INVESTMENTS IN RURAL FINANCE FOR AGRICULTURE

Providing financial services to households and agribusiness in poorer and marginal rural areas remains a challenge for the World Bank and other funding agencies. Although the adoption of a financial systems approach and the expansion of the microfinance sector have led to significant breakthroughs in performance, outreach, and lending volumes, this has rarely extended to more marginal rural areas dependent on agriculture. Recent progress in providing financial services have impacted poor rural households with diversified nonfarm income sources or income from nonseasonal agricultural activities. Several factors increase cost and risks of financing agriculture and for these reasons financial service providers perceive investment in agriculture to be unattractive (see box 7.1). However, recent efforts by the World Bank and other organizations are starting to bear fruit in the form of emerging models and successful approaches. Rather than repeating a comprehensive treatment of the well-documented challenges and past failures of agricultural finance (World Bank, forthcoming; IADB 2001; Yaron, Benjamin, and Piprek 1997), this Module explores promising new directions in rural finance for agriculture, and identifies lessons for policy and lending.
Within the current financial systems approach, financing for agriculture is seen as part of a comprehensive rural finance strategy. The terms *Rural Finance for Agriculture* and *Financing for Agriculture* are used interchangeably throughout this Module to define all financial services provided to those engaged in the agricultural sector. The Module focuses on the provision of financial services for agricultural activities and to agriculturally dependent households, though most do not exclusively provide financing for agriculture. They also provide financial services to nonagricultural rural and, in some cases, urban communities. These providers include both formal and informal institutions ranging from full-service banks to specialized agricultural finance institutions (MFIs), financial cooperatives, credit unions, savings and loan associations, traders, and processors. They encompass all types of financial services (credit, savings, money transfers, leasing, and insurance\(^1\)), for agricultural activities broadly defined to include primarily production, but also processing, distribution, and marketing. In this module, particular emphasis is placed on those who presently have only limited access to financial services, such as poor agriculturally-dependent households in less-favored (low productivity, more remote) rural areas.

**RATIONALE FOR INVESTMENT**

Constraints to agricultural development are many, and access to financial services is only one response needed to address these constraints. However, improving the provision of, and access to, financing for agriculture can meet a range of needs, and can be critical to the success of agricultural development programs. Indeed, many investments in agriculture are dependent on access to appropriate financial services. At the production level, financing for agriculture can enable farmers to introduce irrigation or other technologies; finance input and marketing costs; cofinance extension and information services; bridge the preharvest income gap and avoid having to sell immediately following harvest at low prices; smooth seasonal income flows through deposit facilities and access to remittances or insure against price or yield fluctuations. If agribusinesses are not able to access financial services, this will constrain their capacity to finance and supply farmers, and to buy and process farm produce.

**PAST INVESTMENT EXPERIENCES**

Since the 1950s the donor community has made large-scale investments in recognition of the importance of supporting financing for agriculture. However, the widespread development of sound and sustainable financial systems for agriculture has not occurred, and the challenges described above still remain. Attention has frequently been drawn to the apparent failure of past approaches, and in particular to the directed credit programs of the 1960s to the mid 1980s. Although these provided a short-term impetus to agricultural production, they have been criticized as costly, unsustainable, and supporting a misconception of free credit, thus jeopardizing future efforts to create sustainable financial institutions. Since the 1980s,

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\(^1\) This module is primarily concerned with credit, savings, and leasing. Insurance is addressed in Module 10: “Managing Risk and Vulnerability.”
attention has switched to the development of sustainable financial institutions providing services to poor clients. This has entailed greater donor support to the establishment of an appropriate policy, regulatory, and legal environment for financial institutions, and support for the development of innovative approaches to reach poorer clients. During the 1990s, there was a steady increase in the number of World Bank operations with rural and microfinance components, with average annual lending of US$630 million (World Bank, forthcoming). However, the relative share of agriculture in total Bank operations with rural and microfinance components has declined from 65 percent during fiscal years 1992 to 1994 to only 27 percent in 2001. This is attributed to the trend to include microfinance and grant components in projects for other sectors, the poor performance of agricultural credit lines and agricultural banks, and the Bank’s Operational Policy (OP) 8.30 that limits the use of subsidized credit (see box 7.2). The focus of recent Bank operations has therefore shifted from the provision of credit to agricultural production (especially for larger farms) and agribusiness, to small loans for off-farm activities and savings services. Although these operations have had some success, they do not constitute a replacement for previous agriculturally-focused operations. Viable mechanisms to address specific demands for agricultural financing continue to be a challenge.

