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A technical review of select de-risking schemes to promote rural and agricultural finance in sub-Saharan Africa



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Abbreviations and acronyms

ADF	African Development Fund	DFID	Department for International Development, UK
AFC	Agricultural Finance Corporation of Kenya	DMB	Deposit Money Bank
AfDB	African Development Bank	EB	Executive Board
AGRA	Alliance for a Green Revolution in Africa	FAO	Food and Agriculture Organization of the United Nations
AIF	Agriculture Insurance Facility	FFAD	Financing Facility for Agricultural Development
APPEALS	Agro-Processing, Productivity Enhancement and Livelihood Improvement Support Project	FG	Financial Graduation
API	Application Programming Interface	FIPS	Fast Implementation Start-up Facility
APN	Agricultural Productivity and Nutrition	FI	Financial Institution
ASWG	Agriculture Sector Working Group	FLSTAP	Financial & Legal Sector Technical Assistance Project
ATA	Agricultural Transformation Agenda, Nigeria	FMARD	Federal Ministry of Agricultural & Rural Development, Nigeria
AU	African Union	FSD	Financial Sector Deepening Trust
AYII	Area Yield Index Insurance	FSP	Financial Service Provider
BC	Bankers' Committee, Nigeria	GAIP	Ghana Agriculture Insurance Pool
BDS	Business Development Services	GAP	Good Agricultural Practices
BIM	Bank Incentives Mechanism	GIRSAL	Ghana Incentive-based Risk Sharing System for Agricultural Lending
BoG	Bank of Ghana	GHS	Ghanaian Cedi (currency)
BMU	Ministry for the Environment, Nature Conservation and Nuclear Safety, Germany	GoG	Government of Ghana
BRS	Bank Rating Scheme	GoK	Government of Kenya
BSS	Business Support Services	GoN	Government of Nigeria
CAADP	Comprehensive Africa Agricultural Development Programme	GoT	Government of Togo
CABFIN	Improving Capacity Building in Rural Finance Partnership	IAPRI	Agricultural Policy Research and Outreach Institute, Zimbabwe
CABS	Central Africa Building Society	ICT	Information and Communication Technology
CBA	Commercial Bank of Africa	IDP	Interest Drawback Programme
CBK	Central Bank of Kenya	IFAD	International Fund for Agricultural Development
CBN	Central Bank of Nigeria	ILRI	International Livestock Research Institute
CD	Certificate of Deposit	ILO	International Labour Organization
CF	Credit Facility	IIPACC	Innovative Insurance Products for the Adaptation to Climate Change
CSAF	Council on Smallholder Agricultural Finance	ISAL	Internal Savings and Loan Groups
DAT	Term Deposits	KES	Kenyan Shilling (currency)
DCA	Development Credit Authority	KIC	Knowledge and Innovation Center
DF	Digital Finance		

KIH	Knowledge and Innovation Hub	PMRO	Project Monitoring, Recovery and Remediation Offices
KIRSAL	Kenya Incentive-based Risk Sharing Facility for Agriculture Lending	PND	National Development Plan, Togo
KPI	Key Performance Indicator	PO	Producer Organization
KWFT	Kenya Women Microfinance Bank	PPP	Public-private Partnership
KYC	Know-Your-Customer	PROFIT	Programme for Rural Outreach of Financial Innovations and Technologies, Kenya
LFSP	Livelihoods and Food Security Programme, Zimbabwe	PROMIFA	Agricultural Financing Incentive Mechanism Support Project
LoC	Line of Credit	PSN	Production Safety Net
M&E	Monitoring and Evaluation	RARSF	Rwanda Agriculture Risk Sharing and Financing Facility
M2M	Mapping-to-Markets	RF	Rural Finance
MD	Market Development	RFOI	Rural Finance Outreach and Innovation
MECA	Machines and Equipment Corporation Africa	RSF	Risk Sharing Facility
MFB	Microfinance Bank	ROI	Return on Investment
MFI	Microfinance Institution	SACCO	Savings and Credit Cooperative
MIFA	Agricultural Financing Incentive Mechanism based on risk sharing	SAFIN	Smallholder and Agri-SME Finance and Investment Network
MIX	Microfinance Information Exchange	SAPZ	Special Agro-industrial Processing Zone
MoFA	Ministry of Food and Agriculture, Ghana	SME	Small- and Medium-sized Enterprise
MoFEP	Ministry of Finance and Economic Planning, Ghana	SMEP	Small and Micro Enterprise Programme, Kenya
MSME	Micro-, Small- and Medium-sized Enterprise	SSA	sub-Saharan Africa
NAPF	National Agricultural Policy Framework	TA	Technical Assistance
NBFI	Non-bank Financial Institution	TAF	Technical Assistance Facility
NCAMP	NIRSAL Comprehensive Agricultural Mechanisation Program	TIRSAL	Tanzanian Incentive-based Risk Sharing System for Agricultural Lending
NGN	Nigerian Naira (currency)	ToC	Theories of Change
NGO	Non-governmental Organization	TSS	Technical Support Service
NIMET	Nigerian Meteorological Agency	TSP	Technical Service Provider
NIRSAL	Nigeria Incentive-based Risk Sharing System for Agricultural Lending	UA	Unit of Account (reporting currency of the AfDB)
PAR	Portfolio at Risk	UNDP	United Nations Development Programme
PBC	Performance-based Contracting	UNIDO	United Nations Industrial Development Organization
PCG	Partial Credit Guarantee	USD	United States Dollar (currency)
PCMU	Project Coordination and Management Unit	VC	Value Chain
PCU	Project Coordination Unit	VCF	Value Chain Finance
PFF	Pre-financing Facility	WRMT	World Bank Agricultural Risk Management Team
PFI	Partner Financial Institution	ZMF	Zimbabwe Microfinance Fund
PFSF	Participating Financial Service Provider		
PIU	Project Implementation Unit		

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Executive summary

In recognition of the well-understood challenges with promoting rural and agricultural finance, the need for a more systemic approach to promoting financial inclusion is gaining traction in the thinking and programming approaches of the community of practice.

Within this system-level view, the concept of de-risking the overall operating environment of agricultural value chains is recognized as a critically important factor. Accordingly, numerous project-based and stand-alone “de-risking” arrangements have recently been launched or are at various stages of design throughout sub-Saharan Africa.

Growing interest and consensus about the importance of these facilities has already been established and what is now required is a more detailed understanding of design features; a rigorous technical review and stocktaking of the most conducive institutional and operational arrangements; and a delineation of the existing information gaps.

The generation of evidence of performance, impact and cost effectiveness is critical to validating the relevance of these types of schemes, as well as to informing design improvement and implementation, for the sake of scalability and replicability. This study takes preliminary stock of these experiences in an effort to contribute to building up the evidence base to help inform the future strategy and design of similar programmatic interventions.

Reflecting this, the five schemes under investigation in this study are a typology of government- or donor-sponsored, integrated risk management mechanisms aimed specifically at de-risking finance and investment in agricultural and agro-industries through a coordinated and holistic combination of policy, financial and risk management instruments, coupled with a set of financial and non-financial (dis-)incentives for market actors. They can be segmented into two typologies based on institutional form:

(1) Project-based de-risking schemes, namely:

1. Programme for Rural Outreach of Financial Innovations and Technologies (PROFIT) in Kenya;
2. Livelihoods and Food Security Programme (LFSP) in Zimbabwe;
3. Agricultural Financing Incentive Mechanism Support Project (ProMIFA) in Togo

(2) Stand-alone de-risking institutions that have an independent and incorporated institutional form, namely:

4. Nigeria Incentive-based Risk Sharing System for Agricultural Lending (NIRSAL)
5. Ghana Incentive-based Risk Sharing System for Agricultural Lending (GIRSAL)

While they vary in design features and level of operational maturity, these schemes typically include several coordinated and mutually reinforcing instruments, including:

- A risk sharing facility (RSF) in the form of a partial credit guarantee
- A technical assistance facility (TAF) to support supply - and demand-side capacity building
- Support for the development agricultural insurance
- A direct financing facility or Line of Credit (LoC)
- Support for digital finance-based solutions

The study reveals that the overall relevance of these schemes can be considered robust and potentially meaningfully responsive to the challenges and opportunities for de-risking agricultural finance and investment. By coupling interventions in rural financial market development and agricultural value chain development, they reflect a prudent recognition of their interdependent nature. In doing so, the schemes constitute a move away from a more narrow, instrumental approach to promoting agricultural finance and make efforts to address underlying value chain-level and enabling environment-level factors that often represent binding constraints in rural financial sector development. As such, they are a promising approach to addressing associated challenges and opportunities.

The review also revealed the tangible impact of the various instruments deployed across a number of indicators. This includes increasing financial services to producers and agri-SMEs; supporting the development of innovative products and rural outreach strategies; the formation of some effective coordination mechanisms and partnerships; and the shaping of incentives to attract financing.

At the same time, given their limited implementation history and track record, it is too early to develop a comprehensive qualification of their performance and impact. A longer track record and evidence of impact would be necessary to be able to qualify which approach to de-risking may be more desirable for designers of similar instruments or policymakers interested in adopting similar solutions. Each approach has relative merits and shortcomings, and the country context and enabling environment-related factors varied widely. However, some interesting observations and lessons emerged from the analysis as it relates to the design and implementation of such schemes across the different parameters detailed in the analysis.

In principle, stand-alone schemes are positioned to deploy and coordinate de-risking instruments more efficiently. Among other factors, this is due to operational flexibility; streamlined decision making and coordination mechanisms; and not being captive to project-based restrictions in market for their products and services. They are also less constrained by administrative inefficiencies, which are characteristic of project-based schemes, and thus are more agile to respond to emerging operational challenges or field-level opportunities. Moreover, they can be positioned as more permanent features of rural financial ecosystems, which can have potentially meaningful benefits in terms of long-term financial system development, impact and sustainability. However, the proof of the de-risking concept is yet to be ascertained, as these schemes are fairly new in the rural finance ecosystem. Moreover, governance-related concerns require careful consideration in these schemes, particularly given the challenging history of state-sponsored agricultural development banks in fulfilling their mandates and maintaining operational and financial solvency.

Project-based schemes on the other hand offer greater transparency and stronger governance standards, in addition to having a more structured approach to monitoring and evaluation (M&E) for performance and impact measurement. However, they are typically constrained by administrative and operational inefficiencies and challenges surrounding the sustainability of their interventions and results given their time-bound nature.

In spite of the limited track record of some of the schemes, the study provides some detailed insight into what designers of similar schemes should be considering across: (a) institutional and operational aspects; (b) performance and outreach; (c) coordination and partnerships; and, to a functional extent, (d) enabling environment and policy-level variables of interest.

While these details can be found in the core analysis, overall, particular attention should be paid to the following considerations:

- Adequately justifying the selection and combination of de-risking instruments through more rigorous cost-benefit and scenario analyses at design stage to ensure appropriateness of the instruments in the given context; to maximize impact; and to achieve favorable value for money. This implies the need for in-depth, localized understandings of specific market, institutional and social characteristics; risks; and potential policy gaps. The recommended rural finance sector diagnostic and risk assessment exercises can contribute to a more evidence-informed selection and design process.

-
- Ensuring that existing and internationally recognized good practices in the design of rural finance instruments are adequately considered and applied.
 - Carefully considering the strategic sequencing of different instruments and ensuring that technical assistance (TA) is generally applied before beneficiaries engage with the other rural finance (RF) instruments. Moreover, ensuring adequate time for TA to be delivered and institutionalized, and employing ICTs and other methodological innovations to develop institutionally bespoke TA interventions.
 - Allocating resources specifically for the development of innovative and streamlined coordination and communication mechanisms between project instruments, implementation partners and beneficiaries to allow for intended synergies between instruments to materialize and for streamlined implementation.
 - Involving relevant implementation partners and other stakeholders at earlier stages of design to ensure harmonized understanding, facilitated coordination, and programming that is adequately informed by respective institutional and operational considerations.
 - Assessing the capacity, processes and IT systems of implementing partners to respond to M&E requirements and designing streamlined, “fit for purpose” performance evaluation systems.
 - More systematically assessing the opportunity for these schemes to be integral players or to make substantial contributions to improving the enabling environment for rural finance through policy dialogue and action.

A follow-up edition of the study which broadens the scope of the analysis to include additional stand-alone schemes and/or projects that have a longer track record of implementation is recommended, as this would further expand the basis for evidence-based decision making for policymakers, as well as supporting the eventual development of operational guidelines for designers of such schemes.

Section 1

Introduction and background



1.1 Overall goal of study

The overall goal of the study is to identify and catalogue pertinent design, operational and institutional features of selected integrated risk management schemes to promote agricultural finance and to provide analytical insight into how they can be improved, scaled-up or replicated.

Specific objectives and scope of study

The specific objectives of the study are to:

1. review the existing experiences and performance of two types of integrated de-risking schemes for agri-finance, namely:
 - a. the so-called “incentive-based risk sharing facilities”¹ launched in sub-Saharan Africa (SSA), namely NIRSAL in Nigeria and GIRSAL in Ghana
 - b. project based solutions including the
 - Programme for Rural Outreach of Financial Innovations and Technologies (PROFIT)² in Kenya;
 - the Livelihoods and Food Security Programme (LFSP) in Zimbabwe;
 - Agricultural Financing Incentive Mechanism Support Project (ProMIFA) in Togo
2. draw analytical insight from these experiences across (a) institutional and operational aspects; (b) performance and outreach; (c) coordination and partnerships; and, to a functional extent, (d) enabling environment and policy-level variables of interest;
3. provide a set of recommendations across variables of interest mentioned in objective 2 on how these integrated, public-private partnership (PPP) type approaches can contribute to:
 - facilitating an overall de-risking of the value chain-level operating environment of agricultural producers, agri-SMEs and financial service providers (FSPs)
 - creating a set of effective, efficient and sustainable incentives for providers of financial services and investors to increase their exposure to the sector, either independently or through blended financing structures
 - informing the design of future programmatic interventions for the Alliance for a Green Revolution in Africa (AGRA) and for the Improving Capacity Building in Rural Finance Partnership (CABFIN) partners’ related portfolios; as well as policymakers considering similar initiatives

¹ NIRSAL and GIRSAL are described above, while KIRSAL stands for Kenya Incentive-based Risk Sharing Facility for Agriculture Lending. Other similar schemes influenced predominantly by NIRSAL include the Tanzanian Incentive-based Risk Sharing System for Agricultural Lending (TIRSAL); and the Rwanda Agriculture Risk Sharing and Financing Facility (RARSF).

² KIRSAL – which was originally inspired by the NIRSAL design – was ultimately inserted as a risk sharing facility under the IFAD-funded PROFIT project.

