarantee Fund for SACCOs are unique. Unlike in Kenya, Financial Sector Regulatory Authority (FSRA) set up under the FSRA Act, 2010 regulates all non-bank financial services industries in Swaziland.

### ***3.3.17 Synergizing Microfinance Unit (MFU) under MOF with Swaziland University***

The MFU–UNISWA partnership is aimed to facilitate the Swaziland University and MFU working together in key interventions, envisaging a new and innovative entrepreneurship culture. The areas of focus include enabling environment for MSMEs, deepening rural financial sector through enhanced access to finance, building rural entrepreneurial capacity and institutional development, etc. Such a collaborative approach is good practice and could be replicated.

### ***3.3.18 Tanzania Co-operative Development Commission (TCDC) shows new organizational design in co-operative sector***

The functions and organizational structure of TCDC which has been created recently under the Co-operative Societies Act, 2013 have been discussed in the Tanzania Country Report (Annex 6). The efficiency of TCDC is yet to be proved. However, the proposed separate regulations for financial co-operatives, and development of a supervisory pool of officers for financial co-operatives, hold promises.

### ***3.3.19 Co-operative Audit and Supervision Corporation (COASCO) a good example of separate institutional architecture in finance sector***

The COASCO was created to provide audit and supervision services in Tanzania mainland co-operatives and also give advice on audit and accounting procedures, to formulate audit and accounting policy and ensure their adoption by the societies. Statute-wise and organizationally, COASCO has been good and well intended. Although for the SACCO sector, the expected improvement of audit under the aegis of COASCO has not taken place, but a separate institutional architecture in this form infers a good institutional practice. On the other hand, the recent involvement of private audit personnel, to supplement government auditors for co-operatives in Zanzibar is an interesting phenomenon, worthy of study and replication.

### ***3.3.20 Community banks could be replicated through upgrading of MFIs as in Tanzania***

The community banks in Tanzania set up in the early 90s have been providing financial services in rural areas. A community bank is a formally registered institution, funded by members of local community in the defined districts/region, which is licensed and regulated by BOT. They are authorized to provide savings, loans, remittance, micro insurance, leasing micro financing, etc. The Community Banks Association of Tanzania (COBAT) has been protecting the interest of the Community Banks, particularly in regulatory and supervisory issues. Some of good performing MFIs in other countries could be upgraded as “community banks”, to facilitate diversified financial services in rural areas subject to provisions of suitable laws and regulations.

### **3.3.21 Introducing performance monitoring tools (PMT) for SACCOs in Uganda**

In RFSP, with involvement of AMFIU, the PMT has been implemented for participating SACCOs. PMT is a comprehensive reporting tool, which would be useful for business planning and development. The system has considerably improved data-building/MIS, transparency, benchmarking in the performance analysis and monitoring system for SACCOs. This can be replicated in the region.

### **3.3.22 Explicit communication system adopted in Uganda for influencing policy-making process under RFSP**

The explicit communication strategy envisaged direct communication through the “communication officer” to various segments of MF sector/co-operatives including dissemination of evidence-based information to the regulatory and decision-making bodies; field visits for members of Parliament; public hearing and public discussions. It also included dissemination of various awareness literature, radio programmes and TV shows on savings, co-operative principles, governance, etc. This strategy has resulted in bringing new awareness among all.

### **3.3.23 Innovative initiatives through Government of Uganda**

Land registration through land information/computerized titles, initiatives of Public Management Reforms Act and “action matrix” and “social accountability” mechanism are some of the good initiatives undertaken at the behest of GOU. It has established PPP unit in MOF. Public Finance and Accountability amendment Bill and the PPP legislation are under consideration of Parliament. The *BARAZA* system to create space for communities to hold government accountable is unique in Uganda. These can be replicated in other countries.

## **3.4 Promoting KM&L for RF policy development in the ESA countries**

### **3.4.1 Role of IFAD in KM**

IFAD has been focusing on knowledge management (KM) policy and strategy in its programmes across the region. It has brought out a KM strategy document illustrating the concept, strategic steps, frame work and expected results, etc. (IFAD 2011). In the design documents of rural finance programmes, KM development is focused upon, while in the implementation and review mission reports, the KM aspects are reviewed, analyzed and subsequent actions suggested.

### **3.4.2 Role and contributions of KMP**

Through the Knowledge Management and Learning in the East and Southern Africa region program, IFAD is supporting two knowledge management grants, Rural Finance Knowledge Management Partnership (KMP) and IFAD Africa grants, to provide expertise in KM to improve project management processes and results. The long-term goal is to build from the ground up an effective system for knowledge management and learning and improve the impact for IFAD-supported programmes/projects in the ESA region. KMP has been in operation since 2003, mainly focusing on IFAD Rural Finance programmes in ESA countries. While

## Box 2. Meaning of KM

1. “KM is a set of processes, practices and management philosophies that exist to collect, process, store, share and make available the organizational knowledge that enable organizations to be proficient and competitive in the delivery of their services”.
2. “KM is about capturing, creating, distilling, sharing and using know-how. That know-how includes explicit and tacit knowledge, it is not about books of wisdom and best practices, it is more about communities that keep know-how of a topic alive by sharing what they know and *adopting* it to their own use and *adapting* it to their own use+++ call it performance through learning, shared knowledge or simply, working smarter” (C. Collision and G. Parcel )

KMP I and II projects have been completed, the KMP III (commenced in 2012) is ongoing and is envisaged to be completed by 2015. The KMP has contributed significantly to the enrichment of KM interventions in RF programmes in the ESA countries.

Through KMP, several awareness and skills and competence–building efforts have been made by way of following:

- Supporting and supplementing RF programmes by participation in the design/review missions and thereby, facilitating linkage and development of cross-fertilizing ideas and expertise in the programmes;
- Disseminating knowledge, best practices and critical learning’s through various publications brought out periodically;
- Enriching the knowledge of all viewers through its websites and e-learning channels;
- Undertaking studies on identified themes and documenting/disseminating findings;
- Organizing/participating in workshops. seminars and meetings on emerging/ contemporary issues;
- Focusing on KM, financial literacy, evidence-based learning, client education, etc in all above.

### 3.4.3 Vision for IFAD’s KMP IV

Notwithstanding the contribution of KMP so far, a lot more need to be done in ESA countries, with particular reference to RF policy and programmes in the years to come. Apart from strengthening and deepening the existing interventions, it may be necessary to broad-base and add more components/sub-components to KMP IV, to have greater impact in the region. In the bigger picture, KMP IV could cover the interventions at the levels of IFAD, HID (Human and Institutional Development) of partner agencies, rural clients, field/ action research and ICT/ technology. The envisaged activities could be possible if IFAD’s country Project

Offices could have a dedicated KMP official to directly undertake KM interventions under the ongoing programmes. The community of KMP officers should assume greater responsibilities in terms of implementing and monitoring KM interventions, accountability for reporting to KMP Nairobi, and exchange of experiences, value additions to knowledge products, etc. KMP Office at Nairobi needs to be suitably strengthened to implement the larger and diversified mandate. Further, KMP could also leverage the core strength of AFRACA in terms of infrastructure, experience and networks, for the above purpose.

#### ***3.4.4 Popularization of KM as a concept***

There is lack of clarity of, and familiarity with, KM as a concept at various levels, particularly the stakeholders of RF programmes. First of all, the concept of KM should be popularized through aggressive awareness-campaign. The meaning and scope of KM should be illustrated in every form of communication among the policy makers, policy implementing agencies, financial institutions and developmental agencies. KM should be embedded into the organization's work processes and products.

#### ***3.4.5 Internationalization of KM policy***

While the international agencies (IFAD, World Bank, UNDP, ADB, etc) have evolved KM concept, policies and strategies over the years, it is observed that the same have not been generally internalized by the stakeholders of RF programmes in terms of usage, policy and practices in ESA countries (8 countries studied). As the second step in the direction, as a sort of policy advocacy, RF programmes should direct efforts to persuade the implementing agencies, particularly the MOF, Central Bank and other regulatory authorities in the financial sub-sectors and the regulated entities (CBs, MFIs, Community Banks and financial cooperatives) to evolve and adopt a KM policy and strategy document. IFAD/KMP, may consider preparing a blue print of such conceptual framework, i.e., a KM policy blue print document that would suite different categories of the institutions, to facilitate their appreciation, adoption and implementation.

#### ***3.4.6 Placing of Chief Knowledge Management Officers in all institutions***

Policy framework referred to above, should envisage identification/ positioning of Chief Knowledge Management Officer (CKMO) in each of the organizations to promote and catalyze leadership development and collaborative learning across the organization. The CKMO should report to the CEO to provide inputs on the initiatives, progress, learning and outcome in Knowledge Management. The Rural Finance Programmes should even consider bearing part cost of Chief Knowledge Manager, subject to certain obligations of the agreed framework that include institutionalization of the CKMO and KM units on a sustainable basis after IFAD assistance ceases. The CKMO can be alternatively designated as Chief Learning Officer (CLO), with the presumption that each officer is a knowledge manager / learning officer and the organization a learning organization / knowledge development agency. as charity begins at home, each of the RF project offices of IFAD should have a knowledge management officer assuming a proactive role of putting in place KM policy framework in the stake holding institutions



and reporting to KMP, with accountability to undertake identified activities and providing regular feedback. This would facilitate proper implementation of KMP interventions and also development of documentation, learning process, database development, close monitoring and timely corrective action in KM area.

### ***3.4.7 Capturing changing paradigms, new trends and techniques in learning process***

We live in a dynamic world with consistently and constantly evolving technologies and processes. The following changes are witnessed in KM processes;

- Digitized learning content, disseminating to large audience through computers/ mobiles;
- Greater use of technology for training and digitizing course content;
- E-Learning, allowing organizations to scale up by digitizing knowledge/ MIS and making it available anytime and anywhere;
- KM (training, skill and capacity development and field learning, exposures) warrant continuous updating as policy environment, rules, and regulations change and compliance requirements get enhanced and needing employees' familiarity with new processes and approaches.

Thus, KM is no longer a matter of choice but has become an absolute necessary. Each of the institutions should open a folio on KM as well as on RF in their website to reach a larger audience. Learning and development process at work place need to transcend geographical barriers and provide learners with an engaging, intuitive, collaborative and personalized learning experience. RF programmes should support this information process in the implementing institutions through appropriate KM inputs and tools.

### ***3.4.8 Establishing an institution of KM excellence in every country in ESA***

Most of the training and capacity building efforts have been ad-hoc and sporadic under RF programmes. For sustainable impact, institutionalization is necessary in every country and support for appropriate institution-building for training and capacity building in RF should be focused in RF programmes. An institution of excellence at the national level for rural finance with a series of accredited training institutions at decentralized levels should be established for sustainable training interventions.