**KEY POLICY ISSUES**

**Financial systems development.** In response to the deficiencies of past approaches to financing for agriculture, new thinking has emerged that embraces the financial systems approach, while recognizing the specific challenges of the agricultural sector and the rural setting. Financing for agriculture has too often been seen in isolation from wider financial systems development, and has overemphasized credit, as opposed to savings and other financial services. One symptom (and cause) of this is that the ministry of agriculture, rather than the ministry of finance, is often the partner ministry in a borrowing country for agricultural loans. Within a financial systems approach, financing for agriculture is viewed as part of the wider rural finance market. Underpinning this approach is the fact that institutions adhering to commercial principles are most likely to achieve outreach and sustainability, and that the role of the public sector should be focused on ensuring that the environment is conducive to the emergence and growth of such institutions.

This approach also recognizes that there are a number of institutions (formal and informal) and individuals that together constitute the financial system (see box 7.3). In certain cases, these institutions will be in place, with infrastructure and networks in agricultural communities that can be the basis for improving provision of financial services. The challenge for governments and donors is to identify and work with those institutions that are viable financial service providers, and where these are absent, to create the incentives and environment for such institutions to emerge.

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**Box 7.2 Operational policy 8.30**

- Targeted subsidies may be warranted if they are transparent, capped, explicitly budgeted, fiscally sustainable, and economically justified.
- Subsidies should not directly subsidize the ultimate clients, but rather be aimed at building the capacity of financial intermediaries or supporting institutions (for example, supervisory authorities).
- Conditions are specified for acceptable targeted credit that fosters a sustainable flow of financial services to underserved groups (such as the poor, women, and microentrepreneurs), and is accompanied by reforms that address problems in institutional infrastructure and financial markets.
- Financial Intermediary Loans (FILs) should be limited to those that have sufficient institutional capacity.
- New and existing institutions that do not qualify as a “viable institution” may participate in a FIL, if they agree to an institutional development plan that includes a set of time-bound performance indicators that can be monitored, and that provides for a midterm review of progress.

The financial systems approach recognizes that rural and agricultural clients need a full range of financial services specifically for the agricultural sector.

**Box 7.3 Institutions and individuals in the rural finance system**

- **Agricultural Banks:** Whether privatized or state-owned, these banks have a rural network that provides financial services specifically for the agricultural sector.
- **Postal and Savings Banks:** These often act as the principal source of deposit and money transfer services in rural areas. Traditionally, these were owned by the state, although in some countries they have been commercialized.
- **Microfinance Institutions (MFIs):** Specialized institutions that can provide microfinance products targeted at the poor and low-income populations, including small farmers.
- **Membership-Based Financial Organizations (MBFOs):** Membership-based organizations can include financial cooperatives or credit unions, and savings and credit associations. These organizations usually have a common bond, such as community, geography or activity.
- **Processors and Traders:** A wide variety of businesses and entrepreneurs in the agricultural market system that are principally engaged in agricultural activities (such as processing, marketing, input provision, storage) also provide credit as part of transactions.
- **Informal Financial Intermediaries:** Group-based models such as Rotating Savings and Credit Associations (ROSCAs), moneylenders, retail stores offering goods on credit, informal deposit collectors, and others.

Source: Authors.

Deficiencies in the enabling environment frequently limit the viability of financial service providers, and therefore the spread of financial services into rural areas and agriculture. This requires institutional strengthening in the broadest sense, of the judicial system, property registries, contracts and markets, infrastructure, and service providers.

**Appropriate strategies for the poor.** Within the agricultural sector, social groups have different financial (and nonfinancial) needs (see box 7.6). Credit is only suitable in certain circumstances. For example, there is a significant difference between financing a liquidity shortage for a viable activity and giving money to people or enterprises without a viable business model (including farming), who may not be able to meet repayment commitments. One may lead to poverty reduction and increased employment, and the other to an unsustainable debt burden. Microfinance has demonstrated that careful design of financial products and delivery mechanisms can allow those previously considered “unbankable” to be good clients. However, there are still cases where credit is not suitable, and where grants may be a more appropriate response:

- Where the recipients are too poor to repay a loan, such as some groups of landless poor.
- Where the primary eligibility or targeting criteria are not “ability to pay,” but instead is membership of a certain target group (for example, credit to farmers to promote adoption of a certain technology).
- For a “lumpy” or long-term investment, or a risky start-up, neither of which fit a short-term, high-cost microloan.