4. identify further knowledge and practice gaps as well as recommended lines of inquiry/ action beyond the areas covered in the study, to stimulate further stakeholder dialogue, transparency and collaboration.

1.2 Target audience of the study

The primary target audience of this study includes the institutions that comprise the CABFIN partnership, as well as AGRA. This study takes preliminary stock of these experiences in an effort to help inform the future strategy and design of similar programmatic interventions. Public institutions currently exploring or tasked with implementing similar de-risking schemes to promote rural and agricultural finance – such as central banks or ministries of finance and agriculture, etc. – can benefit from many of the observations, lessons learned and recommendations, as can the donors and development institutions partnering with them.

At the same time, as detailed in the limitations section, some of the schemes are at early stage in implementation and some notable information gaps persist, requiring additional exploration before related operational guidelines and evidence-based policy insight can be suggested. These can be addressed in a second, follow-up stage of the research.

1.3 Structure of the study

The study begins by providing the background and rationale for pursuing the analysis and defining the methodology and associated limitations. Given the substantial differences in the schemes under review, the following section, Section 2, provides a short discussion about the typologies of these schemes, the associated nomenclature and their features, on a comparative basis. In Section 3, the study provides short overviews of the five selected schemes, and summarized lessons learned for the individual schemes, which are further substantiated later in the study. Section 4 follows with a comparative analysis of the schemes, general observations and general lessons learned, while Section 5 identifies conclusions and some recommendations, including in relation to additional research requirements. The Annex contains case studies of the schemes under consideration, where much of the technical detail and descriptive analysis of the schemes themselves can be found.

1.4 Background and motivation

In light of the well-understood challenges with promoting rural and agricultural finance, the need for a system-level approach to promoting inclusive rural finance is gaining increasing traction in the thinking and programming approaches of the community of practice. Within this system-level view, the concept of holistic and integrated de-risking of the overall operating environment of agricultural value chains is recognized as a fundamental building block.

While strategies, approaches and instruments for de-risking are not conceptually new, interventions tend towards spot solutions designed to address – either by absorption, avoidance, transfer or mitigation – specifically identified pain points for a range of actors operating in a given value chain environment. While these de-risking practices can be useful, they need to be contextualized and coordinated within a broader concept of agricultural risk management. This implies approaching the de-risking of agricultural subsectors in an integrated, holistic manner that addresses both idiosyncratic risk as well as aggregate, sub-sectoral and policy-related risks in order to reshape global risk fundamentals favourably for finance, investment and production.

Reflecting this, the schemes under investigation in this study are a typology of government-sponsored, integrated de-risking mechanisms aimed specifically at de-risking finance and investment to agricultural and agro-industries. They intend to accomplish this through a coordinated and holistic combination of policy, financial and risk management instruments, coupled with a set of financial and non-financial incentives for market actors.

While they vary in design features and level of maturity, these facilities are typically structured around a set of coordinated and mutually reinforcing instruments, including a risk sharing mechanism in the form of a partial credit guarantee scheme (PCGs); a supply- and demand-side technical assistance facility (TAF) to support the capacity building of participating actors; support for the development of risk-transfer mechanisms through agricultural insurance; bank rating and incentive mechanisms; and support for digital finance-based solutions.

Understanding the current operations, performance and prospects of these schemes can provide important programmatic and policy-related insight for CABFIN partners and AGRA, as well as other policy makers and practitioners. If a functional model can be developed, scaled and replicated, these schemes may serve to substantially contribute to mobilizing public and private-sector finance and investment capital into global agriculture and agro-industrial sectors that are inclusive of traditionally underserved segments including “missing middle” agri-SMEs; smallholder farmers; and women, youth and indigenous populations. This is directly aligned with the corporate objectives of the CABFIN partners and AGRA.

Moreover, these facilities can potentially make material contributions to countries' achievement of their national agricultural sector and rural financial inclusion-related strategies and processes, and their international commitments under the African Union (AU) Malabo Declaration and the Comprehensive Africa Agricultural Development Programme (CAADP) framework, while potentially serving to inform and influence similar initiatives in other countries and within the field programme of the CABFIN partners.

However, limited information is available about the technical and operational specifications of how they deploy and coordinate their various instruments; their effectiveness and impact; and on their ability to ultimately achieve their attempts to de-risking agricultural value chains and agricultural finance. While public information is available for project-based arrangements as per standard public disclosure policies of the agencies funding and implementing them, to date there has not been an effort to analyse these schemes on a comparative basis. This current technical review is intended to contribute to filling these knowledge gaps.

Methodology

The schemes reviewed were selected based on the portfolios of the CABFIN partners and AGRA. AGRA was involved to various extents in the design of NIRSAL and GIRSAL, as well as in the implementation of the PROFIT programme. LFSP is an FAO-implemented project funded by the UK Department for International Development (DFID), while ProMIFA and PROFIT are IFAD projects. The motivation for this selection included the need to maximize information availability within a limited timeframe allocated for the study; the intention to develop a preliminary or deeper dive into these schemes that could serve as an information bridge for further analysis; and to inform the design of ongoing and pipeline projects of these institutions.

The study included a desk-based review of existing primary and secondary resources which was supplemented by a nine-day joint field mission between FAO and AGRA. During this mission, meetings and semi-structured, open interviews were held with relevant public and private sector stakeholders and key informants who have been either involved in the development of these schemes or are impacted directly or indirectly by them.

Limitations of the study

The study set out with the goal of gathering information about, reviewing and analyzing a considerable number of variables of interest for several de-risking arrangements that are, in and of themselves, complex arrangements. By their very nature, they rely on interactions with a multitude of public and private actors and employ several financial and non-financial instruments. Moreover, some of the schemes – such as NIRSAL, PROFIT and LFSP – have extensive implementation histories, while others such as GIRSAL are at early stages of implementation. Based on their inherent differences, it may be appropriate to state that to a certain extent, the comparison was on an “apples to oranges” basis.

Furthermore, access to information proved challenging either because information was not available due to a lack of implementation history, as in the case of GIRSAL, or the flow of information was managed, as in the case of NIRSAL, due to it being an independent company. Where information was readily available – as in the cases of PROFIT and LFSP – it resulted in quite detailed understandings of the interventions, whereas in other cases, efforts were made to fill in information gaps to the extent possible by using available public information and through interviews with stakeholders.

While the study was intended to be a preliminary deeper dive, it would benefit from a follow-up field mission in which a broader range of stakeholders are approached with the existing knowledge in hand; with refined lines of inquiry and revised analytical framework; and with more structured venues for information gathering, such as focus group discussions and interviews with end beneficiaries. In particular, it would be critical to canvass the experiences of producers and their organizations, agri-SMEs and other FSPs to develop a better understanding of the implementation experience and impact. In addition, a follow-up edition of the study which broadens the scope of the analysis to include additional stand-alone schemes and/or projects that have a longer track record of implementation would help to achieve a more robust, evidence-based analysis that can eventually inform policy and operational guidance.

Section 2

Typologies of integrated risk sharing schemes under consideration



The schemes under review can be segmented into two typologies based on institutional form, namely:

- 1. project-based de-risking schemes** such as PROFIT, LFSP and MIFA/ProMIFA
- 2. stand-alone de-risking institutions** that have an independent and incorporated institutional form, such as NIRSAL and GIRSAL

While the institutional form shapes the way these arrangements operate, ultimately the instrumentation they deploy and the outcomes they pursue can be similar. Many of NIRSAL's and GIRSAL's instruments – a partial credit guarantee scheme (PCG); a technical assistance facility (TAF); support for agri-insurance and digital financial services – are also present under the project-based arrangements. Either this can be through similar instrumental forms, or related outcomes can be achieved indirectly through other interventions.

It can be instructive to consider what specific risk categories the schemes intend to address and what instruments are being employed to do so. These schemes directly or indirectly address risk in agricultural value chains by promoting typical instruments and strategies for risk management – including risk acceptance; risk transfer; and risk mitigation to target various risks at the farm level, throughout the broader value chain and at the financial institution (FI) level. This includes:

- **risks related to agricultural production and post-production activities, such as:**
 - business model and farm management-related risks
 - weather, pests and diseases
 - price risks
 - market access
- **risks related to lending:**
 - credit risks
 - asymmetric information and moral hazard

Project-based arrangements also include direct financing through the development of new refinancing facilities or by linking to existing refinancing facilities, as in the case of PROFIT and LFSP. In the stand-alone facilities, most of the incremental financing that these schemes intend to generate is arrived at by incentivizing private sector FSPs – including banks, microfinance institutions, SACCOs – to see agricultural producers and agri-SMEs as attractive clients from a risk-return perspective, and to build institutional capacity, systems and products to be able to service them.

Based on the above considerations and recognizing that these arrangements go beyond risk-sharing as narrowly and technically defined above, what appears to be more taxonomically accurate is de-risking systems, schemes, arrangements or institutions in the case where the latter is warranted.

Finally, a simplified approach could define de-risking schemes as a project or institution that intends to facilitate agriculture finance through a coordinated provision of more than two de-risking mechanisms including guarantees, technical assistance and insurance etc. These de-risking mechanisms can be provided in-house or by a third-party partner. Throughout the course of this analysis, this approach and taxonomy is applied and used interchangeably.

Section 3

Overview of schemes



This section gives brief overviews of the five schemes to the extent necessary to contextualize the analysis. Detailed case studies of the schemes, along with more granular descriptions, observations and lessons learned about individual components/products can be found in the Annex.

A comparative analysis of the features of these schemes is illustrated in Figure below, to help anchor the subsequent analysis:

	Market and Incentive Development			Rural Finance Instruments					Technical Assistance		Engagement in Policy Work	Consulting Services
	VC Development	bank Rating Mechanism	Incentive Mechanism	Risk Sharing Facility (RSF)	Wholesale Refinancing	Promotion of Digital Finance	Insurance Facility	Financial Graduation	Demand Side	Supply Side		
NIRSAL			Cash bashed interest clawback and other non-financial rewards for banks	USD 300M	N/A	N/A	USD 10M	N/A			not directly; on a secondary basis, through advocacy and partnership building	
IFAD PROFIT (KIRSAL)		N/A	N/A	USD 6.9	USD 6.8M	indirectly through TA for new product innovation	N/A				not directly; on a secondary basis, through advocacy and partnership building	N/A
GIRSAL			Cash bashed interest clawback and other non-financial rewards for banks	USD 37M	N/A			N/A			N/A	N/A
Zimbabwe LFSP		N/A	N/A	USD 18.7M	USD 5M	indirectly through TA for new product innovation	indirectly through TA for new product innovation	N/A				N/A
MIFA/ ProMIFA											specific sub-component to project	N/A

directly addressed
 indirectly addressed
 not available

3.1 The Nigeria Incentive-based Risk Sharing System for Agricultural Lending (NIRSAL)

NIRSAL Plc. is a limited liability company incorporated in 2013 under the Companies and Allied Matters Act as a non-bank financial institution (NBFI) wholly owned by the Central Bank of Nigeria (CBN) and funded entirely by public resources to the tune of USD 500M³.

NIRSAL was launched through a joint initiative of the CBN, the Nigerian Bankers' Committee⁴ and the Federal Ministry of Agricultural & Rural Development (FMARD).

NIRSAL's corporate mandate is to “forge partnerships between agriculture and finance; maximizing the potential of agriculture for food security, job creation and economic growth” and has the following specific objectives:

1. de-risking agricultural value chains and agricultural finance
2. building long-term capacity of value chain (VC) actors and FSPs, as well as other stakeholders
3. institutionalizing incentives for agricultural finance and VC performance

NIRSAL focuses on high-potential value chains through the following strategic activities, namely:

1. de-risking agricultural value chains and agricultural finance
2. building long-term capacity of value chain (VC) actors and FSPs, as well as other stakeholders
3. institutionalizing incentives for agricultural finance and VC performance

In addition to its de-risking functions, NIRSAL offers paid technical assistance to other countries' governments on the design and implementation of similar facilities, based on their experiences. For example, with support from the African Development Bank (AfDB), NIRSAL provided technical assistance during the development of the MIFA/ProMIFA programme.

To achieve its objectives and to execute its strategy, NIRSAL was established with the following five operational pillars:

- **Pillar 1: A Partial Credit Guarantee (PCG) Facility of USD 300M** which provides loan-level, first-loss coverage on banks losses ranging from 30 to 75 percent of a loan's face value depending on the value chain segment. Credit facilities extended to all segments of agricultural value chains are eligible for individual, loan-level risk sharing coverage.

The PCG is deployed through various channels, including (1) through direct partnership agreements with commercial banks; (2) through the CBN's Anchor Borrower Programme⁵, for which NIRSAL is a participating FSP; and (3) through collaborative agreements with development projects that foresee access to finance instruments.

³ USD = United States Dollar.

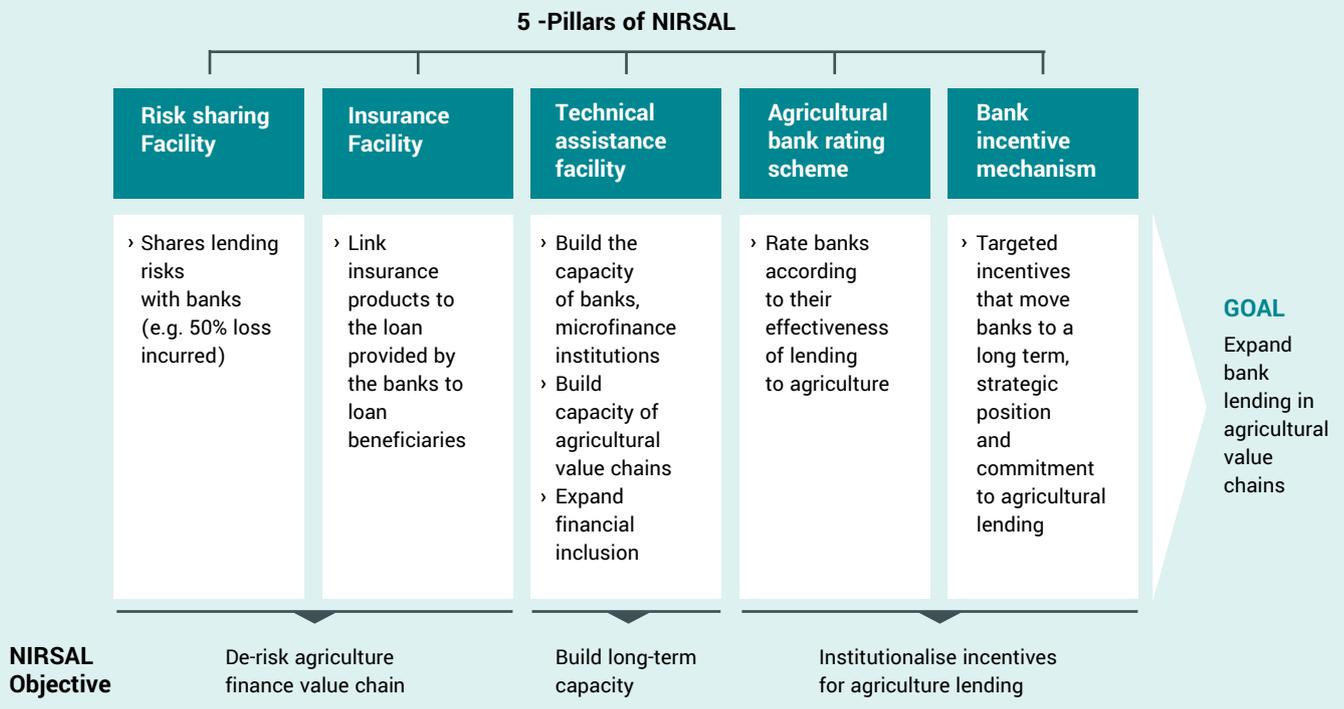
⁴ The Bankers' Committee is a group of banking executives promoting the interest and development of the Nigerian financial sector.