### ***3.4.9 Enhancing role of research in policy-making***

Institutional architecture for policy research in rural finance is limited. Central banks have research departments, but action research in rural finance is very little and occasional across the countries of the region. Some of the institutions like Zambia Institute for Policy Analysis and Research (ZIPAR), the Economic Policy Research Centre (EPRC) in Uganda, the newly set up EIFTRI in Ethiopia, etc., have potential for undertaking research studies in RF themes. However, institution-building with thrust on research in RF is not yet given due focus across the countries. In policy-making, evidence-based research is critical. KMP needs to explore new ways and partnerships to improve pace and products in RF research. In recognition of diversities in the countries, context-specific research

is deemed essential. The following strategies need to be explored for encouraging research efforts and improving translation of research finding into practice:

- Collaborating with research department/research institution of central banks to focus research in RF;
- Setting up/supporting dedicated chair professor in RF, in selected universities/policy research institutes which could spear-head action research in RF;
- Conducting policy seminars on themes of policy research, covering networks of research institutions, academic institutions, consultants, donors and others who are engaged in policy-related research;
- Increasing professionalization of policy functions and accountability of government and policy makers; and
- Identifying / Setting up/ strengthening suitable institutions for policy research through long term collaboration.

These initiatives can be explored by KMP within the purviews of the ongoing phase and the proposed new phase.

#### ***3.4.10 Instituting a KM Standing Sub-Group under the Steering Committee/ Policy Forum Instituted under RF programme***

As discussed country-wise RF programmes, policy steering committee/rural finance forum, etc., platforms have been instituted under the purview of the programmes. While such standing Forums should be constituted to focus discussion on policy issues, it is recommended that a KM standing committee/sub-group to the policy group should be constituted and meetings convened to conduct special discussions and exchange of evidence on all relevant KM aspects, on a regular basis. The committee can be convened by the KM officer of IFAD or chief KM officer of a central bank or the leading implementing agency by rotation. The committee may comprise of chief KM officer of central bank, KM officer of IFAD, co-op regulatory authority, CKMS of select MFIs, the principal research officer/director of one or two premier training / research institution(s), CEO of the MF association/institute of Bankers. This committee can review implementation of KM policy framework in the implementing institutions, outcome of research efforts and new and innovative KM tools, etc.

#### ***3.4.11 Organizing Seminars, Workshops and Learning Programmes on Policy Themes***

It is observed that most of the above programmes have been focused more on themes of functional aspects, business products and services. It is necessary to have participatory policy-making process, open consultations on legislative, regulatory and supervisory framework, and feedback on implemented policy in RF involving users. Deeper knowledge, greater insight and full appreciation of the policy issues are a must for critical assessment and needed refinement of policy or regulations, directives and supervisory guidelines. So, more of structured interventions need to be convened and open door approach be adopted by all policy-making institutions, including central banks, for better compliance and sustainability.

### ***3.4.12 Financial Literacy Campaign—Revisiting KM Policy***

In the region, central banks and governments have commenced framing of needed policy-making organizational arrangements and strategic interventions for financial education/literacy among the people, particularly low income clients in rural area. While scaling up the campaign, a financial capability study on the poor need to be undertaken to have a reality check as to their absorbing capacity, preferences and aspirations. The future of rural finance services rests with people at large, what they want and prioritize. They should make informed decision on the financial services. In this context, KM policy and strategy may be revisited so as to bring financial literacy and financial education, and financial capability related interventions could be supported under KM programmes.

### ***3.4.13 Integrating M&E with KM Process***

While it is recognized that good knowledge management depends on a well-functioning M&E system, M&E systems should enable identification, capture, analysis, documentation and dissemination of lessons and good practices emerging from programme activities, on an ongoing basis. KM should be a way of life in IFAD project offices. HRD interventions for the officers in IFAD project offices need to be suitably redesigned to bring about that orientation in the whole approach to KM, thereby bringing about a continuous learning and unlearning environment for enlightening the stakeholders, and integration of all programmes for policy development.

### ***3.4.14 Perspectives***

Each country in the ESA region has innate potential, uniqueness and available opportunities. There are however, similarities in terms of emerging challenges - financial exclusion, regional imbalance, rural poverty, infrastructural constraints in rural areas, lack of financial literacy, etc. Thus, ESA as a region could benefit from KM perspectives through greater exchange of learning, innovative solutions, best practices and results of policy explorations/pilots in the countries, documentations and studies under the aegis of KMP. Accordingly, KMP IV framework should be broad based and deepened in the years to come.

## Chapter 4

### General conclusions and recommendations

#### 4.1 Suggestions for action plan and implementation of study findings

In the foregoing Sections of the report, emerging issues and challenges and possible strategies in rural finance in the ESA countries have been outlined, both country-wise and regionally. As a prelude to the development of an action plan for implementing the recommendations of the study, a few key action points that could serve as a general guide to strategy development are outlined here below:

- a) The best practices in rural finance policy and programmes implemented under the aegis of IFAD in the ESA countries should be highlighted and disseminated across the regions and globally.
- b) While designing new programmes in RF for ESA countries, a component on “policy development and strengthening regulatory and supervisory frame work” should be included as a strategy for promoting orderly development of rural finance, considering the huge challenges posed by financial exclusion and the formative stage of rural finance in the region. Positive contributions of ongoing or completed RF programmes that included with the above component, in some of the countries, bear testimony of the advantages of such component.
- c) Participatory policy-making in rural finance has demonstrated its efficacy. Setting up / strengthening / use of policy forums in the countries, wherever RF programmes are implemented should be included / sustained as a policy-making strategy.
- d) Industry associations like MF associations/bankers’ associations, etc., have been playing a useful role in various ways including policy advocacy. Their role in policy advocacy for evidence-based policy reforms in RF should be strengthened and sharpened.
- e) In view of the emerging need for greater awareness of policy issues, regulations and supervisory guidelines, risk management, change management, etc., seminars/events on such issues for stakeholders under the purview of RF programmes should be conducted regularly, for brain storming and dissemination of learning.
- f) Regulators and policy-makers should explore various policy options and strategic interventions to improve profitability of rural finance operations, to ensure resource support to rural finance institutions (MFIs and co-operatives), to enhance the quality of rural finance portfolios and to deepen their outreach. Tours, visits, seminars and workshops should be supported to facilitate sharing of experiences.
- g) Policy research should be reoriented for RF development through agenda setting, strategic formulations, implementation and evaluation. The researchers should be motivated to influence policy-making in rural finance.

- h) KM interventions in RF policy should target/involve bureaucrats, technocrats, academicians, elected public representatives [national, regional and local], ministerial level persons, regulating bodies, financial institutions, development agencies, Board of Directors of financial institutions, and clients at the grassroots. So, KM strategies should be broad-based. Suggestive interventions under the next phase of KMP are outlined in Appendix 5.
- i) While policy advocacy role can be pursued by all stakeholders - IFAD, implementers of RF programmes, Associations and Apex agencies, the same should be undertaken in a pragmatic manner. Thus, passion, readiness, knowledge, skills, systems, resources and understanding on policy advocacy need to be strengthened and sharpened. This would call for interventions for mapping policy landscape, identifying and analyzing the issues, establishing priorities, goals, understanding target audience, formulating strategic action plan, communication faculty, access to policy related research studies, consultation with policy experts and strong relationship with policy makers. Policy Advocacy workshops should be supported for stakeholders in RF programmes for building capacity on promoting policy dialogues.
- j) Diversities of people, geographical locations, traditions and cultures, natural environment and financial infrastructure, etc should be recognized while shaping rural finance policy and programmes. So, a flexible approach towards methodologies and partnerships need to be adopted for policy design and implementation.
- k) Value chain approach to agriculture needs to be strengthened. There is considerable scope for better understanding on the part of the financial institutions, policy makers and participants about emerging challenges and opportunities of value chain finance. KM interventions in this direction should be intensified. Various approaches like public-private partnerships, business-to-business alliances, and access to fair market practices should be promoted.
- l) Successful rural finance reforms require fundamental changes in legal framework, ownerships, governance, management, products, institutional sustainability and clientele literacy. Comprehensive rural finance reform packages, if any, to be implemented should address these issues.
- m) A number of laws and regulations in the financial sector have been framed by each of the countries studied. Considering the need for harmonization of such laws and regulations, effort should be directed towards reviewing and harmonizing RF-related laws and regulations in each country and, possibly, regionally.
- n) Studies and documentations of rural finance policy scenario and the role of IFAD's rural finance programmes could be attempted periodically in each of the ESA countries for wider dissemination.
- o) Financial co-operatives should be developed on professional lines, be made autonomous and nurtured to integrate with the entire financial sector so as to effectively provide all financial services in rural areas.
- p) All efforts need to be directed towards sustaining enabling policy environment for rural finance development and financial inclusion in the region.

- q) More bonding and exchange of experiences among the ESA Group of 8 countries should be harbored and harnessed.

## **4.2 Conclusion and looking ahead**

The following six key points will need highest priority in the approach to implementing RF development:

### ***4.1.1 Participatory role of stakeholders and development partners in policy development***

The report brings out the positive initiatives and developments, emerging challenges and opportunities and possible strategies in the rural finance sector, with respect to policy, laws, regulations and supervision. It has become amply clear that the policy-making institutions are giving increasing attention to the rural sector, considering its existing challenges and future potentials. It is evident that a host of facilitating agencies has been contributing to the policy development process, besides the policy-making institutions. The participatory role of stakeholders and the contributory role of support agencies are critical for orderly and smooth development and implementation of policy.

### ***4.1.2 Institutional strengthening to include policy thrust, infrastructure and HR needs***

The existing institutions should be strengthened and used to their full potential, and new institutions should be set up to fill up the gaps. Policy and institutional mechanisms should be evolved/fine-tuned, not only from the supply side, but also from the demand side, for fulfilling the objectives of the policy. Policy thrust and institutional architecture, the needs and aspirations of the people at the bottom of the pyramid assume great significance.

### ***4.1.3 Enhanced regional cooperation and replication of best practices in the region***

Each of the countries is striving for furtherance of rural finance by developing and adopting various policies and strategies to increase access of the poor and low income people to the needed financial services. There is however, considerable scope for regional co-operation, at least among those countries implementing/ due to implement IFAD's RF schemes. Several best practices in rural finance domain can be replicated in the region for greater impact and effectiveness of the interventions in rural areas.