Developing Appropriate Policy Frameworks. The public sector plays a vital role in creating suitable conditions for financial market development. Specifically, the public sector must provide the policy environment for rural finance for agriculture to flourish including conditions for macroeconomic growth and stability, and appropriate agricultural and financial sector policies. Agricultural policy reform may be necessary to remove historical biases against agriculture, to help the sector be profitable and thereby encourage investment. Financial sector policy needs to promote the development of financial organizations that are transparent and accountable. This must be supported by a strong legal and regulatory framework, including the provision of a legal basis for secure property rights, financial transactions, and savings mobilization (see box 7.5).
Box 7.4 Financial products demanded by the rural sector

Savings: Savings mobilization contributes to an institution’s sources of funds for on-lending, and is also a financial service that is equally, if not more, important to the rural poor than lending. In the absence of formal savings opportunities, the rural poor often pay depositors or store money in insecure places.

Short-Term Finance: This is finance for working capital, such as inventories or agricultural inputs. Short-term finance for agricultural activities including input supply and processing, tends to be linked to crop cycles, and thus defined by the growing season.

Term Finance: Term finance (FAO, forthcoming), defined as loan terms over one year, may be used for farm machinery, irrigation equipment, land improvements, livestock, tree crops and processing equipment. Term finance does not only imply loans, and may also include leasing of machinery and equipment. The challenges presented in box 7.3 apply even more strongly to term finance, which is more costly and risky than short-term finance, since it ties up larger amounts of money for longer periods, and requires the mobilization of long-term funds (to balance assets with liabilities).

Leasing: In a lease agreement, the leaseholder pays a regular rent/lease for the use of equipment while the legal property remains in the hands of the institution. Due to the ready availability of collateral (the leased equipment), it may be an easier product to provide by rural financial intermediaries than other term finance, but its viability depends on appropriate tax and legal incentives.

Money Transfer for Remittances: Income from national or international remittances is important in most developing economies, and disproportionately so for many poor rural areas where it may be the principal income source. Remittance monies can make significant contributions to consumption smoothing, and efficient mechanisms for money transfers are widely demanded by the rural poor. However, care needs to be taken to ensure that access to remittance services will not be misused for money-laundering purposes.

Insurance: Insurance products are in particularly high demand (and short supply) in the agricultural sector, given the risk of crop failure and price fluctuations. Insurance products span loan insurance, crop insurance, and life insurance, but experience with these is mixed. Hedging instruments based on weather or price indices are also increasingly available.

Source: Authors.

1. See the IAP “Madagascar: Microleasing for Agricultural Production.”

Box 7.5 Improving the legal environment for rural finance for agriculture

Enable Unsecured Loan Portfolios: Change laws to permit unsecured loan portfolios to serve as collateral for accessing loans from the formal sector for refinancing.

Reform Borrower Status and the Law: Reform laws relating to the status of borrowers with regard to age of majority, homestead, literacy, and civil registration. Facilitate the poor, illiterate, and young heads of households in legally conducting business with the formal sector, such as the signing of contracts, opening businesses, and borrowing.

Simplify Bankruptcy Procedures: Simplify and reduce the cost of bankruptcy procedures to have a simple and cheap exit mechanism for paying unsecured debt, recuperating lender funds and returning remaining funds to the borrower.

Expand Collateral Use: Broaden the concept of security interest for immovable property, for example from land titles to land use rights. This requires recording economically important land use rights and simple legal mechanisms for transferring such rights.

Write Civil and Commercial Registration: Create governing legislation for all relevant legal institutions that permits civil and commercial registration systems, and where possible, private systems. This should include a filing system to report security interests for property and land use rights for immovable property.

• Where the recipient lacks the skills (or health) to productively utilize a loan.

Where there is an element of entitlement or compensation in project design, credit (which is, of course, actually debt) is also not the appropriate tool. For example, if an amount of money is to be given automatically to individuals in a certain target group (such as refugees, HIV/AIDS sufferers, or retrenched workers), a grant should be used. Grants can take the form of start-up equipment for a farm or enterprise, a contribution to transition costs associated with adopting new activities, a grant (or food subsidy) to help a person move out of destitution or recover from an emergency, or a savings-type deposit that can be accessed later at a time of need (as opposed to a cash grant).