- **Pillar 2: An Insurance Facility of USD 30M** to expand agricultural insurance products and outreach to retail and meso-level players, with a specific focus on moving away from traditional indemnity-based products to parametric, index-based solutions to provide risk transfer products to protect producers against yield and price risk.
- **Pillar 3: A Technical Assistance Facility (TAF) of USD 60M** intended to provide supply- and demand-side technical assistance to address various knowledge, operational and technical gaps so that FIs can lend sustainably to the agriculture sector; and to support farmers to adopt good agricultural practices (GAP), technological advancements and know-how, and business upgrades to make them more bankable.
- **Pillar 4: A Bank Rating Scheme of USD 10M** that rates participating FSPs and state governments⁶ on the effectiveness and outreach of their agricultural lending and social and environmental performance and provides cash and non-cash rewards to further incentive performance under Pillar 5.
- **Pillar 5: A Bank Incentives Scheme of USD 100M** that provides cash and Bank Rating Scheme in order to incentivize continued outreach and build their long-term capabilities to lend to agriculture. non-cash rewards for FSPs performing well under the Pillar 4.

⁵ The Anchor Borrower Programme is an NGN 20B CBN facility launched in 2015 to promote agricultural finance through value chain finance arrangements. Thirteen participating FSPs lend to “anchors” - private large-scale integrated processors that have entered into an agreement with the smallholder farmers to off-take the harvested produce at pre-agreed prices. NIRSAL provides technical assistance to farmers, extension workers and banks, and organizes farmers into groups/cooperatives.

⁶ Initially the Bank Rating Scheme was limited to commercial banks, later to be extended to cover other FSPs and state actors.

Figure below maps NIRSAL's instruments against its corporate objectives.



Source: NIRSAL corporate presentation, 2017

3.2 The Ghana Incentive-based Risk Sharing System for Agricultural Lending (GIRSAL)

GIRSAL was initiated by the Bank of Ghana (BoG) – the country's central bank – in collaboration with the Ministry of Food and Agriculture (MoFA) and Ministry of Finance and Economic Planning (MoFEP), with AGRA as a technical partner. Similarly to NIRSAL, it was incorporated as a private non-bank financial institution (NBFI) in 2015. The design phase originally envisioned the key shareholder to be the Government of Ghana (GoG), through the BoG as the lead shareholder, with a gradual phasing out of the BoG shareholding position as GIRSAL expanded its other shareholders and/or reinvested capital through private sector players. To avoid a conflict of interest in which BoG was both owner and regulator of GIRSAL, the lead shareholding was bestowed on MoFEP. Seed funding for GIRSAL was contributed by the BoG and the African Development Fund (ADF) of the African Development Bank.

GIRSAL was designed to accelerate the performance of Ghana's agriculture sector based on six mutually reinforcing pillars grouped into two sets, namely:

1. De-risking Mechanisms which include:

- a. Risk Sharing Facility (RSF)
- b. Technical Assistance Facility (TAF)
- c. Insurance Facility

2. Incentives and Enablers which include:

- a. Bank Incentives Mechanism (BIM)
- b. Bank Rating Scheme (BRS)
- c. Digital Finance (DF)

Like NIRSAL, GIRSAL's institutional structure reflects that of a private sector company. A CEO is appointed and is advised by a Board of Directors comprised of high-level representatives from the public and private sectors, including the Ministry of Finance (Head of Development Finance Unit and Principal Economist); BoG (Second Deputy Governor of BoG); the CEO of Ecobank; and other recognized and authoritative figures from the private sector, academia and civil society.

Given that it was influenced by NIRSAL, GIRSAL takes NIRSAL's five pillar structure but adds one additional pillar:

- **Pillar 1: Partial Credit Guarantee (PCG):** to participating commercial banks and other financial institutions on an individual or portfolio basis. The PCG is designed to provide differential risk coverage ranging from 50 to 80 percent; with the scheme providing greater risk coverage for upstream activities (production and primary processing) and lower coverage for downstream activities (value added processing, services, logistics and marketing).
- **Pillar 2: Technical Assistance Facility (TAF):** designed to provide capacity building targeting demand-side actors (such as input suppliers, producers, aggregators, processors, trade and logistics) including training to improve farm and financial management, value addition and marketing. GIRSAL will also provide coaching and advisory services targeting Micro-, Small- and Medium-sized Enterprises (MSMEs) and on the supply-side, will focus on microfinance institutions (MFIs), given their large number and proximity to rural areas.

GIRSAL plans to provide technical training through the Banking and Insurance Colleges of Ghana to enhance the capacity of financial intermediaries to assess and manage agricultural credit risk. Training modules and technical support include establishing agriculture desks at participating FSPs; product development and distribution; risk management; and improving credit information systems. It will also support the development of Knowledge and Innovation Centers.

- **Pillar 3: Agriculture Insurance Facility (AIF):** GIRSAL guidelines include provisions for borrowers to access insurance policies through the Ghana Agriculture Insurance Pool (GAIP)⁷. The pairing of guarantee and insurance products is intended to offer a more holistic de-risking solution and could have a positive impact on risk-adjusted interest rates over the long run. GIRSAL intends to collaborate with GAIP and the National Insurance Commission, the insurance sector regulator, to define the regulatory framework for agriculture insurance in Ghana.
- **Pillar 4: Digital Finance Platform:** a cloud-based platform that would facilitate GIRSAL reporting, as well as the development of predictive models. The platform consists of three elements, namely:
 1. A secure web-based platform that supports a guarantee application portal; a payments portal; and a Knowledge and Innovation Center (KIC)
 2. A risk scoring engine to be used by lenders to support credit guarantee applications decisions, and by GIRSAL to review applications and present an opportunity to automate credit risk assessment, as well as profiling potential borrowers
 3. A data warehouse that integrates information from numerous sources to build Know-Your-Customer (KYC) data on production: transaction, insurance coverage, input purchases, sales and purchases. The portal will include an Application Programming Interface (API) to allow the capability of integrating information from credit reference bureaus, academic institutions, mobile money providers, utilities and other actors.
- **Pillar 5: Bank Rating Mechanism:** intended to rate banks in terms of volume and effectiveness of lending delivery to the actors in the agriculture value chain, with the goal of creating additional incentives for banks that are achieving impact in agricultural lending. To date, no activities have been reported under this pillar, and detailed information about the operational status of the pillar is not available.
- **Pillar 6: Bank Incentive Mechanism:** this mechanism provides financial and non-financial incentives to reward banks that are lending to the agricultural sector based on the volume of lending, effectiveness of lending and impacts. To date, no activities have been reported under this pillar, and detailed information about the operational status of the pillar is not available.

⁷ GAIP is a pool of 19 Ghanaian insurance companies that has provided agricultural insurance in Ghana since 2011, including drought index insurance for maize, soya, sorghum and millet, as well as multi-peril crop insurance tailor-made to cover the various risks experienced by commercial farmers and plantations. GAIP is a public-private partnership set up with support from GIZ under the Innovative Insurance Products for the Adaptation to Climate Change (IIPACC) project funded by the German Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) and in collaboration with the Ghana Insurers Association, the National Insurance Commission, the MoFA and the European Commission.

3.3 Programme for Rural Outreach of Financial Innovations and Technologies (PROFIT), Kenya

The Programme for Rural Outreach of Financial Innovations and Technologies (PROFIT) was a USD 83.2M⁸ IFAD project operational from December 2010 to June 2019. The project was designed with three components, namely:

Component 1: Rural Finance Outreach and Innovation (RFOI); with two sub-components:

- **Sub-component 1: a USD 6.9M Risk Sharing Facility (RSF)** that was intended to enhance the risk appetite of Participating Financial Service Providers (PFSPs) by offering a partial, individual-level, first-loss credit guarantee in exchange for a guarantee fee of 1 percent. Target demographics included smallholder producers; women and youth; and Small- and Medium-sized Enterprises (SMEs) operating across select value chains, including input suppliers, traders, processors, transporters and wholesalers.
- **Sub-component 2: a USD 6.8M Credit Facility (CF)** originally designed to provide short- and medium-term on-lending capital to newly licensed, deposit taking MFIs in order to address short-term liquidity constraints in addition to facilitating sustainable deposit mobilization strategy to address long term liquidity and portfolio expansion. As part of participation, microfinance banks (MFBs) were expected to:
 - develop or enhance their value chain financing product and outreach strategies;
 - target project-defined demographics and clientele;
 - test and roll out technology-based and innovative financial products (agricultural insurance, warehouse receipts, leasing products, etc.);
 - avail the support from the Innovation Facility to develop innovative savings products and remittance services.

Component 2: Supply- and Demand-Side Technical Assistance Facility (TAF) with two sub-components:

- **Sub-component 1: USD 2.2M Technical Support Services (TSS)** designed to provide supply- and demand-side technical assistance and capacity building to participating institutions was implemented between 2017-2018 – a substantial delay given that the project became operational in 2010. The TAF was ultimately delivered by eight technical service providers (TSPs) through a total of 12 TA contracts.

⁸ Total funding included.

- Supply-side TSS: PROFIT expanded its supply-side TSS to include a wide range of PFSPs, in addition to the SACCOs. This was a success factor for those PFSPs where the TSS was delivered simultaneously with the financial support instruments. For the MFBs that received wholesale facilities from the CF in 2012, the TSS resulted in improvements in performance. However, to have more durable and transformational effects, that TA should have been more appropriately timed to precede the financing instrument.
- Demand-side TSS: a total of 283 agri-SMEs and producer organizations received a range of institutional capacity strengthening support, which led to improved business planning, operations, accounting and financial management, in addition to establishing linkages with FSPs. The project trained 24 942 members of producer organizations against a target of 33 000 – a 76 percent achievement rate.
- **Sub-component 2: a USD 4.9M Financial Graduation (FG)** which supported the ultra-poor with a range of interventions, including technical trainings, small assets transfers, access to insurance, and the formation of community-based savings and loan schemes.

Component 3: Programme Management

An Innovation Facility – intended to support FSPs with the design, piloting and roll-out of innovative products and services – was also inserted as a third subcomponent of the RFOI at design, although subsequently cancelled due to a lack of operationalization and a judgment by the Project Implementation Unit (PIU) that minimum conditions for its implementation were not met.

3.4 The Livelihoods and Food Security Programme (LFSP), Zimbabwe

The Livelihoods and Food Security Programme (LFSP) is a six-year, USD 67.7M integrated rural development programme funded by the UK through the Department for International Development (DFID), and is currently in its final year of programming

The programme has three main components:

1. Agricultural Productivity and Nutrition (APN);
2. Market Development (MD); and
3. Production Safety Nets (PSN).

FAO is leading the implementation of the largest component (APN), with a budget of USD 48M which comprises several subcomponents including rural finance; extension and nutrition; market development; policy support; biofortification; monitoring and evaluation; and accountability and learning, with gender mainstreaming across all components.

The aim of the rural finance sub-component is to enhance access to a wider range of demand-driven financial services by the target LFSP agricultural producers and value chain players.

LFSP adopted a two-pronged approach to achieve this: on the one hand, the component mobilizes resources to enable smallholder farmers to invest in farm enterprise diversification, productivity-enhancing technologies, and non-farm economic activities and livelihood strategies contributing to food security. This is achieved through enhancing the capacity of communal farmers to save through informal community-based microfinance institutions called Internal Savings and Loan Groups (ISALs). On the other hand, the component established three rural finance instruments to support formal financial institutions to enhance their capacity to serve the targeted rural communities and to enhance risk management. These include a:

- **USD 18.6M Risk Sharing Facility (RSF)** which was established under the Development Credit Authority (DCA) of the US government in 2015. Two participating banks – Steward Bank and Central Africa Building Society (CABS) – were accredited in early 2016.⁹
- **Technical Assistance Facility (TAF) for the FSPs (Banks and MFIs)** which was implemented through two phases: (1) a pre-implementation phase in which innovative market research and rural outreach strategies were developed; and (2) an implementation phase where FSPs received technical support to execute those strategies.

The facility and the rural outreach strategies included new product development and piloting; development of alternative and low-cost delivery mechanisms; and enhanced communication and client education strategies.

- **USD 4.6M Refinance Facility for MFIs** through a partnership with the Zimbabwe Microfinance Fund (ZMF) – a wholesale refinancing that targets MFIs and agri-SMEs. The funds were intended to provide affordable liquidity to MFIs who received support from the TAF.

3.5 The Agricultural Financing Incentive Mechanism Support Project (ProMIFA), Togo

To enable the Togolese agriculture sector to make a greater contribution to inclusive economic growth, the Government of Togo (GoT) launched an innovative initiative similar to, and based on the experience of, Nigeria’s NIRSAL. Togo’s Agricultural Financing Incentive Mechanism based on risk sharing (MIFA)¹⁰ was set up to help remedy the fragmentation of agricultural value chains, boost agribusinesses and mitigate the risks associated with agriculture financing.

⁹ A third bank that expressed interest – CBZ – was deemed ineligible under the DCA due to the government shareholding in this bank.

¹⁰ *Mécanisme Incitatif de Financement Agricole Fondé sur le Partage de Risques.*

The overall goal of the Agricultural Financing Incentive Mechanism Support Project (ProMIFA) is to support the implementation of MIFA to contribute to poverty reduction, sustainable and inclusive economic growth, and the creation of decent jobs in rural areas.

Its development objective is to offer stakeholders in successfully organized agropastoral value chains sustainable access to markets and customized financial and non-financial services. Three outcomes are expected, namely:

1. productivity and quality of products and services of small producers, their organizations and other players along the various segments of the supported value chains are improved and their access to markets strengthened;
2. access of small producers, their organizations and other players along the various segments of the supported value chains to customized and inclusive financial services is enhanced;
3. the performance of MIFA is strengthened and effectively contributes to the implementation of the national agricultural policies and of Togo's National Development Plan (PND 2018-2022).