### ***4.1.4 Effective knowledge management systems and processes***

Knowledge management for all stakeholders is vital for effective policy-making and implementation. The importance of policy in rural finance should be duly appreciated at all levels. New and innovative ideas can be generated through effective KM system and processes. Ultimately KM should be a way of life for all, for continued and sustainable development.

#### ***4.1.4 Convergence of effort through networking and collaboration***

IFAD has already elucidated the significance of rural finance policies conducive to sustainable poverty reduction, livelihood promotion and empowerment. IFAD and all other development partners and stakeholders should come together and direct their efforts in a convergence mode, as they pursue various rural-centric programmes to sustain favorable rural policy environment. Institutional networking and collaboration are considered important in translating rural finance policy and strategy. Strengthening the individual and collective capacity of rural people should be the motto.

#### ***4.1.5 Intervention programmes to prioritize policy-making as a mandatory component***

A number of constraints and challenges are confronting the rural sector. Making rural business and farming profitable is the biggest challenge. Access to markets, financial services, technology, information and skills development are also vital challenges. To address all the challenges, sound and result-oriented policy framework should be put in place. More of policy-oriented and policy-focused projects in RF should be promoted in a planned and systematic manner in order to reap attendant outcomes. With that end in view, the outline of a logical framework for policy-focused projects in RF is given in the Appendix 6. The Policy-making bodies, the financial institutions, service providers and development agencies must work together for rural area with a passion, optimism and commitment. It is hoped that ESA countries would succeed in this direction. It is apt to quote: “If winter comes, can spring be far behind?”

## Appendices

### Appendix 1. Terms of Reference for Study

#### **Objectives**

- Identify major policy issues in ESA countries which IFAD projects have influenced to sort out/address during the course of implementation in the countries;
- Bring out successful strategies adopted/ institutional mechanism used to influence policy issues, leading to fulfillment of programme objectives;
- List country-specific policy issues in ESA, which could be used by IFAD to influence policy dialogue at regional and global levels;
- Suggest sustainable institutional mechanism that has to be put in place for policy exploration, research, debates and discussions for sharpening and furthering poverty reduction, access to financial inclusion, livelihood promotion, inclusive growth; and
- Suggest ways and means of promoting knowledge management and learning through sharing of experiences/ best policy solutions among the IFAD programme managers, partners and stakeholders for better programme implementation and speedier/effective policy development.

#### **Deliverables**

- A glossary of identified policy issues pursued under the purview of IFAD projects, that have influenced policy reforms at country and in some cases at regional levels
- Three case studies of good policy initiatives in the region
- List of emerging policy issues that might not have been raised/tackled but would need to be addressed by IFAD and partners
- Identified institutions/forum for future policy review/dialogues
- Recommendations for future strategies for furtherance of policy interventions
- A logical framework for a policy-oriented project.



## Appendix 2. Study questionnaire

1) Who are you? (Country Project Officer, Country Programme Manager, senior Policy Adviser, PTA, Policy researcher, etc).  
 .....  
 .....  
 .....

2) In which country are you working?  
 .....  
 .....  
 .....

3) Using the format given below, please name IFAD-supported projects in your country, segregating those in operation and the completed ones.

Project no.	Project title	Project period	Project's Broad components

4) According to you which are the most successful IFAD's intervention in your country? Please specify reasons.  
 .....  
 .....  
 .....

5) Were there any major policy issue(s) pertaining to the project's implementation in your country/ESA?  
 .....  
 .....  
 .....

6) If yes, what did the Government, regulatory agencies and other policy-making authorities do to resolve and subsequently improve the project's implementation. ( Please mention the project, policy constraints and the improvement made as indicated in the table below)

Project Name	Policy constraints	Changes/improvements made

- 7) What methodology/approach was adopted to change/develop the *relevant* policy?  
.....  
.....  
.....
  
- 8) Have there been any separate documentation done on new policy introduced, policy issues resolved and/or policy refinement/development contributed under the project implemented? If so, specify.  
.....  
.....  
.....
  
- 9) Do you have any separate institutional mechanism in the project framework for review, debate, resolution and dissemination of policy issues? If so, specify.  
.....  
.....  
.....
  
- 10) Was regulation and supervision of financial services institutions embedded within the Rural Finance Project as core component? If so, outline major interventions effected for improvement in regulatory and supervisory policy?  
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.....  
.....
  
- 11) How has regulation and supervision of financial services embedment in the Rural Finance Project been helpful in policy reforms in financial sector?  
.....  
.....  
.....
  
- 12) What are the difficulties faced by IFAD in pursuing with policy-making authorities/promoting innovative policy framework?  
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.....  
.....
  
- 13) What could be the best/most feasible ways of bringing about necessary policy changes/reforms for a donor agency?  
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.....
  
- 14) Are there any seminar/ workshop, training, sensitization, exposure programmes which are organized for stakeholders' capacity to look into

policy issues/explorations as part of project implementation? If so, cite a few models.

.....  
.....  
.....

15) (a)What are the means adopted for dissemination of information/experience in policy issues at various levels including grass root level?

.....  
.....  
.....

(b)In your project, has there been a participatory approach as a method in making policy decisions? If so, cite instance(s)

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.....  
.....

16) Is there any exchange forum(s) put in-place in your country/ESA for projects to exchange knowledge/experience? If so, how effective is the forum(s)?

.....  
.....  
.....

17) Is there any institution(s) in your country which can be banked upon for knowledge management in policy issues pertaining to project themes of IFAD? If so, give details.

.....  
.....  
.....

18) (a) Identify five major IFAD’s contributions in policy areas/issues in your country?

.....  
.....  
.....

(b) Give brief outlines of the above identified policy areas/issues.

.....  
.....  
.....

(c) Do you think any of the above is/are best practices/innovative which can be replicated in other countries?

.....  
.....  
.....

19) Name five major unresolved policy issues (theme-wise) hindering project implementation in your country?

.....  
.....  
.....

20) Would you advocate for policy development in core areas of IFAD support framework in your country/ESA? Give reasons for your answer

.....  
.....  
.....

21) Do you have any other input having relevance to IFAD's policy contribution in your country/ESA?

.....  
.....  
.....

## Appendix 3. Institutions visited and persons consulted

Sl. no.	Name	Designation	Institution	Date
A	LUSAKA, Zambia			
1	Visschar M Bhuke	Director ,NBFIs Supervision Department	Bank of Zambia	23.06.2014
2	Joseph Munyoro	Asst Director, NBFIs' Supervision Dep't; Project Officer, Financial Sector Devt Plan [FSDP) Secretariat	Bank of Zambia	23.06.2014
3	Kapulwa Kaunda Kafumukacha	Financial Education Coordination Unit [FECU]	Bank of Zambia	23.06.2014
4	Michael Moful Mbule	Manager	IFAD	23.06.2014
5	Gibson Masumbu	Research Fellow – Human Devt	Zambia Institute of Policy Analysis and Research	23.06.2014
6	Leonard Z Mwanza	Chief Executive Officer [CEO]	Bankers' Association of Zambia	24.06.2014
7	Mildred Stephenson [MS]	CEO	Trans Union Credit Bureau	24.06.2014
8	Cephas C Chabu	MD	National Savings and Credit Bank	24.06.2014
9	Derrick M Simukoko	Chief Economist	MOF and NP, Govt of Zambia	24.06.2014
10	Boyd Ngandu	Acing Senior Economist	MOF, Investment and Devt Mgt Dep't	24.06.2014
11	Lemy Mauja	Micro Insurance Coordinator	MI Group FSDZ	25.06.2014
12	Adam Gross	Director	DARHINAM Emerging Market Advisory	25.06.2014
B	DAR ES SALAAM – TANZANIA			
1	Mwatima Juma [Dr]	Country Programme Officer	IFAD	26.06.2014
2	Winnie E Terry	Executive Secretary	TAMFI	26.06.2014
3	Harry J Ndambala	Advocacy Officer	TAMFI	26.06.2014
4	Jonathan M Kasembe	Technical Manager	FSDT	22.06.2014
5	Mwallu Mwachanga	Agricultural Finance Specialist	FSDT	22.06.2014
6	Petor S. Kingu	SME Finance Specialist	FSDI	27.06.2014
7	Flora Lugangira Rutalinzibua	Manager, Real Sector and MF Directorate of Economic Research and Policy	Bank of Tanzania	27.06.2014
8	Eliamningi Mandari	Manager , MF and Bureau do Change Supervision Directorate of Banking Supervision	BOT	27.06.2014
9	Johnson J Nyella	Manager, Research Department, Directorate of Economic Research and Policy	BOT	27.06.2014
10	Tasilo Joseph Mahuri	MD	Dunduliza [SACCOs NETWORK]	27.06.2014

11	Dionisia Mjema [Ms}	Principal Economist	FS Devt Policy Analysis Dep't, MOF GoI	28.06.2014
12	John S Kuchaka	Project Finance Mgt Officer	External Finance Dept, MOF .GOT	28.06.2014
13	Aberhard J Mbapera	Asst Director	Co-operative Devt Commission of Tanzania	28.06.2014
14	Fuhanael Andrew Kihunrawa	CEO	Community Banks Association of Tanzania	28.06.2014
15	Bernard M Ulaya	Programme Officer	MIVARF, IFAD	28.06.2014
<b>C KAMPALA, UGANDA</b>				
1	Colin Agabalinda	Programme Manager	RFSP, IFAD, Kampala	30.06.2014
2	Daniel Muganda	Programme Manager	RFSP	30.06.2014
3	Henry P Mbguta	Agriculture Commissioner	MOFP&E, GoU,	30.06.2014
4			MOFP&E, GoU	30.06.2014
5	Kshugyera Lance	Programme Coordinator	RFSP, MOFP&E	30.06.2014
6	Leonard Msemakewli	General Secretary	Uganda Co-op Alliance Ltd	30.06.2014
7	Butamanya Billy	Dy Gen Secretary	Do -	30.06.2014
8	Asiimwe Ivan	Manager, Agri Business Unit	Do -	30.06.2014
9	Jacqueline Mbabaze	Senior Programme Mgr	AMFIU	30.06.2014
10	Solomon Kagata		AMFIU	30.06.2014
11	Sylvaster Ndirovamukama	CEO	Uganda Co-op Savings and Credit Union [UCSCU]	30.06.2014
12	Liborio Tulririnvi	Asst Business Devt Service Manager	UCSCU	30.06.2014
13	Francis Ssemnangu	PRO / Corporate Affairs	Do -	30.06.2014
14	Okello Francis	Asst Business Service Dev Manager	Do -	30.06.2014
15	Rita Nanyalo	Asst Business Service Manager	Do -	30.06.2014
16	Lydia Nanono	M&E Officer	Do -	30.06.2014
17	Kyaka Twaha	Business Dev Service Manager	Do -	30.06.2014
18	Andrew Obara	MD	Friends Consultant Ltd [FCL]	01.07.2014
19	Enid Kiza	Consultant	IFAD	01.07.2014
20	Line Kaspersen	Associate Professional Officer	IFAD, Uganda Country Office	01.07.2014
21	Ocatum Joseph Paul	Co-op Officer	Ministry of Trade, Industry and Co-operatives, GoU	01.07.2014
22	Kavundira Leonard	Senior Co-op Officer	Do -	01.07.2014
23	Kunya Bernard Trevor	DE	Do -	01.07.2014
24	Amadi Janote Okabo	Intern	Do -	01.07.2014
25	Mackay Aomu	Deputy Director, Commercial Banking Deptt	Bank of Uganda [BoU]	01.07.2014
26	Wamatsembe W Wilson	Director, Business Devt Services and Corporate Affairs	MF Support Centre Ltd	02.07.2014