Access to flexible and safe savings facilities can enable poor households to reduce their vulnerability to shocks, save for expenses such as school fees, and can provide an important source of funds during the growing season. Transfer payment services, which facilitate access to remittance monies, are unaffected by agricultural production cycles, and can provide important consumption smoothing and risk-reducing mechanisms for the poor. Credit is likely not suited to the needs of the extreme poor, who have little likelihood of productive investment and credit repayment.

The success of microfinance in the past 20 years has led some to believe that the development of sustainable institutions providing financial services to the poor on a full cost-recovery basis is sufficient for poverty reduction. However, the causes of poverty are numerous and complex, and although microfinance is an important poverty-reduction tool, its effectiveness is closely linked to other interventions (and vice versa). Nonfinancial services can also help the rural poor “graduate” to become suitable candidates for microcredit and other financial services, for example through building skills and capacities (health and education), and through improving access to markets. The starting point for operations in rural finance for agriculture must therefore be a research and consultative process to develop a solid understanding of the financial needs of the poor, and factors limiting their access to financial services.

Subsidies, credit lines and guarantees. The revised OP 8.30 (World Bank, Operational Manual) clarifies the Bank’s policy by stating the conditions under which subsidies and directed credits may be used. They can be used as part of an operation that aims to foster a market-oriented environment, which in turn enhances access of the poor and micro and small-sized enterprises to financial services. Market failures that result in poorly functioning and shallow agricultural financial markets may justify carefully designed subsidies, provided they are time-bound and used for overcoming those failures, and do not distort prices or target certain clients. Technical assistance, training,
investment in systems, and other capacity-building subsidies can support the emergence of strong rural financial service providers. However, subsidies can also distort financial markets, inhibit the development of the financial system, and reduce access of rural populations to financial services. This type of negative impact results from subsidies being applied to price (interest rate subsidies for the end borrower), or to directing credit to certain groups or for certain purposes, without an overriding goal of creating sustainable financial institutions. Long-term or structural subsidies should also be avoided, because they can create dependence on donor funding. Sustainability in the provision of financial services implies a transition to more commercial sources of funding over time, as donor funding is limited in size, temporary, and its availability is subject to policy changes.

Credit lines and guarantees can also distort markets, and therefore should be used carefully – and only where parallel measures are taken to improve the operating environment for rural financial service provision. Funding for lending portfolios may be justified in the short to medium term under the following conditions: if the financial institution is not able to take deposits (to avoid the risk of external funding undermining mobilization deposits), if sufficient capacity-building support has been successfully provided, and if commercial sources of finance (investors and banks) are not an available option. In the longer term, however, both deposits and commercial sources of funds are more sustainable (and less distorting) sources of funds for intermediation than donor funding, and do not expose the borrower to exchange rate risks (CGAP 2002).

Financial guarantees can be used to attract commercial financial intermediaries into lending to MFIs with an agricultural portfolio, or to develop financial credit within commodity marketing chains. Such guarantees should decline rapidly over-time, and should be designed to develop sustainable business relationships between providers and recipients through building trust and a good credit history. Guarantees are only useful if a substantial portion of the credit risk remains with the institution, to avoid moral hazard and to allow for the buildup of good credit practices.

NEW DIRECTIONS FOR LENDING
Approaches are needed that expand the depth, scale, and outreach of financing for agriculture, with a wider range of better-designed financial services, provided at a lower cost and to poorer clients. This requires action on two complementary fronts: improving the overall environment for the development of financial systems, and increasing the capacity of institutions to provide financial services to the agricultural sector.

IMPROVING THE ENVIRONMENT FOR RURAL FINANCE FOR AGRICULTURE. Creating a conducive policy framework for financing for agriculture is consistent with policies for improving the investment climate, supporting financial systems development, and increasing agricultural growth (Yaron, Benjamin, and Piprek 1997). The challenges of providing financial services to small-scale farmer activities do merit particular emphasis on the following:

- Strengthening the capacity of land and property registries, and streamlining registration processes, to make collateral easier and cheaper to use, and promote secure land tenure and land-use rights. This creates an incentive for farm investment (for example, the modernization of the property registration system in Latvia during the Rural Development Project 1997-2001 led to an eightfold increase in mortgage registrations).

2. OP 8.30 states that targeted lines of credit, when justified, should be accompanied by reforms to rectify underlying market imperfections. A Bank Financial Intermediary Loan may support directed credit programs to promote sustained financing for such sectors, provided the programs are accompanied by reforms to address the underlying institutional infrastructure problems, and any market imperfections that inhibit the market-based flow of credit to these sectors. Such reforms include measures to (a) address obstacles that impede the flow of funds to the credit recipients, or (b) enhance the creditworthiness of the intended beneficiaries through appropriate approaches such as mutual group guarantees.
• Ensuring that debtor rights do not outweigh creditor rights, and building the capacity of rural courts to process claims efficiently and transparently.