Within this context, GoT solicited the first¹¹ co-financing partnership with IFAD in support of MIFA. Hence, the six-year (2019–2024) USD 35.07M ProMIFA project was designed and approved by IFAD's Executive Board (EB) in December 2018 to contribute to the strengthening of MIFA to develop and implement solutions that will: (1) promote better organization of value chains; (2) provide support to value chain stakeholders to improve the quantity and quality of their goods and services to respond to a growing and dynamic market; (3) ensure that the risks associated with agricultural financing are shared; (4) offer customized financing tailored to the needs of the various value chain stakeholders (smallholder farmers, producer organizations, cooperatives, agribusiness, SMEs, etc.), with a focus on women and youth.

ProMIFA Components:

The objectives of ProMIFA will be accomplished through the implementation of the following three components:

- **Component 1 provides technical support for the development of agro-pastoral value chains** through (1) in-depth analysis of the selected value chains and identification of the various players along the various segments; (2) targeted organizational, technical and technological support; (3) capacity building in financial education and business development services (BDS); (4) strengthening partnerships among the value chain players; (5) support for the building of inter-trade organizations (inter-profession), bringing together the various segments of the value chains; and (6) support to the development of a quality approach.
- **Component 2 seeks to increase access to customized financial services for organized smallholder farmers and other stakeholders in agro-pastoral value chains¹².** This component enhances access to customized rural financial services through: (1) technical assistance for the development of adapted financing and risk mitigation solutions together

¹¹ A second co-financing partnership was signed in March 2020 with GIZCALIFA Fund. Details of this are yet to be disclosed in the public domain.

¹² A financial sector analysis showed overall low levels of borrowing in Togo, with less than 2 percent of the lending portfolio going to smallholder agriculture.

with new customized financial products, implemented in two phases: first the development of the required tools and procedures for the new mechanisms and a second phase to test the systems put in place; (2) support for the development of adapted financial products and services together with strengthening capacity of MFIs in agricultural financing; and (3) financing and risk mitigation arrangements including a cost-sharing Financing Facility for Agricultural Development (FFAD) and a risk mitigation mechanism.

- **Component 3 provides (1) institutional support to MIFA to become fully operational and effective.** In close collaboration with the transitional bureau of MIFA, ProMIFA provides for the necessary technical assistance, equipment, training, study tours, learning routes, M&E strengthening, surveys, capitalization/sharing workshops, etc., to accompany the evolution of MIFA into a public liability company and develop its strategic thinking for its effective positioning in the country policy landscape; and (2) ensure everyday running and fiduciary management of ProMIFA through a small unit initially established separately from MIFA's current operations, working closely with the transitional bureau. The unit will be responsible for overall coordination, management for results, M&E and knowledge transfer.

With the project only three months¹³ into the implementation stage, there is not yet much to report on in terms of experiences and results¹⁴. ProMIFA has national coverage with interventions that initially focused on a limited number of agricultural value chains, namely rice, vegetables, poultry and maize, while remaining open to others such as sesame and cassava. Maize production (the main input in poultry feed) was envisioned to support the poultry value chain. ProMIFA was designed to reach some 50 000 households, representing 300 000 direct beneficiaries from impoverished groups, rural family farms, professional organizations (cooperatives, unions, federations) and agricultural microenterprises. The targeting and gender strategies were highly inclusive and age- and gender-sensitive to ensure that young people (male and female) accounted for at least 40 percent of the beneficiaries, and adult women for at least 30 percent.

¹³ ProMIFA took 15 months after the EB approval to kick-start the implementation of its technical activities with a start-up workshop in March 2020.

¹⁴ The design of a support project to the NIRSAL-inspired MIFA is worth highlighting in this study.

Section 4

Comparative analysis of schemes



4.1 Institutional and operational factors

Institutional form

The potential benefits of a non-project based, independent institutional form – such as in the case of NIRSAL and GIRSAL – center around self-determination; facility of decision making; operational flexibility and efficiency; and the ability to instill a performance-driven business culture, among others. It also allows for streamlined decision making that is not constrained by the layered and time-consuming processes that were characteristic of LFSP, PROFIT and ProMIFA and that are a typical feature of development projects. Finally, it allows for nimbler course adjustment to respond to emerging operational challenges or field-level opportunities. In principle, therefore, they are positioned to design, deploy and coordinate instruments more efficiently.

Importantly, through their institutional form, NIRSAL and GIRSAL are positioned to be permanent features of the rural finance ecosystem with potentially meaningful benefits. Through this, they are not beholden to the typical challenges associated with time-bound projects regarding programming continuity and exit strategy execution, sustainability of interventions and long-term impact. Moreover, performance and disbursement pressures may differ, and they benefit from adequate time to design, test and deploy their instruments.

As it relates to how project-based schemes approach their exit strategies, in the case of PROFIT the eventual successful performance of the RSF paved the way for the Government of Kenya (GoK) to prepare a draft legal framework for scaling up the RSF through the National Credit Guarantee Scheme. While further information is required on the status of this framework, this developmental trajectory could serve as a model for other similar schemes in case such instruments are already available or there is appetite for launching one. To achieve this, a more proactive identification of potential exit pathways at earlier stages of project implementation may help to identify promising options, which can in turn shape implementation strategy. This is as opposed to leaving related discussions to near the end of the project cycle, at which point available exit options may be more limited.

Funding

The nature of the funding for these schemes varies based on their institutional form, and this can potentially shape the way in which they operate. Project-based schemes are funded typically by donors using their financial instruments (e.g. loans with various levels of concessionality; grants) either directly (LFSP) or channeled through host governments (PROFIT and MIFA/ProMIFA), with some level of cost-sharing with local governments and implementation partners. GIRSAL was also funded through a blended structure including a concessional loan and a grant facility from AfDB, coupled with contributions from the BoG and AGRA. NIRSAL on the other hand was funded by direct budgetary allocation from the Government of Nigeria (GoN) with a one-off, non-reimbursable capital injection. MIFA was funded through blended co-funding GoT budgetary allocations plus initial development finance support from IFAD and GIZ.

Programme implementation is shaped by and beholden to the processes and exigencies of the funding agencies. Project-based schemes have to adapt to donors' ways of doing business; have substantial reporting and administrative requirements; and at times have to adapt to phased deployment of funding, and cancellation of budget lines and activities for various reasons. While a normal feature of projects, this creates additional administrative burdens and programming uncertainties that are not present in NIRSAL. Thus, the stand-alone budget-funded solution may be better placed for programming efficiency and to isolate the scheme from undue influence. At the same time, there are lingering questions about NIRSAL's independence from the CBN which require further analysis. Such analysis is even more warranted given that NIRSAL is planning to co-financing special agro-industrial processing zone (SAPZ) project with AfDB, IFAD and GoN.

It is worthy to note that, in the case of NIRSAL, the ability to fund a USD 500M public programme was also closely tied to a fiscal space of the Nigerian government, assisted by substantial export revenues sustained by peak oil prices at the time. Several interviewees suggested that a similar scheme would not be normally possible given the limited fiscal space and without the leadership and championing of a well-recognized public figure and champion such as the Minister of Agriculture at the time.

The substantially smaller capitalization of GIRSAL and MIFA suggests potential difficulties with similar schemes mobilizing public resources at the levels of NIRSAL and appears to suggest that smaller schemes may be more practicable going forward.

Instrumentation

Risk Sharing Facilities (RSFs)

The RSFs in the reviewed schemes appear to have some design features that are consistent with the current understanding of good practices, although other design features raise some questions. NIRSAL, MIFA (with support from ProMIFA) and GIRSAL generally follow good design practices in differentiating coverage levels and maximum coverage limits based on the nature of the end beneficiary of the lending. The RSF under LFSP was set at a flat 50 percent coverage ratio, which may not adequately reflect differential risk and creditworthiness profiles of end beneficiaries. Fee structures are also in line with international practice, with origination fees typically 1 percent and guarantee fees reported between 1 and 2 percent. NIRSAL did raise its original guarantee fee from 1 percent to 2 percent, leading some PFSPs to claim that it was becoming too expensive.

The RSFs under consideration all issue first-loss guarantees as opposed to guarantees on a *pari passu*¹⁵ basis, which may be an attractive feature to the PFSPs, but which can contribute to increasing moral hazard and weakening incentives for PFSPs to continue prudent and robust risk management practices. Little information was available to understand the motivation behind selection of individual loan-level guarantees. Furthermore, in addition to heightened administrative costs, it was unclear whether portfolio-level coverage was analyzed as a potential alternative that could have served to reduce some administrative expenses and give more flexibility to the PFSPs. The case of MIFA/ProMIFA's cost-sharing Financing Facility for Agricultural Development (FFAD) is yet to produce results, as its implementation has not yet been started.

The NIRSAL RSF also benefits from having substantial capitalization and not being “captive” to a specific project, which allows it increased operational flexibility. NIRSAL provides its PCG through a number of channels, including:

- through partnerships with commercial banks;
- as a PFSP of the CBN's Anchor Borrower Programme;
- through development projects;
- and on an ad hoc basis.

Similarly, GIRSAL is also not a captive scheme and by design is explicitly linked to national and sub-sector policy frameworks, strategies and programmes, thereby positioning it to benefit from a structured and wide market for its services. This can have important consequences

¹⁵ Loss sharing modalities in PCGs can be on a first-loss or *pari passu* (“side by side”) basis. First-loss guarantees absorb initial losses up to a prespecified extent, after which banks also share in losses. Therefore, they reduce the risk of loss from a lender's perspective in a similar way to subordinated debt. *Pari passu* guarantees absorb a defined percentage of any loss—that is, reduce the size of loss, but not the risk.

for its institutional development, financial sustainability and long-term relevance, and is a notable benefit of independent schemes. The project-based PROFIT, LFSP and ProMIFA have a restricted market for their services, and this is typically tied to the duration of the project.

Through its Interest Drawback Programme (IDP), NIRSAL also has an innovative additional incentive mechanism and design feature which includes periodic cash rebates during the tenor of the loan that can benefit borrowers and their cash flow position. This design feature is a notable upgrade from the previous CBN-run IDP programme, which only foresaw rebates after loans had been extinguished, artificially favoring those borrowers who were already credit worthy. At the same time, little information was found about the utilization of the IDP and its impact in shaping repayment incentives. This model merits additional consideration, as it could amount to an effective smart subsidy that may have less distortionary effects.

Under LFSP, there were notable challenges in identifying a suitable guarantee manager given the heightened country risk. PFSPs also indicated a lack of clarity and discomfort with some of the terms of the guarantee. A requirement to pay the origination fee on the entire authorized guarantee coverage, not just the portion utilized, increased the effective costs, and misinterpretations concerning the exact coverage level of the guarantee led to undersubscription. Finally, a ceiling was established for each PFSP based on a cumulative guarantee amount rather than a maximum exposure at any given time during the seven-year guarantee programme, thereby resulting in that limit quickly being reached and further disbursements being blocked. These issues imply a need to clearly articulate terms and conditions at the onset to avoid consequences for project implementation at a later stage. In addition, the provision of cumulative portfolio coverage limits does not appear consistent with good design practices.

The PROFIT RSF was eventually established in an unorthodox fashion that could be considered to potentially contradict good practices. The National Treasury established ringfenced, fixed-deposit accounts at the PFSPs which would serve as the basis for eventual claims under the RSF for non-performing loans. In case of default and after exhaustion of required collection policies and procedures, the PFSP would submit a claim for reimbursement at a predefined percentage of the net loan losses after liquidation of any collateral. In this arrangement, AGRA adopted the role of a technical advisor to the accounts, although not as a signatory (the signatory remained the Principal Secretary to the National Treasury). Interest on idle funds flowed back to the Treasury. Due to delays and disbursement pressures, disbursements to the two banks were done in two tranches, six months apart, thereby limiting the possibility of fully assessing whether the pre-determined criteria for releasing the second tranche were met.

While this arrangement may have substantially reduced the administrative burden of the scheme, it potentially introduced governance and legal risks that would be difficult to mitigate, as ultimately there was no clearly defined firewall between the beneficiaries of the

RSF (the PFSPs) and the institution granting the coverage (the Treasury). The ability of the RSF facility manager to perform required due diligence, perform audit functions and manage its risk assessment cycle – all of which form important elements of recognized corporate governance frameworks – were potentially weakened. Eventually, during definition of the exit strategy for the RSF, the composition of the steering committees was reinforced to include director-level representation from three divisions within the Treasury.

RSF Performance

Under PROFIT, as at Q1 2019, the two PFSPs had disbursed a total of USD 32.9M vs a target of USD 41.4M, or 79 percent. Considering the notable implementation delays; complexities with the timing and intensity of the TA; and absorption capacity-related issues, this represents an interesting achievement. This is even more so when leverage ratios are considered for the two PFSPs, one of which was able to leverage RSF credit enhancement 6.4 times over, and 2.9 times over in the case of another.

The RSF under LFSP was considerably undersubscribed – at the end of 2019, the utilization level stood at just 58.3 percent, with one of the two PFSPs not issuing any new credit under the facility for nearly two years. This utilization level requires contextualization within the unstable macro-economic environment in which notable inflationary and currency instability was experienced, decimating FSPs' portfolios and triggering a flight to safety.

NIRSAL recently claimed to have turned over its RSF portfolio for the first time, and as of December 2020 has indicated providing PCGs for a total of over NGN 118.1B¹⁶ (USD 299.1M) in loans.

The multiples under PROFIT compare favorably to average leverage ratios of PCGs suggested by literature which indicates developing country median values of 3.3x globally and 1.7x regionally in Africa, where PCGs tend to be the least efficient. Admittedly, this characterization is more directional, and caution must be exercised in drawing this parallel given that leverage ratios vary considerably depending on the country context, sectoral coverage of the PCG, and profiles and risk of targeted beneficiaries. In addition, given that NIRSAL capitalization is orders of magnitude higher, direct comparisons of efficiency in turnover are limited to informational purposes.

Under PROFIT, the portfolio at risk (PAR) of loans under the two PFSPs portfolios remained well below target and zero claims were reported. Similarly, under LFSP, non-performing loans for one of the banks under the facilities stood at 1 percent as of 31 December 2019. On the surface, this appears to imply high portfolio quality and effectiveness for the RSF. However, considering the contextual factors in Zimbabwe and evidence of a tendency to book already bankable projects under the RSF in PROFIT, these underlying performance numbers could

¹⁶ NGN = Nigerian Naira.

instead imply the use of the facility counter to its intended nature. Further information is needed to qualify the associated credit additionality and appropriateness of the instrument. Information is not available about claims against NIRSAL's RSF.