27	Fred Lu Leonard	Director MF Centre	Makerere University	02.07.2014
28	Nakote Issac	Do -	Do -	02.07.2014
29	Prof Joseph Natayi	Do -	Do -	02.07.2014
30	Joseph Wiliam Kitandwe		Co-operative Devt Dep't MTIC GoU	02.07.2014
D	ADDIS ABABA – ETHIOPIA			
1	Mutandi Robson	Country Project Manager, Ethiopia and South Sudan	IFAD	03.07.2014
2	Tessema Legebo	Country Programme Officer	IFAD	05.07.2014
3	Habte Salessi Dogamni	Programme Officer	IFAD Country Office	03.07.2014
4	Chiara Romano [Ms]	Gender and Targeting Consultant	Do -	03.07.2014
5	Ruby Wairimu Mburathi [Ms]	Knowledge Management Officer	Do -	04.07.2014
6	Bahiru Haile	Director RUFIP II	Devt. Bank of Ethiopia	03.07.2014
7	Dr Wolday Amha	Executive Director	AEMFI and EIFTRI	03.07.2014
8	Bethlehem Girma	Manager	Do -	04.07.2014
9	Abate Mitiku	Advisor for Vice Governor, Financial Institutions Supervision	NBE	04.07.2014
10	Temesgun Zeleke	Director, Insurance Supervision Directorate	NBE	04.07.2014
11	Asfan Abera	Principal Examiner, Directorate of MFI Supervision	NBE	04.07.2014
12	Tezore Kebode	General Manager	PEACE MFI,	04.07.2014
13	Berhane Kidanu	Technical Advisor Policy	ATA (Agricultural Transformation Agency), GOE	05.07.2014
14	Joseph Asafa	Special Officer, Micro Insurance	International Labor Organization	03.07.2014
15	Abeba Ayalew	Programme Coordinator ,RUFIP II	FCA	05.07.2014
E	NAIROBI, KENYA			
1	Risper Gekanana	Programme Asst	KMP IFAD, AFRACA	07.07.2014
2	Betty Mwakelemu Tole	Documentation and Learning Officer	IFAD, AFRACA	07.07.2014
3	Miriam Cherogony	RF Specialist and KM Coordinator	KMP, IFAD – AFRACA	08.07.2014
4	Saleh Usman Gashua	Secretary General	AFRACA	08.07.2014
5	Ali Mohamed Ali	Manager, Bank Supervision Deptt	Central Bank of Kenya	09.07.2014
6	Renben Chepng'ar	Manager, Bank Supervision Dep't	Do -	09.07.2014
7	Charles Mutua	Head, Micro Insurance	CIC Insurance Group Ltd	09.07.2014
8	John Mwaka	Manager, Policy Research and Development	The SACCO Societies Regulatory Authority [SASRA]	09.07.2014
9	Yvonne Gatobu	Corporate Communication Officer	Do -	09.07.2014
10	Henry Oketch	Consultant	Association of MFIs	08.07.14

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- 4) Directives of NBE for MFIs(Licensing and Supervision):
  - a. Regulation of Mobile banking and Agent Banking Services- January 2012.
  - b. Corporate Governance for Banks/Insurer/ MFIs- Final Draft (2014).
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## Appendix 5. Suggested interventions in the next phase of KMP

### 1 *IFAD - Organizational transformation through KM*

- Nurturing/promoting the shared vision/common perspectives for rural transformation through inclusive financial services in ESA and globally;
- Creating a more favorable and conducive organizational environment at IFAD, particularly at its units in ESA, through excellence in knowledge pursuits;
- Motivating HR in IFAD for high quality services through professional encouragement, opportunities and incentives;
- Institutionalizing KM and making it a part of performance culture for HR in IFAD;
- Empowering HR through capacity-building interventions, participatory decision-making, team work, knowledge-sharing and transformational leadership;
- Planning, prioritizing and implementing KM interventions with speed, quality and effectiveness; and
- Improving organizational learning, knowledge capture and making everyone in IFAD to assume knowledge leadership, knowledge citizenship and knowledge worker.

### 2 *Financial services delivery/facilitating /stake holding institutions - KM for effective human and institutional development*

- Learning from and sharing IFAD's knowledge with stakeholders through forging stronger linkage and exchange at inter- regional/inter- institutional (formal, non-formal, informal, private-public) and inter-programme levels;
- Evolving/facilitating strategic knowledge plan in each of the institutions;
- Placing Knowledge Management Officers in each of the institutions, particularly financial institutions for coordinating/ facilitating the above;
- Spear- heading Change Management, Organization Development Initiative (ODI), Governance enrichment, development centre ,etc KM programmes for organizational resurgence/reengineering;
- To transform rural development/rural financial institutions as centres of excellence/ hubs/networks and building up of new institutions for KM;
- Introducing Pricing of KM Products and services in the institutional architecture;
- Creating demand for KM products with quality edge, value additions, suitability and customers' protection.

### 3 *People at the bottom of pyramid/ excluded poor/ rural clients-access to financial services through KM*

- Transforming all financial products and services and the related KM instruments people-cantered- Facilitating customization of all tools and instruments;
- Ensuring access to the target clients information/new knowledge from



IFAD's programmes - assuring accountability to customers

- Supporting financial literacy/financial awareness/financial education/financial capability, in all their dimensions, for empowering the rural people;
- Championing a policy of openness, transparency, public engagement, community participation, social performance management, codes of standards and fair practices in financial services in rural areas;
- Encouraging group dynamics in the form of SHGs, JLGs (joint liability groups), producer groups, etc for empowerment and financial inclusion of low-income people;
- Triggering debates/discussions, injecting reflections and refinements and providing facts and figures for policy reforms in favour of rural people;
- Encouraging global thinking in rural context and trying to adopt global knowledge/experience/best practices in local setting;
- Instituting help desks/ opening help lines/customers' counseling outlets for guiding and redressing difficulties of rural communities at offices of IFAD and its associated/assisted institutions.

#### **4 *KM through action research, exploratory studies, innovations, data-building and documentation***

- Organizing need-based surveys, exploratory/impact/potential assessment/research studies for evidence-based knowledge and policy on rural finance/financial inclusion;
- Developing partnerships and collaborations and involving rural finance experts, consultants and academia for implementing agenda for research, study and survey, vision planning, etc in response to macro and micro policy needs in rural finance;
- Undertaking pilots for experimental learning, examining scope for replication of new and innovative schemes/concepts;
- Building a robust reporting framework, integrated database anomalies on various KM interventions;
- Measuring efficacy including the policy impact of KM products introduced;
- Instituting Think Tanks, Policy debate forums, Knowledge and innovation Centres, Knowledge Networks, Thematic groups, etc for exchange of knowledge and experience and facilitating dialogues for development of forward-looking policy;
- Documenting literature on various themes including State of Rural Finance for ESA region or country-wise annually/success stories/new and innovative models in rural financial services and disseminating the same effectively for wider impact.

#### **5 *KM—Communicating information and exchange ideas/views through ICT and modern technology channels***

- Developing Knowledge repositories and database by means of ICT-based channels and equipment for improving awareness of financial products and services, technical tools and methodologies, policy issues, etc
- Supporting technology-based devices/software development in ensuring

access to finance in rural areas;

- Helping in online connectivity/CBS in rural financial institutions for speedier/easy delivery of financial services in rural areas; Providing tools and technical guidance to smaller institutions;
- Developing Virtual knowledge communities across the region for knowledge-sharing;
- Strengthening online-based dialogues, intranet, public websites, blogging and all web-based platforms- peer to peer learning websites, etc for wider consultations;
- Facilitating technology-based platforms/devices for connectivity, communication and collaboration for generating, capturing, sharing and applying Knowledge Solutions.

## Appendix 6. Logical framework approach for policy-focused projects

### 1 Introduction

Logical framework approach (LFA) is an analytical and management tool which is used (in one form or another) by most of the multi-lateral and bilateral aiding agencies and international development organizations, and is tried by many partner governments for management of development projects. The LFA matrix was initially proposed by an American firm retained by USAID in 1960 for monitoring and evaluation of development projects. Under this approach, focus is laid on (a) Goal-orientation - setting clear goals, (b) Result-based management of development activities, inputs and interventions, bringing in outputs, outcomes and impact, and (c) Continuous improvement, envisaging periodic measurement to maximize outputs. Project cycle mapping, planning, implementation through partnership, stakeholder participation, management and monitoring are hallmarks of the process. The logical framework approach was further developed by the American consulting firm along with the then GTZ, Germany (now GIZ), leading to GOPP (Goal-Oriented Project Planning) or Objective-Oriented Project Planning model in project planning/ management in the 1980s. The OOPP/LFA has since become a mandatory standard, applied by all development agencies.

### 2 The Scope and modalities of LFA

The matrix helps to elaborate project design or logic model step by step. The same logic is used for project cycle management in the form of annual planning, and monitoring and evaluation. In the first column of LFA matrix, the hierarchical project *causal* chain is stated at four levels. At the highest level, LFA spells out the long term structural changes (impacts) that could be contributed by the project. In the centre, the *outcomes* of the project in terms of project objectives are outlined. At the two lower levels, the *Outputs* that the project would bring about are outlined. Thus, the effectiveness of the project design is weighed through *cause-effect relationship* between the levels of outputs and outcomes. However, many times, the attribution of cause and effects between levels of *outcome* and *impacts* cannot be easily established. In the LFA matrix, the second and third columns of each hierarchical level present the description of the *indicators*, giving information on measurable / monitorable precise results. The matrix also includes the context, identifying external risks, which are based on assumptions.