• Eliminating any interest rate subsidies to agricultural lending through development banks or other institutions supported by government or donors.

• Investing in communications and physical infrastructure to lower operating costs for financial service providers, and investing in education and health services to enhance the capacity of clients to take advantage of financial services.

• Reforming financial sector regulation and supervision (if needed) to promote the development of nonbank financial institutions. For example, this could be a shareholder-based entity that is allowed to offer a limited range of financial services (such as credit, deposits, and domestic transfer payments), and that operates within a specialized regulatory framework and set of reporting requirements that do not restrict microfinance activities. This may be necessary to encourage financial sector development, and to enable product diversification beyond credit to deposit facilities and transfer payment services. However, this option should only be considered if there is sufficient will and available resources to invest in building supervisory capacity to enforce the regulations. Poor people’s money may otherwise be put at risk.3

Capacity development for rural finance for agriculture. Bank investment in financing for agriculture has long since moved away from channeling production credit through subsidized public-sector agricultural banks. It now recognizes the importance of building sustainable financial institutions that can provide longer-term access to financial services in rural areas. Funds for on-lending are of little beneficial use if the financial institution receiving them lacks the ability to use them effectively. Key areas for capacity building include:

• Investment in information systems that provide timely and accurate data to management.

• Training for staff, management, and board members.

• Strengthening internal controls and external monitoring, and improving the transparency and quality of external reporting.

• Assistance in product design and marketing of a range of financial services.

• One-off grants to support innovations (for example, introducing new technology, or a new loan product), or expansion into more marginalized rural areas.

• Building on existing infrastructure (such as post offices, state banks, retail stores, traders) to provide a range of financial services at low cost and at scale.

At present substantial Bank and donor funds lie unused in apexes (second-tier wholesale funds), intended for on-lending by agricultural and microfinance providers. For example, the Social Development Fund in Yemen had only 40 percent of its fund assets (US$5 million) allocated to MFI investments.4 The absorptive capacity for apex funds is therefore limited by the size and expansion capacity of existing providers of financing for agriculture. Funds should only be committed to apexes if: a) sufficient absorption capacity exists for using

3. To enable rural financial service providers to take deposits from the general public, there may be a case for prudential regulation that is aimed at protecting the soundness of the financial system as well as depositors. Given its high cost, care should be taken to avoid using prudential regulation for nonprudential purposes (that is, the formation and creation of MFIs, preventing fraud and financial crimes). The introduction of new regulations often sets off unintended consequences (such as renewed enforcement of interest rate ceilings), and the costs of new regulation and its supervision have to be justified by a critical mass of qualifying institutions.

4. A more efficient apex is the Rural Finance Corporation of Moldova, which claims to have 100 percent of its fund assets (US$4.8 million) committed to MFI investments (MixMarket).
the apex funds effectively, and/or b) simultaneous investment in developing institutional capacity of existing providers is carried out. Well designed capacity-building support requires involvement of a financial sector specialist, and need not be limited to direct providers of financial services – there are many other institutions that can play a vital role, from credit bureaus and industry associations to rural producer organizations, community self-help groups, agribusiness development centers, and local nongovernmental organizations (NGOs). Without this capacity-building investment the scale of provision of financing for agriculture will remain limited.

**Innovation—New Product Development and Delivery Mechanisms.** Improving the outreach and performance of rural finance for agriculture requires innovations and new or adapted financial products to overcome the challenges presented by agricultural activities and environments. Applying products and approaches that work in urban settings or for nonfarm activities has only worked for those agricultural activities that have a similar income and risk profile to nonagricultural activities, such as egg production or greenhouse-based vegetable production. Rural finance for agriculture needs to match seasonal income cycles and term investment needs, manage risks, mobilize savings, develop lower cost operations, and cope with deficiencies in client information availability.