There is limited information on whether or not the application of the RSFs were able to shape the terms of lending and incentivize longer term, cheaper loans. NIRSAL has reported some partner commercial banks improving their terms of lending and increasing appetite for agricultural lending. Stanbic IBTC has reportedly adapted its collateral policies and began to accept inventory as collateral. Moreover, the original commitment under the facility of NGN 10B (USD 27.6M) in 2017 was recently increased by Stanbic executive management to NGN 50B (USD 137.9M), with current outstanding facilities in excess of NGN 12B (USD 33.1M). The PROFIT experience also suggests that together with the technical assistance, more customer-centric products were designed.

Technical Assistance Facilities (TAFs)

Technical assistance and capacity building under NIRSAL's TAF are delivered directly through their Value Chain Development and Services business unit, as well as in collaboration with external partners. While detailed information about implementation is limited, NIRSAL has reported the following achievements under their TAF:

- provided Good Agricultural Practices (GAP) training to 700 000 primary producers in the rice, cocoa, cotton and tomato value chains, as well as 74 extension workers
- developed the curriculum for and trained 184 mid-management staff and agricultural finance officers in FSPs
- supported CBN in the development of agricultural finance operating units in all 24 deposit money banks (DMBs)

Through their “Mapping-to-Markets” (M2M) strategy and linked “Agro Geo-Cooperative” model, NIRSAL has designed an innovative, facilitator-driven value chain finance-based (VCF) model that bundles the delivery of TA and other services with market development and access to finance. Under this model, NIRSAL:

- facilitates the aggregation of farmers into cooperatives of at least 250 farmers that are mapped to a 250 ha geo-cooperative and synchronized with the agro-ecological characteristics of the zone
- provides business development and agronomic advisory services
- brokers off-take agreements for the cooperatives with downstream actors
- links the cooperatives and other participating VC actors with their partner FSPs

The model is still in its early stage of application, with little in terms of performance data, making relative comparison with other schemes ineffective at this stage.

The implementation of the PROFIT TAF showed mixed results. In the case where the TA was appropriately sequenced; allowed for adequate time for recipients to absorb the knowledge and make necessary internal process related and strategic adaptations; and where they were efficiently linked with financial services, the results were positive. On the other hand, disbursement of the CF ahead of the TAF-based support resulted in inadequately designed financial products; misapplication of limited liquidity; inadequate ability to capture performance data critical for monitoring and evaluation of portfolio quality and business risk; a lack of integration of agriculture sector products with the management information systems (MIS); and resulting portfolio deterioration. The facility also suffered from coordination-related challenges which reduced the number of participating anchor agribusinesses.

Capacity gaps in the technical service providers also adversely impacted the implementation of the PROFIT TAF. Quality issues at design stage and a lack of a clear and actionable strategy to facilitate linkages and operational synergies between the various instruments and TSPs, as well as to IFAD's, AGRA's and other donors' activities, led to implementation inefficiencies and an inability to capture the intended synergies between instruments.

In LFSP, the contracts were generally under-budgeted, too heavily focused on product design and outreach mechanisms, with too little resources available to address broader institutional weaknesses. This proved insufficient, especially for MFIs in the early stage of institutional development and banks, which are highly focused on corporate and urban consumer lending. Likewise, TA with an exclusive focus on addressing broader institutional and governance issues without simultaneously addressing weak lending capacity is equally insufficient, as evidenced by the poor performance of some of the participating MFIs. This implies the need for an integrated approach which addresses constraints and strengthens capacity at different levels.

Moreover, the composition of the TA teams consisted of local experts with strong knowledge of local realities and the project districts but inadequate senior banking expertise. The latter would have been particularly useful in order to have clout with bank senior management to address critical issues undermining the effectiveness and sustainability of the outreach strategies. Furthermore, in several cases, an overreliance on the TA partner was witnessed, which did not support internal capacity building. In line with the above, this requires larger, more comprehensive TA packages that employ additional methodologies to ensure absorption of the knowledge.

While further performance-related information for the TAF under NIRSAL is required, the picture that emerges from the experience of the projects is one in which TAFs had a meaningful impact on building demand- and supply-side capacities, albeit with some design, coordination and capacity challenges that had an adverse impact on implementation. Many of these challenges could be addressed with better design and coordination, adequate resource allocation and more experienced TA providers. Moreover, the proportionally higher funding allocated to other instruments (RSF, CF, etc.) that may have a lower cost-benefit ratio should be reviewed and justified when approaching design.

Refinancing facility/credit line

PROFIT, LFSP and ProMIFA included a direct funding instrument as part of their programming. In the case of PROFIT, the component was designed to provide on-lending capital to newly licensed deposit taking MFIs in order to address short-term liquidity constraints, in addition to facilitating sustainable deposit mobilization strategy to address long term liquidity and portfolio expansion. As part of their participation, MFBs were expected to (1) develop or enhance their value chain financing product and outreach strategies; (2) target project-defined demographics and clientele; (3) test and roll out technology-based and innovative financial products (agricultural insurance, warehouse receipts, leasing products, etc.); and (4) link with the project's Innovation Facility to develop innovative savings products and remittance services.

As for the recently initiated ProMIFA scheme, the Financing Facility for Agricultural Development (FFAD) will make liquidity available, in the form of term deposits and certificates of deposit (CDs), to partner FIs of MIFA in order to contribute to the financing of projects. The financing structure is a tripartite cost-sharing architecture involving the participation of three stakeholders: players along the selected value chains, ProMIFA and partner FIs. This architecture for the FFAD is envisaged to encourage and incentivize the participation of the private financial sector and beneficiaries.

The PROFIT CF subcomponent was allocated USD 6M and was ultimately implemented with four MFBs through a public tender, with the aim of expanding their rural and agricultural portfolios through affordable refinancing of their balance sheets. The CF lending terms were highly concessional and included a ten-year tenor with a four-year grace period at an annual interest rate of 5 percent on declining balance. In Q1 of 2019, the total amount of disbursed loans by the MFBs by utilizing funds from the CF was reported at USD 6.9M against USD 5.1M in the previous quarter, implying a 35 percent growth and a 1.15x multiplier on the CF. In MIFA/ProMIFA, the lending terms will be “negotiated” up to a maximum on-lending rate of 10 percent and with participating FIs committing to a 4x multiplier on the term deposit/CD. The duration of CD is initially kept at 12 months.

There were notable problems with the sequencing of interventions given that the CF was disbursed to the MFBs ahead of the TA package. This resulted in inadequately designed financial products; misapplication of limited liquidity; inadequate ability to capture performance data critical for monitoring and evaluation of portfolio quality and business risk; a lack of integration of agriculture sector products with the MIS; and resulting portfolio deterioration. There has been a similar experience with ProMIFA whereby participating FIs are requesting CDs well ahead of the TA – although according to the design, the FFAD will become operational in year 3 of the project, and only after the triggers for phase 2 have been achieved during phase 1 (the first two years of operation).

In spite of the capital injection from PROFIT's CF and/or Togo's CD, the portfolio growth of the MFBs remained constrained by a more systematic lack of liquidity and elevated cost of capital that is characteristic of the Kenyan and Togolese wholesale financial sectors. MFBs

continued to have a structural disadvantage vis-à-vis banks to be able to sustainably continue their rural outreach programmes beyond the life of the project. Furthermore, competitive dynamics and an interest rate cap¹⁷ established by the Central Bank of Kenya (CBK) in 2016 to curb high borrowing costs led to an overall contraction of MFBs' portfolios and migration of established clients to commercial banks. Similarly, Togo's tripartite cost-sharing lending architecture capped interest rates at 10 percent through negotiations between the parties involved.

Moreover, the cancellation of PROFIT's Innovation Facility reduced the opportunity for the MFBs to pilot ICT-based solutions that may have brought value added benefits to their clients and helped to expand their portfolio and attract additional capital to ease their ongoing liquidity constraints. Inefficiencies in project management again had a detrimental impact on the efficiency of RF instruments.

The initial disbursement to the participating MFBs was made in one tranche, thereby effectively eliminating any opportunity for establishing performance-based contracts. This, coupled with the unfavorable sequencing of the credit facility and the associated technical assistance, caused absorption and disbursement complexities for the MFBs. This became more pertinent given that early on, some participating MFBs used CF funds for clients that were not eligible based on PROFIT established targets. At one point, PROFIT had to consider recalling the funds from MFBs which were breaching this commitment and to reallocate to other MFBs which maintained consistency without contractual obligations. It is unclear to what extent contractual safeguards were built in to manage this risk on an ex-ante basis.

The MFB contracts stipulated the need to report Key Performance Indicators (KPIs) – including those related to social performance and client protection parameters – to the Microfinance Information Exchange (MIX) Market (a standard practice of IFAD projects). However, the quality and timeliness of the required reporting did not meet expectations largely because there was lack of common understanding between the Project Coordination Unit (PCU) and the MFBs on reference indicators and social performance monitoring, as well as the cost implications to the MFBs.

Moreover, there were institutionally-specific challenges with M&E of the MFBs, namely that while three of the four MFBs segregated their CF related portfolio for reporting, one MFB reported on their global rural finance portfolio, leading to challenges in interpreting the outreach towards project targets of the CF-funded rural portfolio. This contributed to the project

¹⁷ Kenya's law on interest rates (section 33B(1) of the Banking Act) was gazetted in September 2016 and imposed a ceiling on lending rates by financial institutions at 4 percent above a CBK-defined reference policy rate in addition to a floor for time deposits equal to 70 percent of the reference rate. While the law did not apply to MFIs, SACCOs or MFBs, it had the indirect effect of reducing their market competitiveness, thereby leading to portfolio contraction.

having limited data on the impact of newly established or upgraded financial products for smallholders, consequently complicating the ability to perform an attribution analysis of how project interventions impact beneficiaries and at what cost.

In the case of LFSP, FAO partnered with the Zimbabwe Microfinance Fund (ZMF) to manage an initial amount of USD 3M, which was later increased to USD 4.6M. The refinance facility proved important for supporting MFIs in expanding their rural lending, particularly given the limited alternative refinancing options. Implementation revealed the need for sustained institutional strengthening of the ZMF in general, and more specifically its capacity to appraise more complex risk scenarios, including in relation to complex agricultural value chain finance schemes. The checkered performance of the refinance facility suggests that ZMF was not immune to pressures to expand lending too quickly and expand too heavily into uncharted territory, such as lending to agri-business and for large outgrower schemes, despite the portfolio concentration risks attached.

Financial Graduation (FG)

Only PROFIT envisioned an FG component that was implemented by two non-governmental organizations (NGOs), BOMA and CARE, with technical support in design and implementation from BRAC, inspired by their extensive experience in this intervention and predication on the BRAC Ultra-poor Graduation Model. The interventions were delivered in sequenced form between March 2017 and March 2019 and were harmonized across pilot locations between the two institutions. They included participatory targeting; cash-based and in-kind asset transfers; technical training; a cash transfer to support consumption; healthcare-related support in the form of access to insurance; savings support through promotion of solidarity groups; mentoring and life skills training; and social integration.

Against the overall target of supporting 2 600 ultra-poor beneficiaries to improve their socioeconomic and financial status, by March 2019, BOMA had reached 95.4 percent of its target outreach and CARE had reached 98 percent of its target outreach. The FG component of the project was reported to be the most innovative intervention under PROFIT, and generated substantial interest beyond the confines of the project, eventually contributing inputs to the draft Social Protection Policy of the GoK.

While the intervention yielded considerable results, the all-in cost per beneficiary was elevated, which is consistent with some of the well-known challenges with financial graduation programming. Cost per beneficiary was between USD 1 800 and 2 200, raising questions about cost-efficiency vis-à-vis other potential interventions. Moreover, upon further disaggregation of the total cost, what is revealed is that direct support to the beneficiaries represented less than 30 percent of the total, implying substantial administrative and overhead costs, thereby complicating the scaling up the approach.

Furthermore, it remains unclear to what extent the programme considered specific interventions to provide a structured path towards graduation at the critical fulcrum point at which beneficiaries linked with the PFSPs that were participating in the RSF, TAF or the CF could be engaged more actively to facilitate the transition to bankability. When including FG components in these schemes, designers should carefully consider innovative ways to reduce overhead costs, and to establish a clearer link with other instruments.

4.2 Performance measurement

As per standard practice, project-based schemes require the development of a logical framework and/or Theories of Change (ToC) clearly articulating how and why a desired change is expected to happen and expected outcomes, outputs and project activities, along with M&E systems. These were not without their gaps: for example, the ToC envisaged by ProMIFA indicates that the project will provide solutions to two major problems that affect agricultural and rural development in Togo:

1. an unoptimized value chain with bottlenecks, weakly structured producer organizations (POs) and other dysfunctions that reduce risk taking by the financial sector;
2. very poor access by rural and MSME-farmers to the financing necessary for the development of their economic activities.

However, the ToC does not provide for specific interventions in securing viable output markets for the selected VCs, and also does not factor in the extent to which such government-led and sometimes politically motivated stand-alone de-risking schemes will perform differently from publicly-funded agricultural development banks. This is particularly relevant considering the weak performance record of the latter, especially in Eastern and Southern Africa and West and Central Africa, the two regions where the de-risking schemes are gaining root and becoming quite popular, although with unproven outcomes.

Little information was found regarding what type of ToC or logical frameworks were underlying the strategy formulation and implementation of the stand-alone schemes. NIRSAL does have a basic objective structure, although notable discrepancies can be found depending on the source. As an example, in one document, NIRSAL aims to increase commercial bank portfolio to agricultural to 7 percent by 2026, in another the target becomes 10 percent. These shifts presumably reflect an adjustment to the realities of its operating environment, nevertheless they make it challenging to evaluate prospects and performance. Similar publicly-funded schemes should require a strong articulation of their ToC and related logical frameworks.

Under PROFIT, the measurement and evaluation of progress against predetermined indicators proved challenging for a number of factors, including the many implementing partners having different M&E systems which did not produce comparable data; a lack of alignment and common understanding of key indicators; and the presence of other weaknesses in terms of timeliness and quality of reporting. Overall, this contributed to a lack of effective monitoring and management of the programme; an inability in certain cases to perform a contribution analysis to understand how specific interventions may or may not have contributed to project outcomes; and additional impediments in being able to identify where potential weaknesses were evolving so as to design responses in a timely manner.

4.3 Coordination and partnerships

There are similarities and differences in the way in which coordination mechanisms happen between a stand-alone and project-based schemes. As independent institutions, NIRSAL and GIRSAL are less restrained and more agile in their ability to coordinate and deploy TA and other instruments, as compared with project-based de-risking schemes that are constrained by bureaucratic processes and in which project officers tasked with other primary roles take on coordination-related activities.