#### 2.1 CHANGING PARADIGMS

In the process of implementation of LFA, several changes have been witnessed over the years. The following are the major changing patterns/trends:

- Project process leading to Programme (multiple projects) approach;
- Increasing focus on capacity building and social development of partner agencies, leading to effective poverty alleviation;
- Bringing on board various stakeholders with shared vision and commitment for implementation of programmes;
- Influencing at the policy level in order to optimize the impact of programmes;
- Facilitating vertical integration of the agencies at macro, meso and micro

levels for acquiring collective strength for greater influence in programmes.

## 2.2 POLICY-CENTRIC PROGRAMMES – OPPORTUNITIES AND CHALLENGES

There is increasing appreciation of the long term impact of good policy with respect to developmental process. So, policy-oriented programmes, with focus on strengthening policy, legislation, regulation and supervision are being taken up by donors /development agencies. In the policy-focused programmes, the capacity-development of partners assumes highest significance to enable each to contribute to thinking process. Capacity building includes training, exposures, knowledge management (KM), exchange of inputs, awareness-building, financial literacy, etc. Secondly, with a view to shaping/influencing policy, policy dialogue at macro level is critically important. Thirdly, since policy-making is usually the result of combined efforts, the networking, collaborating, exchanging, etc need to be focused. Fourthly, it is difficult to identify the contribution of a donor or any single player in policy development. So, arrangement should be made to continuously identify and codify the processes, getting feedback from various levels. Fifthly in policy, more of technical support is needed as compared to direct financial assistance and as such, both monetary and non-monetary interventions should be identified and need-based technical assistance should be provided for. Further, HID (Human and Institutional Development) could encompass human / intellectual capital development, institution-building (delivery of financial services, intermediation, service providers, etc). Finally, studies, surveys, empirical research, impact assessment, etc contribute significantly to policy development. In policy development, it takes a long time to get the proposal translating to practice so as to reap the attendant benefits. The LFA should take cognizance of the emerging challenges of policy-oriented projects. The opportunities are many as policy development influences a chain of activities/livelihoods of people at operational levels.

## 2.3 OUTCOME MAPPING

In the implementation of LFA, “outcome mapping” has been introduced in certain quarters. The focus has been outcome mapping on people - their capacity, behavior, expectations, needs, and relationships. In outcome mapping, the complex changes in behavior, perceptions and knowledge are captured. It is realized that the changes are complex and do not move in linear way. The program, even if policy-oriented is ultimately of people, by people and for people. In the policy, programmes can influence the outcomes, but cannot fully control the results. Outcome-mapping adds to consensus-building on the fundamentals - vision/goal, roles of programme partners, the changes in policy sought for/ the changes to be brought about in the rules, processes and systems and ultimately the expected benefits of the changing policy.

## 2.4 CHANGING PRIORITIES AND PATTERNS

In policy-making, LFA and outcome mapping involve action by a host of players; institutions, structures and groups at various levels, from local to highest authorities. The perceptions, attitudes and behavior of change agents, decision-makers, policy-makers and all stakeholders matter in the policy-focused projects. So, constant communication, dissemination and discussion should be

undertaken. Associations, informal /formal groups, discussion platforms, etc should be supported and their role should be factored. Focus should be laid on continuous efforts for combined synergy, convergence of efforts and collaborative approach for durable improvement in policy. The dynamics of the situations/ environment warranting policy change should be appreciated.

## 2.5 THE ADVANTAGES OF LFA AND OUTCOME MAPPING

The approach helps in bringing clarity on aims, outputs, effects /results. It facilitates information and knowledge management on the project for all stakeholders. It enhances transparency and accountability between implementers, beneficiaries and sponsors/donors, with regard to quantifiable targets.

Outcome mapping facilitates clear formulation of roles and responsibilities, measurable milestones for the project partners from the beginning. It focuses on learning and participatory planning and implementation. It enhances a sense of ownership and accountability for all.

## 3 *Logical Framework for Policy-Oriented Project on “Development of Audit Framework for Financial Cooperatives” - A hypothetical Case*

### 3.1 SITUATION ANALYSIS

Cooperative Credit institutions comprising SACCOs and Credit Unions are weak financially and managerially and lack proper governance, internal control, and financial transparency systems. There are deficiencies in auditees, auditors and audit directorates. The structure is characterized by absence of audit policy, regulatory and supervisory framework, institutional mechanism for quality and timely audit. There is no uniformity in accounting practices, audit reporting, disclosure standards, quality assurance and compliance function. The auditors are not familiar with audit and accounting processes in some of the SACCOs, working in computerized environment. Auditors prepare the financial statements and audit the same as SACCOs’ staff is not confident enough to prepare balance sheet, etc independently. The statutory auditors do not undertake any interface with supervisors, internal auditors, Board of Directors and members in the Annual General Meeting. No audit classification norm for SACCOs is stipulated nor is any incentive system in vogue for societies with better audit class. The staff, Board, supervising staff from Cooperative regulatory authority and members are not very sensitive to audit findings and as such, the report is not formally discussed in Board meetings and perfunctory compliance is reported. Audit has been in arrears, notwithstanding the legal provision for completion of audit within 6 months from the close of the financial year. Audit Committee and Risk Management Committees are formed, but they are not active. Audit findings are not internalized and as such, the same defects continue to persist.

### 3.2 VISION/GOAL

To build strong, vibrant and sustainable SACCOs ensuring hustle-free, demand-based and timely financial services for members in rural areas.

### 3.3 MISSION/PURPOSE

Putting in place a transparent and sound audit policy, evolving/implementing effective rules, tools, systems, institutional architecture, risk management, disclosure standards and KM systems for audit, with participation of all stakeholders and thereby, reflecting the true and fair financial position of SACCOs/Unions, to all stakeholders.

### 3.4 KEY STAKEHOLDERS

SACCOs, Credit Unions, Cooperative Apex, Cooperative Audit Authority in Government, Government auditors, Board/Audit Committee, supervisors, members, Audit /Accounts Training institutions, Apex Cooperatives, Chartered / certified auditors, and national certifying institutes for accountants.

### 3.5 OUTCOMES

- Timely passage of periodic/ Annual financial statements, without qualifications;
- Audit report available to all stakeholders;
- Prompt corrective Action taken on audit deficiencies;
- Statutory Auditors' undertaking interface and exchange with Board, AGM, Audit Committee, supervisors and internal auditors;
- Motivation/incentives provided for better audit class;
- Staff maintain books of accounts regularly and close accounts timely;
- Auditors are familiar with audit processes, Computer handling, risks, rules and procedures;
- Financial statements reflect true and fair picture of SACCOs
- Warning signals to all stakeholders, based on audit.

### 3.6 OUTPUTS

- A well knit and comprehensive audit policy document
- A well-defined audit classification norms, backed by rating policy
- A long form audit report framework, covering all essential aspects
- An Audit Committee responsive to audit and supervisory issues
- A common Accounting system, implementable framework
- A user friendly risk-based audit manual
- Audit plan with timelines
- An expert pool of auditors, conversant with ICT and risk management tools;
- A code of fair practices and standards for SACCOs
- A professional course/certification system for auditors
- A quality check of audit reports
- Compliance/Internalization process of audit findings and KM system for all
- Evaluation report reflecting impact of audit interventions

### 3.7 RISK FACTORS

- Neutrality and professional independence of auditors might be affected due to mix up of other activities/Government interference;
- Accounts might not be maintained timely and properly due to inadequate and untrained staff;
- Budget may not permit for adequate training of staff;
- SACCOs/Unions might not be able to provide required Incentives/remuneration to auditors to elicit quality of audit; and
- Audit and supervision might not get adequate attention of stakeholders with their preoccupation for expansion, business growth and outreach.

### 3.8 INDICATORS

- Number of audit reports completed/issued well in time;
- Number of auditors acquiring professional certifications;
- Number of SACCOs/ Unions, exhibiting sustainable viability;
- Number of SACCOs obtaining A class of audit;
- Number of Compliance reports received, with concrete compliance.

### 3.9 CHALLENGES AND STRATEGIES TO ADDRESS CHALLENGES

- Creating effective risk management framework/conditions to achieve goal;
- Internal strategies for innovations, KM, quality management and net working;
- Continuous efforts for capacity-building of auditors, policy-making authorities and SACCO staff;
- Search for refinement of related laws and regulations;
- Development/Adoption of appropriate software for audit in computerized environment
- Rationalization of books and accounts ,in the changing business and services;
- Disseminating common findings emanating from audit;
- Motivating auditors to go for quality audit +
- Using audit rating for rationing support from higher financial and developmental agencies;
- Policy reforms ,based on learning from audit
- Forging link between supervisors/inspecting officers, concurrent audit, internal audit and statutory audit;
- Infusing accountability of auditors and
- Establishing Common Accounting system in the country smooth audit, computerization and connectivity among all SACCOs and Unions

# Case study reports

## Appendix 7. MFI supervision directorate of the National Bank of Ethiopia —a case study

### 1. *Introduction*

The National Bank of Ethiopia (NBE) was established by Proclamation 206 of 1963. The new Proclamation issued in 1994 to reorganize the Bank according to market-based economic policy *so that it could foster monetary stability, a sound financial system and such other credit and exchange conditions that are conducive to the balanced growth of the economy of the country*. The Bank has developed Vision 2020 to make NBE one of the strongest and most reliable central banks in Africa. It has the mandatory role of licensing and supervising banks, insurers and other financial institutions in the country, to achieve overall national objectives. The licensing, regulation and supervision of MFIs are entrusted to MFI Supervision Directorate (MFISD) in the NBE. Its roles, function and processes are narrated hereunder to illustrate its distinctive characters and accomplishments in the regulation and supervision of MFIs in Ethiopia.

### 2 *Objectives and Outputs of MFISD*

#### 2.1 OBJECTIVES

The overall objective of MFISD is to maintain a sound, safe and stable microfinance sector and to ensure efficiency and compliance with rules and regulations, with the main focus of protecting interests of depositors. The specific objectives of MFISD, in its regulatory, licensing, supervisory and enforcement functions, are the following::

- To issue and renew microfinance business licenses;
- To undertake onsite examination and off-site surveillance of MFIs and issue reports to the institutions;
- To approve the Board of directors and CEOs, external auditors of the supervised entities, as per fit and proper criteria/laid down system;
- To rate the supervised entities, as per the comprehensive rating norms;
- To ensure compliance by MFIs to various regulations, directives and statutory reports;
- To develop MIS/institutional profile of MFIs;
- To provide information/inputs on the supervised institutions to all stakeholders, particularly Govt. and Board of directors of NBE and
- To study, prepare documents/reports, etc. on various supervisory issues of significance.