Diversification of loan portfolios over time and economic sectors, and product diversification toward savings, insurance, and leasing, can be effective risk management strategies. Savings-based approaches offer particular promise in more remote rural areas. New and promising products that help address the challenges posed by financing agricultural activities merit support for piloting. Innovation involves risk-taking on the part of the provider, and there is a legitimate role for donors to support innovation, and provide the resources to scale-up successful innovation for wider application. To improve the viability of rural financial services and lower their cost to clients, flexible delivery mechanisms are needed. Instead of investing in expensive branch networks, financial services could instead be made available through existing delivery outlets, such as an agricultural development bank, a rural post office, retail stores, or rented offices in schools and hospitals. If other financial institutions are present, branch facilities could be shared to lower operating costs. Mobile and automatic teller machine (ATM)-based delivery mechanisms are being piloted by several rural finance institutions, and show significant potential for lowering the costs of providing rural financial service.

**Capitalizing on existing institutions and infrastructure.** If existing infrastructure and institutions are already in place, these may be utilized where appropriate to improve financial services. There are advantages and cost savings from working through institutions that are already established in rural areas, though the choice of institution must be carefully considered. There are potentially significant benefits (and risks) of using established branch networks and client bases provided this is combined with extensive reform of bank systems and management. Where the institutional commitment is lacking, or the costs of reforming and building the capacity of existing institutions or rehabilitating infrastructure is too great, starting from scratch may be the preferred option. Membership-based financial organizations can build the capacity of existing community organizations, including, where appropriate, linking these to the formal financial sector. In some circumstances, financial services may be best provided by organizations falling outside the traditional definition of a financial institution. For example, there is considerable potential for extending and improving sources of production credit for farmers by input suppliers, processors, and buyers.

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5. See the AIN, “Membership-Based Financial Organizations”
6. See the AIN, “Production Credit from Input Suppliers, Processors and Buyers”
SCALING-UP INVESTMENTS
The emphasis of donor or government monitoring of finance providers for agriculture should be on institutional performance and progress in institutional capacity, instead of on activities and outputs. Experience has shown that investment in rural financial service providers produces superior results if program design, reporting, and monitoring focus on areas that are considered key for performance. Performance can be defined as the extent and efficiency with which they reach their target group. This is best measured jointly as outreach and sustainability. Outreach is a measure of the scale and depth of penetration of a rural financial service provider to its target group, and sustainability is the ability of an institution to survive over the long term. Sustainability has ownership, governance, and management components, and financial dimensions (see box 7.7).

Tranched funding can be an effective means of enforcing performance targets, with the disbursement of subsequent tranches dependent on the achievement of minimum performance thresholds or targets. A business plan agreed to by the financial institution can provide key performance targets, and can also be used as the basis for designing institution-building assistance. Capacity building of project implementers, as well as the financial service providers, can also be included within projects if appropriate.

The World Bank is in a strong position to influence borrowing governments and other donors, and can take a lead in the quality and effectiveness of scaling-up financing for agriculture through the following practical actions:

- Incorporating financial expertise into the project team (whether through an in-house specialist or an outside consultant) for rural finance for agriculture projects, or projects that include a component of finance to farmers or agriculture-dependent households.

- Considering rural finance for agriculture projects and components as falling under a wider financial systems approach, and not simply as a contribution to a narrow agriculture sector goal.

- Requiring financial service institutions to follow internationally accepted accounting standards and to practice full disclosure. Where indicators specific to microfinance are used, then standard definitions should be applied (CGAP 2003). External audits and ratings of rural finance for agriculture providers should be required as standard for more formal financial institutions. A professional appraisal of all financial institutions that on-lend bank loan funds should be encouraged. For smaller and less formal community-owned organizations, this may be too expensive and other forms of reporting and monitoring should then be used, consistent with full disclosure and accepted indicators.

Box 7.7 Minimum reporting indicators

All project phases (project appraisal, design, monitoring and reporting during implementation, final evaluation) should use appropriate measures of outreach and sustainability. Such indicators should include:

- Number of clients that are being served (measured by active clients or accounts).
- Client poverty level (through average outstanding loan or savings balance, as a percentage of GDP/capita).2
- Performance in loan collection (for example, portfolio at risk beyond a stated number of days).
- Efficiency (operating and/or lending costs as a percentage of the loan portfolio or assets).
- Financial sustainability (use return on assets and/or return on equity. For subsidized institutions, financial self-sufficiency, adjusted return on assets, and/or the subsidy dependency index can all be used to quantify the subsidy that is required/invested for a certain project outcome).


2. This indicator may be less relevant for projects that promote financial services to larger agribusinesses.

SELECTED READINGS
Asterisk (*) at the end of a reference indicates that it is available on the Web. See the Appendix for a full list of Web sites.
REFERENCES CITED


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