NIRSAL, for example, has developed a systematic approach with a dedicated corporate unit for coordination and partnership formation, as well as a notable field presence build-out through its Project Monitoring, Recovery and Remediation Offices (PMROs) to allow for field-level feedback and action loop. Their model develops supply- and demand-side capacity first, after which they cater for linkages to markets, finance and other services, and all the while creates pipelines for their own guarantee products.

GIRSAL intends to leverage already existing coordination mechanisms for the agriculture sector that are reportedly effective, in particular the Agriculture Sector Working Group (ASWG) which launched in 2002 offering a platform for sharing information on ongoing and planned future activities with the aim of harmonizing interventions.

In the cases of PROFIT, LFSP and ProMIFA, by virtue of their inherent procedural complexity and the multitude of implementation partners, programme management and coordination risk was elevated from the inception phase. Coupled with reported staffing and technical capacity issues; inadequate staffing at the Project Coordination Unit (PCU); weak integration of the PCU into the host institutions' (Treasury and MIFA, respectively) processes; design shortcomings in the respective refinancing facilities (RSF and the Business Support Services (BSS) for PROFIT and FFAD for ProMIFA); and limited capacity to identify gaps and respond with appropriate corrective actions resulted in substantial implementation delays.

At one point, PROFIT was designated as a problematic programme and was suspended pending the development of an action plan to address acute constraints identified. ProMIFA took 15 months after EB approval just to get to a technical inception workshop.

PROFIT underestimated the challenges resulting from fully embedding the PCU within the structures, systems and procedures of the Treasury. The highly bureaucratic nature of decision making; lengthy communication; and procurement processes including the recruitment of staff and hiring of service providers, all contributed to adverse impacts on coordination and implementation.

Moreover, linkages with established and potentially synergistic donor activities were not streamlined ex-ante. For instance, LFSP was meant to work closely with the World Bank-supported Financial & Legal Sector Technical Assistance Project (FLSTAP) to formulate a rural finance policy, which would have been a substantial contribution to the potential. It was not clear to what extent the programme has collaborated with FLSTAP in this process. Similarly, PROFIT was meant to work closely with the World Bank Agricultural Risk Management Team (WRMT), Financial Sector Deepening Trust (FSD) and the International Livestock Research Institute (ILRI) to help upscale index insurance products through the Innovation Facility. However, as a result of material implementation delays, the facility was cancelled mid-way through the project, resulting in missed opportunities to develop innovative products and services.

While these linkages were inadequately catered for at the design stage, they did, in certain cases, organically materialize. In cases where interventions were more prudently sequenced and applied – for instance, the combined impact of the TA and the RSF that allowed AFC to undergo an institutional transformation process that resulted in several new products being launched – they served as a signaling mechanism to stimulate other derivate partnerships. They attracted ongoing support from external institutions for the continued development of women- and youth-specific financial products outside of the originally intended scope of the project. This can attest to second order effects that these integrated rural financing schemes may be able to precipitate, thereby compounding impact to a certain level. These effects could likely be further facilitated with adequate stakeholder consultations and communication throughout the various stages of the project cycle.

In the case of PROFIT, inopportune sequencing and ongoing delays once interventions were operationalized resulted in notable challenges and consequent budget reductions and reallocations that impacted the magnitude of the eventual impact, in spite of positive performance of the instruments in the final years of implementation. LFSP on the other hand made TA a pre-requisite to access its other facilities, which appeared to have prevented some of the problems PROFIT experienced.

The project confirmed the need for well-designed, institutionally bespoke TA applied in advance to institutions engaging with the other RF instruments, as well as the need to allow adequate time for TA to be delivered and institutionalized. This appears to be in line with intuition and good practice.

4.4 Policy dialogue and action

These schemes are well positioned to play an important role in policy dialogue that could make contributions to favorably shaping the enabling environment for rural and agricultural finance. However, they generally do not seize on this potential. NIRSAL, for example, does not consider this as a core institutional role and instead self-selects to a secondary role. The PROFIT programme, at design stage, did not foresee substantial policy work, in spite of the fact that it was potentially in a position to do so. LFSP on the other hand, did foresee policy-related work, although it was largely concentrated on agricultural sector policy dialogue and influence, focusing on the development of a National Agricultural Policy Framework (NAPF) and sub-sector strategies for certain commodities, including coffee, horticulture and livestock. Within the NAPF, LFSP's participation in technical working groups has been instrumental in driving forward the policy agenda in this regard, but a systematic approach to rural finance policy dialogue and action was not catered for, despite the notable experience LFSP has generated in rural finance programming.

Since MIFA is a major policy instrument of the GoT in the finance sector, support for its operationalization, which is the main objective of ProMIFA, will involve participation in the development of policies for the agricultural and rural finance sector. Specific Core Indicators have been added to the Logframe to document this contribution.



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Section 5

Overall observations and lessons learned



Operations and implementation

Intended synergies between instruments are often difficult to achieve once operational and implementation realities kick in. This risk is further compounded by the fact that there are often substantial differences in participating institutions' organizational mandate, culture and structure; means of engagement; and administrative and operational processes. Harmonizing these differences while ensuring project timelines and outputs are met is a difficult task and can have a negative impact on sustainability of interventions.

When launching similar schemes, it is important to involve relevant stakeholders from the financial sector early on and throughout implementation. This can help to ensure joint understanding, facilitated coordination, and programming that is adequately informed by respective institutional and operational considerations. In several of the schemes, the PFSPs indicated that given that they were not involved in the programme from the beginning, they experienced challenges integrating into the flow of participation, including developing an understanding of procedural and administrative aspects; harmonizing processes; and coordinating to ensure streamlined execution.

The nature of the funding for these schemes varies based on their institutional form and programme implementation is shaped by the influence and exigencies of the funding agencies to varying extents. In principle, the stand-alone budget-funded solution may be better placed for programming efficiency, but is also prone to less transparency and public disclosure requirements. To avoid a situation in which a tradeoff between efficiency and transparency is developed, stand-alone schemes such as NIRSAL and GIRSAL which are publicly funded should have higher transparency and accountability standards. At a minimum, this implies a requirement for auditable financial reports based on international financial accounting standards.

In the case of several projects, the recruitment of staff with subject matter expertise was substantially delayed, thereby adversely impacting the operationalization of rural finance instruments. These instances suggest the need to review not only the way in which technical expertise is recruited to projects, but also the timing. At project design stage, once there is a reasonable certainty of approval, implementing institutions could consider non-binding calls for expression of interest, to already have a roster of eligible consultants in place at the onset of the project, or shortly thereafter, to be able to rapidly pursue the selection and on-boarding process. Given the importance of timing in agricultural finance, delays in onboarding can lead to missing financing opportunities for the duration of an entire cropping season. IFAD recently established the Fast Implementation Start-up Facility (FIPS) with an embedded Pre-financing Facility (PFF), an instrument that can be used to recruit essential project staff, including rural finance officers, for project-supported de-risking schemes before a project start-up. FIPS/PFF has clear eligibility conditionalities that borrower governments must agree to.

Furthermore, procurement of technically competent and experienced service providers for the delivery of these de-risking instruments and interventions can pose a substantial problem during execution. In addition, a lack of performance-based contracting (PBC) was witnessed in the project context, setting up potentially suboptimal incentives. PBCs can allow for conventional design with funding contingent upon the achievement of pre-defined results rather than payment for inputs, thereby allowing the management of ineffective implementation and the identification of pain points and course corrections in a timely manner. Performance-based contracts are not without challenges, as they can be complex to structure in a manner that incentivizes performance without creating onerous and unrealistic expectations. When designing similar schemes, project designers should pay attention to whether they are appropriate or not.

The measurement and evaluation of progress against predetermined indicators can be challenging due to a number of factors, including the variety of M&E systems; lack of common understanding of KPIs and standardized data to measure them; and other weakness in terms of timeliness and quality of reporting. This can contribute to ineffective monitoring and management of the programme; an inability to perform a contribution analysis to understand how specific interventions may or may not have contributed to project outcomes; and additional impediments in being able to identify where potential weaknesses were evolving so as to design responses in a timely manner. This implies a need to focus particular attention on designing a robust and interoperable M&E mechanism at early stages of the project design, preferably in collaboration with project implementation partners if timing permits.

Well-defined, actionable and sustainable exit strategies are crucial in cases where PCGs, lines of credit and TA are interwoven. This applies both at the individual instrument level as well as at the coordination level to ensure synergies are optimized and realized beyond the life of the project. As such, exit strategy formulation would benefit from dedicated stakeholder dialogue and consultations beginning earlier in the life of the project, and evolving on a continuous basis throughout implementation, as opposed to the typical practice of exit strategy formulation near the end of the project.

By virtue of their institutional form, NIRSAL and GIRSAL are positioned to be more permanent features of the rural finance ecosystem. This can have potentially meaningful benefits in terms of long-term rural financial system development. However, the proof of the de-risking concept is yet to be ascertained as these schemes are fairly new (less than ten years old) in the rural finance ecosystem. The risk of uncertainty is aggravated by the potential of politicization of these institutions that can adversely affect their performance, as was the case of the experience with state-owned agricultural development banks. Close attention should be paid to these schemes in order to build up the evidence base for proof of concept and impact, particularly vis-à-vis project-based efforts that have natural limitations on their operational life and sustainability of impact.

Supply- and demand-side capacity

Supply-side knowledge and capacity constraints continue to represent material challenges for financial service providers (FSPs), and donors should dedicate increased resources to address these constraints. At the commercial bank level, heightened and possibly excessive risk aversion is often present, and corporate culture practice change is often a glacial process. This amounts to an important challenge in promoting rural financial inclusion given that these institutions typically have the largest balance sheet assets to deploy, have solid business foundations for institutional sustainability and viability, and can formulate and deploy capital efficiently relative to other FSPs. In short, commercial banks are in a particular position to make a substantial impact on reducing the financing gap for agriculture, yet they are often the least interested because of the inherent and systemic risks and very low returns on investments (ROIs) in agriculture, especially in traditional smallholder agriculture.

This implies a need to focus special attention throughout the design and implementation of these schemes on how to create the right set of incentives to stimulate the interest of these institutions, as well as to ensure a durable, executive buy-in and long-term commitment to the process. These activities can be supported by paying closer attention to the articulation of the business case for commercial banks through rigorous analysis and market modelling, which should be funded by project budgets. Since commercial viability may only be achieved in the medium-term – especially in volatile environments like in the LFSP – banks’ senior management and owners should be willing to adopt the medium-term time horizon in committing human and financial resources. Before engaging with banks, the real interest and motivation needs to be well understood and confirmed through a commitment at the highest level to a medium-term engagement. Such commitment can be evidenced by the willingness to cost-share and engage in a staged approach, whereby continuation of support is based on agreed performance targets; ongoing commitment; and a clearly defined and mutually agreed upon exit strategy.

Demand-side capacity is also a persistent constraint to impact, notably at the smallholder and agri-SME level. Recent work has revealed a considerably more nuanced understanding of how smallholders behave within their broader environment, including how they manage their finances, operations, overall household and enterprise-level welfare, and how they increasingly engage with ICTs to support these processes. This implies the need for projects to actively take into account differential smallholder segments in the design of their instruments and outreach strategies. TA providers also need to stay abreast of this evolving understanding and to adapt interventions accordingly.

While the linked Technical Assistance Facilities do promise to address these capacity gaps, they often suffer capacity and implementation issues themselves, reducing their overall impact. Furthermore, traditional TA as an instrument to promote institutional transformation has limitations stemming from its typical delivery model of external consultant-based, time-bound

engagement and potentially high costs without an attributable ROI. Even when structured in successive and complementary phases tailored to the needs of the institution, knowledge transfer to ensure continuity and durability of results is often incomplete, thereby diminishing the residual impact of the engagement.

In many cases, after the course of the TA engagement and/or life of the project supporting it, institutions may disengage from their commitments to their rural and agricultural portfolios, especially when competing with lower risk, higher ROI alternative uses of capital. As such, other delivery channels of TA – for example, coaching – may contribute to the creation of a more durable institution learning trajectory. While coaching as a methodology is not without its own complexities and still in its early stage of testing in the microfinance field, a mixed delivery channel methodology should be considered for future operations.

When delivering capacity strengthening and TA to smallholders and agri-SMEs, there should be a heightened focus on risk identification and mitigation and access to viable output markets so that these actors can also contribute to the overall de-risking of the environment in which they operate. A dedicated venue and channels for coordination and communication from the early stage of interventions between demand- and supply-side actors can help to establish potential commercial relationships that last beyond the life of the project interventions and moreover, can help these actors to develop a mutual understanding of each other to inform product design, customer engagement and relationship-based banking.

Approaching design of instruments

Design capacity remains a persistent challenge and should be addressed with additional donor investment in knowledge platforms that not only speak the language of the various stakeholders, but do so in a demand-driven manner adapted to the rapidly evolving way in which individuals and institutions engage with information. Despite substantial global evidence and learning regarding what constitutes a good or preferred practice in the design of rural finance and technical assistance interventions, these schemes and projects continue to include inefficient or, in certain cases, questionable design features. Simply put, learning is not keeping up with knowledge generation.

Therefore, efforts by the development community to capture and broadly disseminate these good practices through platforms like the CABFIN Rural Finance and Investment Learning Center, the Rural and Agricultural Finance Learning Lab and Agrifin, etc. are all the more pertinent as these facilities continue to generate interest, yet the development community also has to find a more effective way to convert their efforts into information than can be practically absorbed and acted upon.

Moreover, there has been a recent rise in the presence of ecosystem “connectors” such as the Council on Smallholder Agricultural Finance (CSAF) and the Smallholder and Agri-SME Finance and Investment Network (SAFIN), with the aim of bringing private, public and philanthropic actors together to coordinate agendas, share knowledge and mobilize coordinated action. As such, these institutions can serve as important brokers of knowledge, coordination and capitalization, and should continually expand and deepen their collaborations with producers of knowledge.

The selection of RF instruments appears at times to be inadequately justified, thereby reducing their effectiveness, impact and value for money vis-à-vis potential alternative interventions and budgetary arrangements. More rigorous analytical work is required at design stage to justify the selection and combination of instrumentation. This implies the need to understand the cost-benefit parameters of these interventions and what combination of instruments is likely to yield the most effective results in a given country context and risk environment.

As such, integrated de-risking requires an evidence-based, holistic understanding of these risks, so that appropriate instruments can be selected and mapped to address these risks. This begets the need for diagnostic exercises in the form of risk assessment studies, to be carried out to generate understandings of the types of risks that are most prominent within a given environment, their likely interactions and their effects on the target groups as a basis for designing a response that is tailored to the context and based on existing good practices.