## 2.2 KEY PERFORMANCE PARAMETERS

The Directorate has focused its efforts on meeting the expectations of primary stakeholders covering Federal Government / Federal Parliament, NBE Board, MFIs, and regional and international regulatory institutions. Its initiatives / contributions can be assessed from the following key factors:

- Putting in place an effective regulatory and supervisory framework in conformity with MF Regulations Act, enabling smooth operations of MFIs, free from external shocks and systemic failures;
- Enabling and improving performance of MFIs, with respect to timeliness, quality and responsiveness of service;
- Supervision of MFIs is undertaken through Risk-based Supervision (RBS) approach which is aligned with BASEL principles;
- Internalization of various business process reengineering (BPR) initiatives, encompassing documentation, working procedures, feedback mechanism, database management, planning and performance management, budget usage, and service efficiency;
- Development of supervisory capacity for the Directorate with appropriate training/exposures, ICT adoption/ facilitation, enabling skill development and knowledge management of staff;
- Promotion good leadership, governance, risk management, productivity, innovation and accountability within the Directorate as also supervised institutions.

## 3 *Organizational Framework*

Up to September, 2001, the supervision of both MFIs and banks was carried out by the then Bank Supervision Division of NBE. A separate MF Division was created in October 2001, which was later upgraded to Department level in 2004 and to supervision Directorate level in 2009, in the light of the expanding horizon of regulation and supervision of the growing MFIs.

The Directorate is headed by Director, duly supported by a team of 3 examiners, each assigned to a set of MFIs, for handling matters relating to onsite inspection, off site surveillance, compliance, rating, etc. The Directorate is under overall jurisdiction of the Vice Governor in charge of Financial Stability and covering all Directors including those of supervision, payment and settlement, currency management, etc.

## 4 *Policy and Regulatory Initiatives*

### 4.1 REGULATIONS/DIRECTIVES

NBE has issued a series of directives covering the areas of prudential regulation, governance, public savings, licensing, lending, supervision, CRAR, etc. The recent regulations include mobile and agent banking services (January 2012), financial and operational information reporting (2012), requirement of persons with significant influence in MFIs (2012), minimum capital requirement of MFIs (2013), investment and equities of allied activities (2013), etc. The draft regulations on corporate governance and fraud monitoring were being firmed up for MFIs,

banks and insurance companies.

#### 4.2 RISK- BASED SUPERVISION

The Directorate has taken several initiatives in review and refinement of regulatory/ supervisory process, tools and systems, tailored to MFIs. It has adopted risk-based supervision system for MFIs and had developed a comprehensive manual for the purpose. It has been supporting and providing technical guidance to MFIs for adoption of risk-management systems. The Directorate has been applying CAEL system in inspection also in addition to risk matrix for rating of the supervised entities. The quality assurance team in the Directorate is entrusted with the responsibility of checking quality of the inspection reports.

#### 4.3. BUSINESS PROCESS REENGINEERING (BPR) IN NBE/MFSD

In this light of KPMG study in NBE, coupled with GOE's strategic interventions, NBE has been implementing BPR exercise since 2007. All aspects of the Bank's structures, systems, policies, processes, procedures and strategies had been reviewed and the Bank had prepared a strategic business plan through an intensive consultative process. The MFISD had been part of the whole exercise and as such, prepared its business plan and redesigned its vision, mission, core values (primary and Secondary), outputs and outcomes, and stakeholder analysis with respect to expectations, key performance objectives, etc.

#### 4.5. TRANSPARENT AND PARTICIPATORY PROCESS OF POLICY/REGULATION-MAKING

MFISD has put in place an elaborate participatory and consultative process for finalization of regulations/directives, internally and with stakeholders. It includes the following:

- Preparation of draft directive at the Directorate level;
- Review of the draft at the "Harmonization Committee" and also at Legal department;
- Review of the draft at "Steering Committee" of directors, and at Vice-Governor's level;
- Consultation with MFIs, AEMFI, etc. for the first draft;
- Soliciting specific written comments/suggestions on the draft from each of the agencies ;
- Review of the draft at the Harmonization Committee / Steering Committee,, based on the suggestions received;
- Discussions with the agencies on the final revised draft with focus on the key changes made; and
- Finalization/approval of the draft by NBE at the level of Vice-Governor (Supervision-in-Charge).

Thus, NBE follows an intensive review and consultation process at the users' level. Besides, the draft regulation is also placed in the website for eliciting public views.

#### 4.6 GUIDANCE TO PUBLIC/CUSTOMERS

NBE's website contains much focused guidelines for customers with respect to supervisory and regulatory process. These include types of services and products delivered to customers requirements/conditions needed to be complied with by the customers to get the services/products, etc., for guidance of the institutions/individuals. These are in keepings with best practice in customer service.

### **5 Partnering with RUFIP I and II**

NBE has been a consistent partner/state holder in the implementation of RUFIP I and II. Since supervision and regulation of the MFIs, banks and co-operatives are taken as exclusive component under IFAD's RUFIP I and II, strengthening capacity of NBE's regulation and supervision functions has been receiving continued attention. MFISD had been preparing an "institutional and business development plan" envisaging the activities and time-frame. IFAD's design mission and supervision missions under RUFIP I and II in their discussion process had suggested various measures required for their up-gradation of supervisory processes and possible need-based support that could be provided to MFISD. MFISD had received consultancy support for study of RBS, external audit system, etc. Support to AEMFI also included study of regulatory issues like prudential regulations, performance assessment, corporate governance, etc. Overseas exposure study visits and training programmes on MF for NBE/MFISD officials have been supported under RUFIP I and II. Infrastructure support by way of IT tools has been provided to MFISD. RUFIP II committed to supporting various activities including OSS modernization, review of supervision manual, support of auditors' conferences, policy seminars and HRD measures, etc.

### **6 Growth of MFI Sector**

There had been tremendous growth and diversification of MFIs in the country over the years. The number of active borrowers as at December, 2013 stood at 3.1 million as compared to 755,073 in December 2003. MFIs' loan outstanding was 12,969 million Birr at December 2013 as compared to 594 million Birr in December 2003, while savings stood at 80,18 million Birr as against 325 million Birr in December 2003. Five (5) MFIs out of 31 in the country were relatively strong and sound. MFIs are into various financial services and had introduced several new products and best practices. They had been fairly responsive, to the regulator's financial discipline, due to NBE's oversight effectiveness.

### **7 Participating in various forums**

NBE/MFISD had been participating in National Rural and Microfinance Policy Steering Committee (NRMFPSC), Project Management Committee, etc constituted under RUFIP II. Directorate had been contributing significant policy inputs for RF development in the country.

### **8 Broad Policies of MFISD in licensing, regulation, and supervision**

- The Bank shall strive as much as possible to make its regulatory and supervisory frameworks consistent with international standards, core

principles and best practices;

- The Bank shall consult all stakeholders before issuing new directives or policies, and revising existing laws, directives, policies, supervisory approaches, licensing requirements, etc, within an appropriate period.
- The Bank shall adopt risk-based supervision of FIs.
- The Bank shall increasingly use works of third parties like external auditors for its supervisory work and endeavor to improve their performance standards.
- Key supervisory outputs of the Bank like examination reports shall pass through quality assurance.
- Data and examination reports of FIs shall be confidential, unless it is for the purpose of strengthening soundness of financial sector, to the interest of the public, or to fulfill legal obligations and international agreements.
- Degree of supervisory intervention of the Bank shall be in accordance with clear guidelines and commensurate with risk profile of FIs; and costs to FIs and/or their customers associated to these measures shall be reasonable and fair in view of the expected benefits.
- The Bank shall conduct periodic bilateral and trilateral meetings with the management of FIs and their external auditors.

Thus, MFISD of NBE stands out as a successful organizational model for regulation and supervision of MFIs.

## Appendix 8: Association of Ethiopian MFIs (AEMFI)— a case study

### 1 Introduction

The Industry Associations in the financial sector have been playing critical role in facilitating policy development in rural finance. As discussed in the related Chapter of the Report, the MF Associations across ESA countries have been active players in evolving policy framework in the emerging sector. The role and functions of AEMFI are outlined hereunder to illustrate the pivotal role of the Association in influencing the policy in rural finance.

### 2 The origin and status of AMEFI

AMEFI is a non -profit/non government organization registered/licensed on 28 June, 1997 by the Ministry of Justice of Govt. of Ethiopia for representing MFIs set up under the relevant Proclamation, 1996, which are regulated by the National Bank of Ethiopia (NBE), the Central Bank of the country. It has envisaged to play catalytic role in knowledge and information- sharing, lobby for development of enabling environment for microfinance sector and undertake training, research, performance monitoring/bench -marking for the MFIs. Over the years, it has increased its strength, diversified its activities, strengthened its infrastructure, enhanced its value added services for financial inclusion and enlarged its contribution for policy development. *AEMFI's Mission is to enhance the capacity of microfinance institutions and financial cooperatives to deliver financial services to urban and rural households through technical assistance, human capital development, knowledge management, research, networking and advocating and promoting the industry with mutual cooperation from its members, practitioners and key stakeholders.*

The broad functions can be outlined under the following heads

### 3 Participation in policy development process

AEMFI has been included in the consultative forums/meetings convened by the policy- making authorities, particularly GOE and NBE for formulating policy, legislation and regulation for microfinance sector. It along with MFI members has been part of structured consultative process, evolved by the NBE for policy and regulation for MFIs. In view of its familiarity with policy- making authorities, it also adopts direct and indirect, formal and informal consultative strategy for addressing policy issues. It has comparative advantage in the light of the following factors

- Familiarity, mutual trust and understanding with the key persons for productive 'engagement' in policy development.
- The MIS, bench -marking reports on MFIs, sector/ issue- specific/market studies, policy research, etc. undertaken to enable it to have legitimacy to represent the sector.
- As it has been included in various groups, committees, forums and structured exchanges, covering broad range of stakeholders, it contributes value to the policy-led discussions.

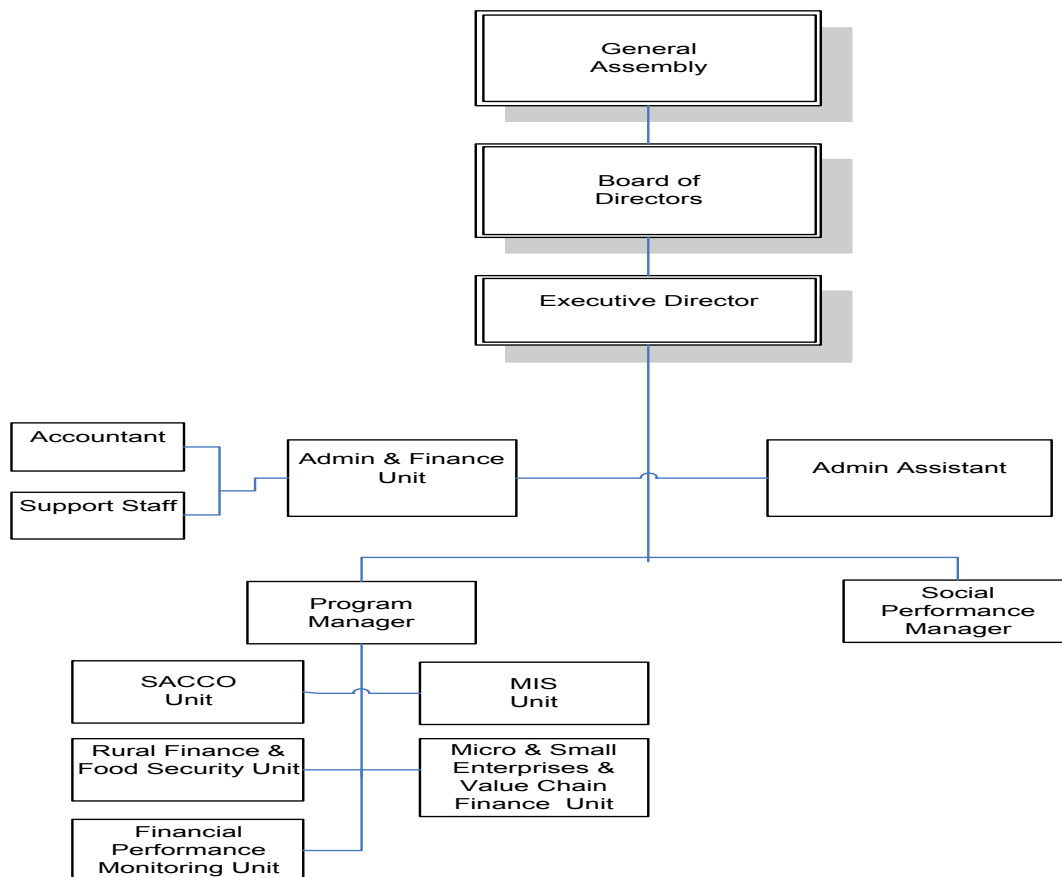
- The periodic discussions with member MFIs help in identifying policy issues and possible solutions/consensus. Thus, its policy advocacy gets added weight age at the decision-making authorities.
- Thus, a strong and positive relationship between the regulator and practitioners has been promoted through its initiatives.

#### 4 Resources

The sources of income for its various activities include membership fees/ contributions, fees for training conferences and exposure visits, donations, grant for various sponsored programmes/administering projects, building rent income, publications, etc. In terms of membership fees, it maintains equality of membership.

#### 5 Organizational structure

The General Assembly and Board of directors comprise member MFIs. The Executive Director is overall functional head for day-to-day activities. There are separate units/dedicated officers for SACCOs, Rural Finance and Food Security, Financial Performance Monitoring (FPM), MIS, Micro and Small Enterprises (MSE) and Value Chain, Social performance Management (SPM). The Ethiopian Inclusive Finance, Training and Research Institute (EIFTRI) has been set up for giving focused attention to research and training.



Organizational chart of AEMFI

## **6 Participation in/partner with Special programmes**

AEMFI has been undertaking various programmes of Govt. and donor agencies which include food Security, House Hold Asset Building, MSE Programme of Govt. and Economic Empowerment of Women through MF under the “UN women initiative of the First lady “and RUFIP I and II of IFAD. AEMFI has received technical and financial support from IFAD both under RUFIP I and II.

## **7 Membership of Committees**

AEMFI has been member of Steering Committee and Project Management Committee under RUFIP II, Steering Committee member of “women entrepreneurship development program” (WEDP), housing and construction, “entrepreneurship development committee”, MSE, National Council Steering Committee and MSE National Finance Committee. Thus, it has been involved in various Govt. -driven programmes for MSE, entrepreneurship development, food security, etc.

## **8. Initiatives and performance highlights**

### **A) PERFORMANCE MONITORING AND TECHNICAL ASSISTANCE TO MEMBERS**

With a view to improving performance of MFIs, AEMFI has put in place periodic consultation/review meets, reporting/information-sharing system, knowledge management and communication and facilitation system for member MFIs. The impressive growth and development of MFIs in Ethiopia is the testimony of the Association’s supportive role. It facilitates collaboration, experience-sharing and information exchange, and knowledge management among MFIs.

### **B) TRAINING AND CAPACITY BUILDING EFFORTS-SETTING UP OF EIFTRI**

Training and capacity building interventions include conducting various workshops, seminars, training programmes, exposure visits (within Ethiopia and overseas), etc. It has developed good infrastructure – conference halls, computer labs, class rooms, etc. for the purpose. It has set up Ethiopian Inclusive Finance, Training and Research Institute (EIFTRI) on 06 July 2012 to broad-base and intensifies training interventions. Its mission is to support the inclusive finance sector with all the required skills and knowledge via training, research , MIS and knowledge management so as to contribute to the human capital development and economic growth of the country and African continent.

EIFTRI has plans to pursue ST Courses, post-graduate diploma, executives Master’s Programmes, residential and distance learning programmes. The training programmes/workshops so far conducted cover wide spectrum of themes/issues which include risk management, agricultural value chain, micro insurance, MIS development, business planning, funds management, social performance management, gender promotion, product development, technology application, financial literacy, etc. The participants include officials from financial institutions, development agencies, NGOs and policy-making authorities. With RUFIP II support, it is in the process of engaging national and international consultants for TNA and MIS development of MF sector in consultation with the stakeholders. It has undertaken Client Satisfaction Surveys, TNA studies for MFIs, training

of trainers, drawn training Master Plan and developed various course modules. Although its focus has been MFIs in all interventions, it has been undertaking training and developmental activities for Sacco's sector also.

It has organized exposure study visits for policy-making authorities, co-operative leaders/officials to other countries including India, Indonesia, South Korea, etc. It has also been organizing regional conferences/seminars on important contemporary themes.

#### C) UNDERTAKING STUDIES AND RESEARCH ON EMERGING THEMES

AEMFI has conducted several studies, surveys on rural finance. Its recent research studies include (i) House hold behavior and saving mobilization in Ethiopia, (ii) Impact evaluation through Randomized Control Trials (RCT) for Financial Services of MFIs (in collaboration with Mannheim University), and (iii) Status and characteristics of Entrepreneurship in Ethiopia .Other studies in the pipeline include (i) Youth entrepreneurship. (ii) Risks, Frauds and Mitigating solutions to MF providers in Ethiopia-the case of MFIs and (iii) Baseline survey on the current status and performance of Financial Cooperatives. The findings/ information from studies/research have been shared with policy makers, donors, financial institutions, networks, researchers and public from time to time. AEMFI outsources select consultants/subject matter specialists for conducting various studies and research. Under RUFIP I, AEMFI had received continued support for engagement of HR/consultants for the purpose. The research unit has been co-coordinating various research efforts.

#### D) DOCUMENTING AND DISSEMINATING LEARNING

AEMFI has brought out occasional papers, MF Development reviews, bulletins, journals, news letter, study reports, proceedings of the conferences on varieties of issues of microfinance sector from time to time. The themes cover household savings behavior, inclusive finance, sustainable financial services, regulatory and supervisory challenges, women empowerment, governance and ownership, business development services in MSE, etc. The best practices in MF industry have also been documented /disseminated. These documents have been useful for policy development.

#### E) DATA BUILDING AND PERFORMANCE MONITORING

AEMFI has been source of data for the MFI sector and it has been providing data to MF information exchange (MIX) market. The institution-specific data and sector-specific information compilation facilitate monitoring progress and trends as also assessing impact of the policy and making policy corrections by the authorities.

#### F) REGIONAL CO-OPERATIONS AND NETWORK DEVELOPMENT

AEMFI has been associated with national, regional and international networks including Africa MF Network (AFMIN). This facilitates technical co-operation/exchange, policy advocacy and regional co-operation, organizing regional conferences and exposure visit programmes.



G) DEVELOPING SOCIAL PERFORMANCE MANAGEMENT

The concept and spirit of social performance management are being popularized by AEMFI. The disclosure and transparency codes of standards and fair practices, adherence to social mission, etc are being championed.

H) PROMOTION OF INDUSTRY THROUGH ICT/ELECTRONIC MEDIA

It has developed videos, documentation, media/radio programmes for corporate communication and awareness-building.

## 9. *Perspectives*

It is hoped that AEMFI, keeping in view its mission and objectives, would enhance its advocacy efforts to identify and analyze policy issues by mapping policy landscape from time to time and take appropriate action including taking recourse to effective communication and lobby strategy for addressing the issues on sustainable basis. AEMFI has been doing appreciable work in policy development in the country and could be a role model in the region for Rural Finance policy reforms/advocacy in the ESA for the purpose

## Appendix 9. Micro Finance Forum in Uganda—case study report

### 1 *Introduction*

The development of Rural Finance Policy has been an evolutionary multi-pronged and continuous process and various stakeholders contribute to it through various channels, forums and methods. Sharing of views, experiences and expectations in policy issues in rural finance is generally undertaken in the forums set up at the national, regional and decentralized levels. Some of these forums are facilitated / convened by policy-making authorities, industry associations and donor agencies. Each of the countries studied in the ESA region has different organizational designs, for the purpose. These platforms play useful roles in policy formulation, development and dissemination. The Micro Finance Forum [MFF] currently in vogue in Uganda is unique in its origin, structure, operational mechanism and contributions. The highlights of the case are explained in the following paragraphs for useful learning in the region.

### 2. *Evolution of MFF*

The Microfinance industry started developing in Uganda in the early 90's in the context of huge gaps in the financial services in the rural and urban areas. In view of various challenges associated with the nascent MF sector, the microfinance practitioners came together under the guidance of the Ministry of Finance Planning and Economic Development [MFPED] in 1997 in the form of MF Co-ordination Committee. The Committee was broad-based and later renamed as Microfinance Forum (MFF) to enhance co-ordination and exchange of views for development of the MF sector.

The MFF is convened by the Department of Microfinance in MFPED, which acts as its permanent secretariat for follow up and facilitation. Over the years, the Forum, its mission, committees and modalities of their functioning, etc., have undergone changes. However, it continues to be a vital consultative organ to be reckoned with as regards policy development in microfinance sector.