These considerations are all the more important given that certain instruments are complex, time-consuming and expensive to establish. As mentioned, even in a favorable case, designing and operationalizing an RSF may have a lead time of 16–24 months (as in the case of ProMIFA Phase I) from identification to launch, and in cases such as PROFIT can take several years. Alternative models of RSF design – such as the one under PROFIT – should be further analyzed to understand whether there is a cost-benefit case to make for their use as a transitional solution, even if suboptimal from a design perspective.

Sequencing of interventions is just as important to achieving intended outcomes as the selection of and proper design of rural finance instruments to use. Inopportune sequencing can cause absorption and deployment issues for FSPs and the cases of PROFIT, LFSP and ProMIFA confirmed the need for well-designed, institutionally bespoke TA applied before institutions engage with the other RF instruments, as well as the need to allow adequate time for TA to be delivered and institutionalized. NIRSAL and GIRSAL appear to have a more systematic approach to sequencing in this sense in their facilitation of value chain finance arrangements.

In cases where interventions were more prudently sequenced and applied – for instance, the combined impact of the TA and the RSF that allowed AFC to undergo an institutional transformation process which resulted in several new products being launched – they served as a signaling mechanism to stimulate other derivate partnerships. For example,

in the case of AFC, these interventions attracted ongoing support from external institutions for the continued development of women- and youth-specific financial products outside of the originally intended scope of the project. This can attest to second order effects that these integrated rural financing schemes may be able to precipitate, thereby compounding impact to a certain level. These effects could likely be further facilitated with adequate stakeholder consultations and communication throughout the various stages of the project cycle. Those designing similar schemes should contemplate a mechanism to evaluate institutions' readiness to engage with other instruments, and to assess residual technical or capacity gaps so that they can be addressed.

Coordination

Overall coordination between actors and instruments remains a persistent challenge. In particular, coordination between supply- and demand-side TA recipients is often inefficient, thereby not stimulating the potential synergies to capitalize on the integrated nature of the programming. Bridging the last mile connection between demand-side actors that have received TA and FSPs that have also received TA for market intelligence, product innovations and rural outreach strategies was a consistent problem in several of the schemes reviewed. This implies the need for a more structured, streamlined and actionable approach which has to be designed in close collaboration with these stakeholders early on.

The cases of NIRSAL and GIRSAL suggest that properly designed stand-alone schemes may be better positioned to address coordination-related issues. This is due to streamlined decision making; dedicated corporate units for coordination; lower levels of bureaucracy; and notable field presence, among other factors. This is in contrast with the project implementation units and staff of PROFIT and ProMIFA which are tasked with overall implementation of a wide range of project components and can be thinly spread. In cases where technical capacity and staffing is not aligned with these programming exigencies, the coordination mechanisms can suffer, and the effects compound throughout implementation.

At the same time, organically grown coordination and cooperation outside project-based coordination mechanisms can arise at the field level driven by business considerations. In certain cases, ground-level implementation partners and service providers leverage their own communication channels to try to work around top-down coordination inefficiencies. This offers an interesting area to tap into through the utilization of social media-based communication platforms to stimulate these organically grown, parallel coordination mechanisms, and where feasible, to link them to project-based coordination mechanisms.

Moreover, cloud-based ICT solutions offer the potential to address these challenges and to harmonize and integrate communication and M&E between stakeholders. These come with associated up-front investment costs and ongoing training requirements, but may be justified

by improvement in intended outcomes. Additional analysis is warranted to understand how to potentially operationalize formalized coordination structures with organically grown ones at the last mile of implementation.

M&E and knowledge management

In the project context, while a dedicated framework and associated personnel and resources were allocated for data, knowledge and impact management, these systems often did not produce expected results. Implementing partners often lacked the capacity, processes and IT systems to respond to M&E requirements. Coupled with an inconsistent understanding of KPIs and how to measure them, projects suffered from inconsistent and untimely data collection.

For future programmes, it is important to assess the need to allocate resources to improve stakeholder capacities and systems for results measurement and management. For example, as part of the initial due diligence of participating FSPs – especially smaller ones – there should be a thorough examination of whether existing MIS systems are able to capture relevant data for monitoring and evaluation, and if not, to determine the incremental investment necessary to do so.

While many institutions may not have the ability to pay for expensive MIS upgrades, alternative, simplified and streamlined data gathering procedures and systems have to be determined at the onset of programmes, and rigorously monitored throughout the life of the engagement. An investment in these systems may be further justified as it can also help contribute to building up the evidentiary basis for policy engagement.

Policy dialogue and action

In spite of the typically suboptimal enabling environment in which agricultural finance is practiced, there is comparatively little effort to address policy and regulatory gaps in the design of these schemes. This is despite a broad recognition of the critical role that enabling environmental factors can play in the promotion of rural financial intermediation, and, on the contrary, what a binding constraint to results they can form if not adequately addressed.

This lack of effort could be partly explained by a number of factors, including:

- a lack of capacity and mandate to do so;
- a lack of awareness at project design stage of the relevance of policy work to optimize rural finance instrument implementation;
- a lack of standing and recognition as a credible authority to influence related processes;

- the inherent technical and coordination-related complexities of rural finance policy formulation, given its natural position at the intersection of several different policy spheres, each with different actors, capacities, interests and institutional cultures.

Moreover, the often observed incongruence between the gestation periods associated with policy dialogue and formulation and the typical pressures to deploy RF instruments quickly within limited project life cycles creates programming and sequencing frictions that can compromise the impact of the instruments deployed.

This effect may be less present in cases where stand-alone institutional arrangements are in place, such as in the case of NIRSAL, as they are not beholden to short, project-based life cycles. In cases where policy work is foreseen (for example in GIRSAL, LFPS and MIFA/ProMIFA), donors and other stakeholders should be properly sensitized to the time requirements for such processes to play out. This could be done through dedicated stakeholder consultations at the ideation phase of projects.

The role of central banks in promoting these schemes should be reviewed, to help determine emerging good practices, efficient support mechanisms, and potential drawbacks and shortcomings of these institutions taking on these active roles.

The central banks sponsoring these schemes take on a mandate as a primary agent of rural and agricultural finance market development, with potential positive and negative ramifications. In cases of direct intervention in retail markets, it is important to develop an understanding of potential market distortions and crowding out of private sector-based solutions.

It is thus critical that widening mandates and practices of central banks be underpinned by a rigorous analysis of what policy and operational frameworks may best support this role while minimizing associated risks. This begets a need to further analyze the optimal role and position of central banks in promoting agricultural finance and, specifically, in spearheading and supporting the de-risking arrangements under consideration.

Analytical work required to inform these schemes

While the extent of the analysis was limited in depth, it did not reveal the existence of a well-articulated, evidence-based and systematic approach to rural and agricultural finance programming at the ideation and design stages of these schemes.

Given the complexity of rural finance and risk management programming, prior to engaging in the design of these activities, an agricultural financial system-level baseline diagnostic exercise that analyzes the existing policy and regulatory frameworks governing and influencing the agricultural finance market; the current status of the meso-level financial infrastructure; and retail-level supply and demand dynamics is recommended to inform the selection and design of instruments.

Risk manifests itself in a variety of forms and varies notably at the sub-sector level across commodity value chains; at each node throughout value chain; and at different levels within the institutional environment of these different actors. Therefore, integrated de-risking requires an evidence-based, holistic understanding and articulation of these risks, so that interventions can be mapped to address these risks, and instrument choice can be undertaken on an informed basis. This begets the need for a risk assessment study that is linked to the agri-finance sector diagnostic and that generates understandings of the types of risks that are most prominent within a given environment, their likely interactions and their effects on the target groups, as a basis for designing a response that is tailored to the context and based on existing good practices.

These analytical exercises are also intended to be the basis for a dynamic process to continuously assess evolving needs in the sector in order to develop strategies based on relevant and up-to-date information. The knowledge generated by this process is critical for the evidence-based functioning, credibility and impact of the policy coordination mechanism that is intended to be the champion for agricultural finance promotion.



Conclusions



The overall relevance of these schemes can be considered to be robust and potentially meaningfully responsive to the challenges and opportunities in de-risking agricultural finance and investment. By coupling interventions in rural financial market development and agricultural value chain development, these de-risking schemes reflect a prudent recognition of their interdependent nature. In doing so, they move away from a more narrow, instrumental approach to promoting finance and make meaningful efforts to address underlying value chain-level and enabling environment level factors that often represent particularly stubborn and binding constraints in rural financial sector development. As such, they are a promising approach to addressing associated challenges and opportunities.

The review of the schemes revealed tangible impact of the various instruments deployed across a number of indicators, including increasing financial services to producers and agri-SMEs; the design and launch of innovative products and rural outreach strategies; formation of some effective coordination mechanisms and partnerships; and re-shaping of incentives to attract financing. At the same time, given the small sample size, information gaps persist, and given the inadequate operational history of some schemes, a definitive qualification of their performance is challenging, as is disaggregating the instruments' individual and covariant impacts.

Moreover, it is difficult to qualify which scheme's approach to de-risking may be more desirable, as each approach has relative merits and shortcomings, and importantly, each unit area of intervention – whether at country level, regional, local or other – presents unique contextual challenges. This implies the need for in-depth, localized understandings of specific market, institutional and social factors, as well as potential policy gaps. The recommended rural finance sector diagnostic and risk assessment exercises can contribute to a more evidence-informed selection and design process.

Replicability and portability of experiences

In spite of the fact that many of the instruments under consideration have readily been applied in past RF programming – both as individual solutions and in linked form – their association with the current terminology related to de-risking facilities is relatively new and is predicated perhaps more on increasing stakeholder awareness and interest than on technical form and operational manifestation. In other words, these schemes have been around for a while, either with the stated and programmed goal of approaching the de-risking of agricultural value chains in holistic manner, or inadvertently causing similar effects in cases where the de-risking elements were more narrow in their targeting of specific risks.

Intimately tied to this is the concept of knowledge and capacity of the stakeholders involved in the ideation, articulation and eventual implementation of these arrangements.

The RF community of practice has made significant strides in studying, documenting and recommending good design practices for RF interventions, both at individual level and, to a certain extent, in more combined or bundled form. Nevertheless, design and execution flaws remain common, arguably representing the core constraint to replicability. Moreover, relevant technical expertise is limited and housed within a handful of international and national agencies, as well as among a community of expert consultants that tends to operate in a fragmented manner, with limited impact in their efforts to disseminate knowledge and good practices in the design and implementation of rural finance to the relevant audience of stakeholders.

Growing interest in these facilities is already triggering more active dialogue between partners, with several institutions working to bridge the aforementioned knowledge gap. NIRSAL itself can be included in this list: in addition to its de-risking corporate functions, it offers paid advisory services to governments and other stakeholders on the design and implementation of similar facilities. Consensus around the importance of these facilities has already been established – what is missing now is a more detailed understanding of technical design features, packaging related operational guidelines and further rigorous technical discussions within the stakeholder community about operation modalities, legal requirements, and evidence surrounding performance and cost effectiveness.

Scalability

Elements of these facilities – if executed well and coordinated with necessary changes to the policy and enabling environment – can potentially lend themselves well to scalability due to their high cost-efficiency, based on the fact that they are intended to be catalytic instruments and the demonstration effects they can cause. For example, based on the PROFIT experience, the GoK prepared a draft legal framework for scaling up the RSF through the National Credit Guarantee Scheme; AGRA has made efforts to scale up the PROFIT approach in other countries, including Ethiopia and Ghana, especially the combination of financial instruments like RSF and demand- and supply-side technical support services; Kenyan commercial banks have increased their interest in investing in agriculture and followed the innovative lending mechanisms developed in the context of PROFIT; and the Women Affirmative Access to Finance Window has been picked up by UN Women, FAO and European Union for scaling up. In Togo, the donor-funded MIFA/ProMIFA has MoUs in the pipeline with up to 13 commercial FIs, an increase from a total of four when it was operating only as the publicly-funded MIFA.

Follow-up

This analysis has served to give a preliminary technical and performance analysis of these types of de-risking schemes. However, the depth of the analysis was beholden to available information and as such, varies between substantial in certain cases like NIRSAL (the oldest of the schemes) and conjectural in others like in the case of ProMIFA (which is just three months into implementation). A follow-up edition in which additional schemes are reviewed, more extensive field-level investigation is performed and lines of inquiry are refined will be needed to be able to move from this knowledge sharing aspect towards more operational and policy insights that can guide decision making when it comes to designing and launching similar schemes in the future.



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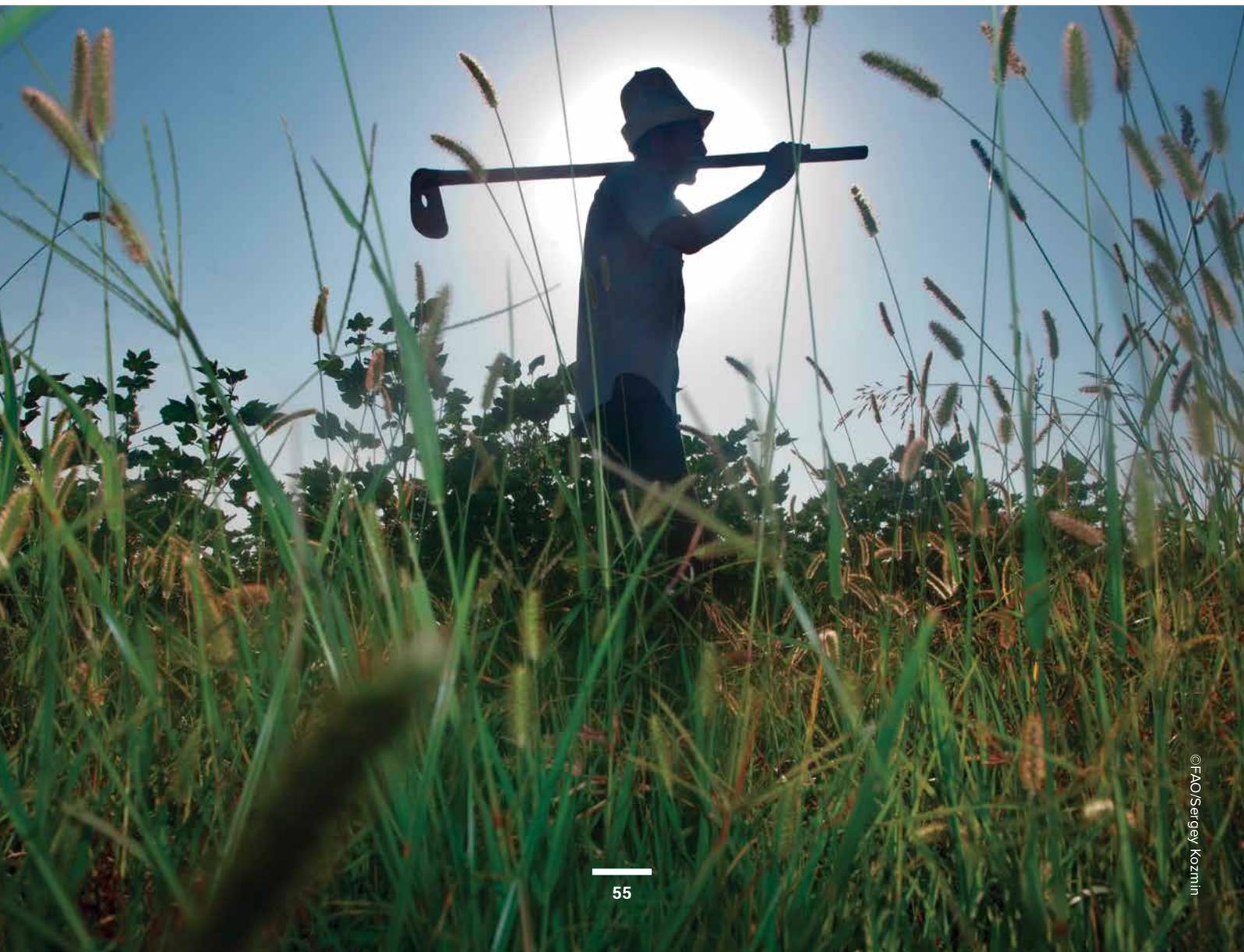
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Annex 1

Detailed case studies



The Nigeria Incentive-based Risk Sharing System for Agricultural Lending (NIRSAL)

NIRSAL Plc. is a limited liability company incorporated in 2013 under the Companies and Allied Matters Act as a non-bank financial institution (NBFI) wholly owned by the Central Bank of Nigeria (CBN) and funded entirely by public resources to the tune of USD 500M.