### 3 *Composition*

The MFF comprises of Uganda Bureau of Statistics, the Ministries of Trade, and Industries and Bank of Uganda, microfinance practitioners, Association of MFIs in Uganda [AMFIU], Uganda Co-operative Savings and Credit Union [UCSCU], Uganda Co-operative Alliance [UCA], major donors in microfinance including IFAD, MF Support Centre, etc. Academic, research and development institutions, select MF experts / professionals / consultants are also invited to the forum. The meetings are generally attended by over 100 representatives. To start with the forum had 3 committees but subsequently, more committees and sub-committees were constituted. These include Lobby and Advocacy, Self Help Groups, Statistics, Capacity Building, Apex Wholesale Banking, Consumer Affairs, etc. The Committees are generally attended by 10-15 persons.

#### **4     *Modalities of Functioning***

The forum is expected to meet quarterly every, while the committees are expected to meet monthly. However, the frequency of meetings depends upon the need and initiative of the convener. The committees and sub-committees decide their terms of reference [TOR] and conduct of meetings. Normally, the Chairman of the Committee co-ordinates the discussion process. Brain-storming discussions / presentations are encouraged in the meetings and free discussions are facilitated for consensus-building. Generally structured meeting agenda are prepared/ notified, focused minutes recorded and follow up of decisions made for both forum and committee meetings. The committees/sub-committees provide inputs/ recommendations to MFF in their respective domain. Field visits to rural areas have also been organized for MFF members. District MF Committees have also been constituted.

#### **5     *Broad Objectives and Functions of MFF***

The broad objectives/mandate of the Forum are/is as under:

- To act as an advisory policy organ of the MF sector, providing a umbrella/ platform for policy explorations;
- To recommend measures for promotion of co-ordination among all stakeholders in the sector;
- To evolve and suggest a legislative, regulatory and supervisory framework of financial institutions working in the sector;
- To suggest capacity building interventions for all stakeholders at various levels;
- To recommend appropriate mechanisms for delivery of financial services to the poor, including Self Help Groups;
- To advocate and lobby for policy refinement tailored towards industry needs and aspirations;
- To identify means and strategies for development of a reliable database/ MIS and exchange of information;
- To explore resources [funding mechanism and catalytic developmental efforts] for the financial institutions; and
- To enhance outreach of microfinance in rural areas for financial inclusion.

#### **6     *Impact and Contribution of MFF***

MFF has provided an avenue for policy debates on the contemporary issues and paved the way for refinement of policies, practices, systems and procedures in MF. The broad areas taken up for discussion over the years included the following:

- Developing policy regulation framework, review and refinement of microfinance policy, MDA Act 2003, FI Act 2004, regulations for Tier IV institutions, etc.
- National capacity building framework for microfinance;
- Development of the Performance Monitoring System [PMT] used by AMFIU;
- Enhancing financial inclusion efforts in the underserved areas;

- Expanding and deepening SHG formation and linkage;
- Increasing financial consumer awareness and consumer protection;
- Data-building / MIS / information exchange in MF;
- Efforts for replication of the forum through District MF Committees; and
- Fostering public–private partnership (PPP) arrangements in MF development.

## **7 *Unique features of the MFF***

- The membership and participation and contribution are voluntary.
- There is no statutory backing for the MFF.
- MOF is the nodal government agency for deciding the timing, frequency of the meetings of the forum. It resolves conflicts, maintains cohesion and co-ordination, and works towards consensus-building (There are areas of conflict of interest between industry and government and financial institutions).
- The intensity, frequency and quality of MFF meetings is rely on the interest and effectiveness of the incumbency of officials in MOF.

## **8 *Positive Aspects***

Notwithstanding the above limitations and changes in the government, MFF has survived and sustained itself over 15 years. The stakeholders look to MFF for opportunity of discussions on critical issues and taking them forward. All stakeholders deem MFF in high esteem. It is good example of how institutional mechanism can be sustained, based on conventions.

## **9 *Lessons Learnt and Suggestions for Improvement***

Although the MFF has survived over the years, despite its voluntary and informal character, it would be better if it is backed by formal policy announcements and legislative measures. In that case, its functioning would not be dependent on the extent of willingness or interest of the government department. Based on experience already gained, a policy decision / statutory provision should be made spelling out the following:

- MFF Vision, Mandate, Objectives and Functions;
- Composition of MFF and Committees;
- Committees, Sub-committees and their Mandates;
- The Rules of the MFF and Committees;
- Organizational structure of Secretariat;
- Follow-up, Monitoring and Review System;
- Accountability of members and convener;
- Resources for MFF activities; and
- Pattern of district level/decentralized level forums ,if any

The TOR should also incorporate the role of MFF with respect to Rural Finance Services and Financial Inclusion. It is hoped that MFF would be put in place on a strong, sound and sustainable framework for furtherance of the sector in the years to come.

## Appendix 10. Developing rural finance policy and strategy in Zambia—a case study

### 1 *Introduction*

In 2003, the financial sector assessment undertaken by the World Bank and IMF through the Financial Sector Assessment Programme [FSAP] identified a number of weaknesses in the Zambian financial sector. To address the weakness of rural sector, GRZ and IFAD jointly designed and implemented RFP in September 2007. The Ministry of Finance and National Planning (MOF and NP), GRZ was to manage the programme in alignment of FSDP. FSDP set out extensive range of financial sector reforms related to banking sector as a whole. The Rural Finance Programme (RFP) of IFAD focused on developing rural finance policy and strategy and stressed on establishing Rural Finance Unit in the MOF and NP to spear head it. With a view to developing a specific and operational set of policies and plans as well as mechanism and time span for implementation of rural finance development, a comprehensive study of rural finance was warranted. Accordingly, a study through the Oxford Policy Management was funded by RFP with the following objectives in 2012.

### 2 *Objective of assignment*

The aim of the study is twofold (i) develop an effective and coherent strategic framework to enhance provision of both broader and deeper financial services across all parts of the country and (ii) develop a national policy on rural finance creating a conducive environment for accommodating formal banks, microfinance institutions, out grower schemes and marketing companies, savings and credit cooperatives, and small informal operators. It was envisaged that the Rural Finance Strategy and Policy should be a practical document, indicating the policy objectives and indentifying implementable actions to reach these objectives. It should clearly define the actions needed in each area covered by the policy, the institutions responsible for these actions and the requirements for budgets and potential expert support to carry them out.

### 3 *Study Methodology*

The methodology for the study was very elaborate, participatory and systematic. The Oxford Policy Management (OPM) team reviewed the relevant literature and programme documents and interviewed key stakeholders during the country visit in January 2012. Towards the end of the country visit, initial findings were shared with the Programme Reference Group (PRG) and other participants at a consultative meeting and insightful comments were received. During data collection and analysis the OPM team made an effort to identify areas of current or potential market failure that could justify interventions from government and other partners. In this regard, the consultants sought to:

- Identify gaps in the environment; adverse demand-side factors; supply-side constraints; and financial infrastructure. The study also identified how best to close the existing gaps, considering the Zambian environment and lessons learnt from what has worked elsewhere, particularly in countries with similar conditions. The draft report was carefully considered by the

PRG. Based on the PRG feedback, the draft report was updated by the OPM team, which was discussed at a national stakeholders' workshop in May 2012.

- Proposal to GRZ - With stakeholders' consultation and feedback, the report was finalized and a proposal to GRZ was submitted as a part of implementation of RFP, to consider acceptance and adoption of the RF Policy and Strategy besides establishing full-fledged RFU for implementation of the policy and strategies.
- The GRZ at the Cabinet level has accepted the policy and strategy so evolved, besides establishment of RFU in the government. The policy areas to be taken up at various levels are outlined below:

#### **4 Policy—Macro Level**

- Encouragement of market-based approaches to rural finance provision;
- A supportive institutional environment that promotes rural finance services, and
- Evolving appropriate regulatory and legislative framework.

#### **5 Policy—Meso Level Interventions**

- Development of financial sector information by GRZ;
- Dissemination of demand and supply side market information; and
- Enhancement of market-driven skill development.

#### **6 Policy—Micro Level Interventions**

- Expansion of financial services in rural areas;
- Creating hospitable environment that fosters market -driven linkages and partnerships;
- Supporting product innovation and delivery of new financial products in rural areas; and
- Supporting implementation of market-driven financial education strategies.

#### **7 Rural Finance Strategies**

##### **7.1 STRATEGIES AT MACRO LEVEL**

- Working in partnership with the private sector and other non-state sector, GRZ shall encourage market-based approaches to rural finance provision.
- GRZ shall put in place an enhanced financial oversight and accountability system and structures that will secure confidence of all rural finances providers.
- GRZ will establish Rural Finance Department in MOF and also an inter-governmental rural finance Working Group for periodical meetings.
- It will convene, through Rural Finance Department, Rural Finance Forum which will review and publicize progress and established priorities for follow up action.

- GRZ will promote creation of supportive institutional environment that promotes the provision of variety of rural finance that is tailored to meet the requirements of rural poor.

## 7.2 STRATEGIES AT MESO LEVEL

- GRZ shall facilitate the development of financial sector infrastructure with a view to broadening outreach in rural areas including a focus on *inter alia* the creation of effective payment system, credit reference bureaus, warehouse receipts, collateral management, weather index insurance, etc.,
- In partnership with private sector, GRZ shall support the collection and dissemination in rural areas of both demand and supply side market information.
- GRZ shall support through capacity building and in partnership with private sector the enhancement of demand-driven skill development targeting mainly financial organizations and support organizations that operate in rural areas

## 7.3 STRATEGIES AT MICRO LEVEL

- GRZ shall promote the expansion of financial services providers into rural areas targeting commercial banks, NBFIs, SACCOs, Insurance Companies and community-based organizations. It will, *inter alia*, undertake market assessment to explore opportunities for setting up an agricultural / rural finance investment independent entity [including private and public sector stakeholders] and that could be used *inter alia* to establish a Challenge Fund for banks and other regulated financial institutions to move to rural areas.
- GRZ shall ensure a hospitable environment that fosters market -driven linkages and partnerships among and between diverse financial service providers and relevant support institutions.
- GRZ shall design and encourage the provisions of varieties of financial products and services in rural area e.g. warehouse receipts, leasing and micro insurance.
- GRZ shall support the implementation of the financial education strategy that is driven by market signals and demand.
- It will support implementation of the proposed financial education programme for micro, small and medium enterprises [MSME] and for youth.
- Support the implementation of the proposed financial education through appropriate media program.

## 8 *Lessons learned from the case*

- A comprehensive policy and strategy can be evolved through participatory approach;
- Well-intended and pro-rural development-oriented Government can be convinced, if the policy and strategy are evolved , packaged and presented in right way;
- Setting up of Rural Finance Unit in Government, which was being pursued

with the Government by IFAD as part of RF programme could be acceptable to the Government, only as a part of the policy package, not in isolation.