NIRSAL was launched through a joint initiative of the CBN, the Nigerian Bankers' Committee¹⁸ and the Federal Ministry of Agricultural & Rural Development (FMARD). The company is structured with executive management reporting to a Board of Directors chaired by the CBN with board members from AGRA; the Ministries of Finance, Agriculture, Commerce and Industry; and private sector organizations including the Commercial Bank of Africa (CBA).

NIRSAL's corporate mandate is to “forge partnerships between agriculture and finance; maximizing the potential of agriculture for food security, job creation and economic growth” and has the following specific objectives:

1. de-risking agricultural value chains and agricultural finance
2. building long-term capacity of VC actors and FSPs, as well as other stakeholders
3. institutionalizing incentives for agricultural finance and VC performance

NIRSAL focuses on high-potential value chains through the following strategic activities:

1. its core product, the provision of partial credit guarantees
2. coordinated technical support to actors across value chains
3. business development, investment advisory and support services to VC actors

In addition to its de-risking functions, NIRSAL offers paid technical assistance to other countries' governments on the design and implementation of similar facilities, based on their experiences. For example, with support from AfDB, NIRSAL provided technical assistance during the development of the MIFA/ProMIFA programme.

¹⁸ The Bankers' Committee is a group of banking executives promoting the interest and development of the Nigerian financial sector.

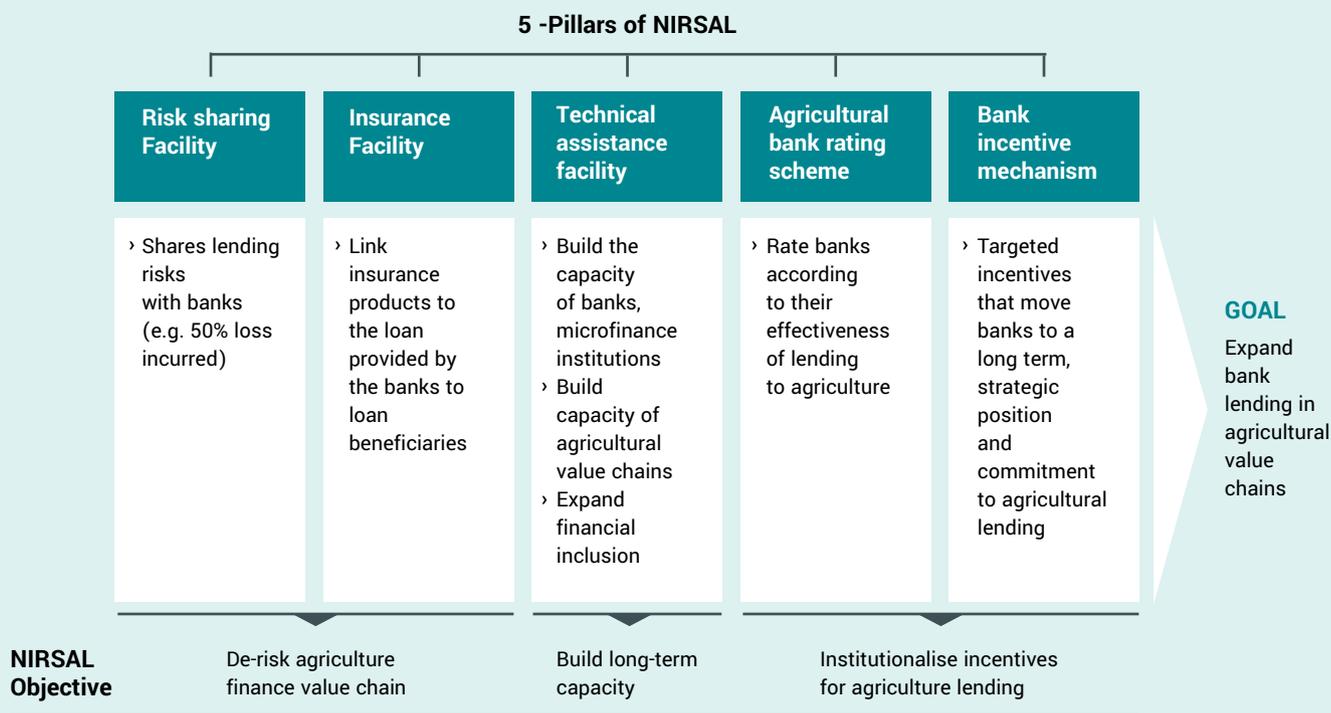
To achieve its objectives and to execute its strategy, NIRSAL was established with the following five operational pillars:

- **Pillar 1: A Partial Credit Guarantee (PCG) Facility of USD 300M** which provides loan-level, first-loss coverage on banks losses ranging from 30 to 75 percent of a loan’s face value depending on the value chain segment. Credit facilities extended to all segments of agricultural value chains are eligible for individual, loan-level risk sharing coverage.
The PCG is deployed through various channels, including (1) through direct partnership agreements with commercial banks; (2) through the CBN’s Anchor Borrower Programme¹⁹, for which NIRSAL is a participating FSP; and (3) through collaborative agreements with development projects which foresee access to finance instruments.
- **Pillar 2: An Insurance Facility of USD 30M** to expand agricultural insurance products and outreach to retail and meso-level players, with a specific focus on moving away from traditional indemnity-based products to parametric, index-based solutions to provide risk transfer products to protect producers against yield and price risk.
- **Pillar 3: A Technical Assistance Facility (TAF) of USD 60M** intended to provide supply- and demand-side technical assistance to address various knowledge, operational and technical gaps to enable FIs to lend sustainably to the agriculture sector and allow to producers to access a range of financial services, and adopt technologies and know-how to increase production, productivity and quality of produce.
- **Pillar 4: A Bank Rating Scheme of USD 10M** that rates participating FSPs and state governments²⁰ on the effectiveness and outreach of their agricultural lending and social and environmental performance, and provides cash and non-cash rewards to further incentive performance under Pillar 5.
- **Pillar 5: A Bank Incentives Scheme of USD 100M** that provides cash and noncash rewards for FSPs performing well under the Pillar 4 Bank Rating Scheme in order to incentivize continued outreach and build their long-term capabilities to lend to agriculture.

¹⁹ The Anchor Borrower Programme is an NGN 20B CBN facility launched in 2015 to promote agricultural finance through value chain finance arrangements. Thirteen participating FSPs lend to “anchors” - private large-scale integrated processors that have entered into an agreement with the smallholder farmers to off-take the harvested produce at pre-agreed prices. NIRSAL provides technical assistance to farmers, extension workers and banks and organizes farmers into groups/cooperatives.

²⁰ Initially the Bank Rating Scheme was limited to commercial banks, later to be extended to cover other FSPs and state actors.

Figure below maps NIRSAL's instruments against its corporate objectives.



Source: NIRSAL corporate presentation, 2017

Through its “Interest Drawback Programme” (IDP) NIRSAL provides an additional repayment incentive for borrowers whose loans are covered by the PCG. Up to 40 percent of the interest cost is eligible for a cash rebate delivered to clients’ bank accounts periodically through the life of the loan. Partner banks determine eligibility of clients based on timeliness of their repayment, and submit requests to NIRSAL on their clients’ behalf.

By mandate, NIRSAL has an emphasis on the development of the early stages of value chains, where financing shortages tend to be acute both on a relative and an absolute basis. However, the breakdown of their risk sharing portfolio appears not to reflect this mandate, with over 75 percent of their guarantees covering bank loans extended to upstream segments (54 percent for agro-input dealers and 22 percent for primary production).

NIRSAL has been successful at establishing partnerships and collaborative engagements with a broad range of public and private stakeholders, including:

- **National and regional commercial banks for its PCG product** – available information suggests collaborative arrangements with at least six²¹ sizeable commercial banks.

²¹ NIRSAL has established MOUs with Ecobank, Bank of Industry, Sterling Bank, WEMA Bank, Union Bank and Stanbic Bank.

- **Development projects** – such as the World Bank’s USD 200M Agro-Processing, Productivity Enhancement and Livelihood Improvement Support Project (APPEALS) for the piloting of an Area Yield Index Insurance (AYII); and the World Bank FADAMA III project for the management of its agricultural mechanization related activities in partnership with the Machines and Equipment Corporation Africa (MECA) (see below for more details).
- **Private sector agro-enterprises** – such as with MECA to establish a joint programme mechanization programme called the NIRSAL Comprehensive Agricultural Mechanisation Program (NCAMP).
- **Private sector technical institutions** – such as with PULA advisors, a specialized agricultural insurance company.
- **Development institutions** – such as with the International Labour Organization (ILO) on capacity building activities and with the German Agribusiness Alliance on capacity building and development of commercial opportunities.
- **Public institutions** – such as with the Nigerian Meteorological Agency (NIMET) to receive timely agrometeorological information and advisory services for application in their operations.

As part of what NIRSAL calls its value chain “fixing” – interpreted to mean NIRSAL acting as a facilitator for value chain coordination, partnership establishment, and as a broker for commercial and non-commercial transactions to support broader value chain development – NIRSAL provides Business Modelling services to its partners to help them to develop viable and bankable projects and agri-SMEs. It does so through various models, including the development of agro-industrial parks; investment facilitation; and the facilitation of cooperative formation.

In addition, NIRSAL has developed a proprietary “Mapping-to-Markets” (M2M) strategy and linked “Agro Geo-Cooperative” model under which it:

- facilitates the aggregation of farmers into cooperatives of at least 250 farmers that are mapped to a 250 ha geo-cooperative and synchronized with the agro-ecological characteristics of the zone.
- provides technical support and agronomic advisory services; capacity building; and market coordination to the cooperatives by brokering off-take agreements with downstream actors.
- links the cooperatives and other participating VC actors with financial service providers from the banks with which it has established a partnership.

The motivation for this value chain finance model is to be able to centrally coordinate risk management and to create a pipeline of bankable projects for banks, while simultaneously expanding opportunities for NIRSAL’s PCG product. Essentially, NIRSAL is positioning itself as the facilitator and beneficiary of a lead firm-driven VCF business model.

NIRSAL appears have a solid institutional structure to ensure streamlined coordination. It has a dedicated business unit called “Collaborations, Partnerships, Project Development and Support” through which staff coordinate with external stakeholders and develop collaborations with a range of partners. Vertical coordination is accounted for through a hierarchical corporate reporting structure.

Moreover, it has developed specific arrangements that allow for enhanced internal and external coordination and oversight of activities, particularly relating to the field. This includes:

- **Project Monitoring, Recovery and Remediation Offices (PMROs)** hosted within the 36 state-level and zonal offices of the CBN and tasked with business development functions including sourcing new projects and supervising existing ones; local coordination; and mobilizing community support, awareness and knowledge about NIRSAL projects.
- **The setup of so-called “Knowledge and Innovation Hubs” (KIH)** – staffed, localized administrative units intended to facilitate coordination between supply- and demand-side TA interventions with partners; as well as to help inform other field-level activities, including that of their project monitoring services. While this is an innovative design element and can potentially contribute to generating synergistic interventions, information was not available about the extent of their deployment, implementation experiences and effectiveness.

Through this coordination mechanism, NIRSAL has managed to develop a wide range of private and public sector partnerships, including with FSPs, value chain actors, and local and national state administration.

The Ghana Incentive-based Risk Sharing System for Agricultural Lending (GIRSAL)

GIRSAL was initiated by the Bank of Ghana (BoG) – the country’s central bank – in collaboration with the Ministry of Food and Agriculture (MoFA) and Ministry of Finance and Economic Planning (MoFEP), with AGRA support as a technical partner. Modeled after NIRSAL, it was incorporated as a private, non-bank financial institution (NBFI) in 2015. The design phase originally envisioned the key shareholder to be the Government of Ghana (GoG) through the BoG as the lead shareholder, with a gradual phasing out of the BoG shareholding position as GIRSAL expanded its other shareholders and/or reinvested capital through private sector players. To avoid a conflict of interest in which BoG was both owner and regulator of GIRSAL, the lead shareholding was bestowed on MoFEP. Seed funding for GIRSAL was contributed by the GoG through the BoG and a loan to the GoG from the African Development Fund (ADF) of the African Development Bank.

GIRSAL was designed to accelerate the performance of Ghana's agriculture sector based on six mutually reinforcing pillars grouped into two sets, namely:

1. De-risking Mechanisms which include:
 - a. Risk Sharing Facility (RSF)
 - b. Technical Assistance Facility (TAF)
 - c. Insurance Facility
2. Incentives and Enablers which include:
 - a. Bank Incentives Mechanism (BIM)
 - b. Bank Rating Scheme (BRS)
 - c. Digital Finance (DF)

Like NIRSAL, GIRSAL's institutional structure reflects that of a private sector company. A CEO is appointed and is advised by a Board of Directors comprised of high-level representatives from the public and private sectors, including the Ministry of Finance (Head of Development Finance Unit and Principal Economist); BoG (Second Deputy Governor of BoG); the CEO of Ecobank; and other recognized and authoritative figures from the private sector, academia and civil society.

Given that it is modeled after NIRSAL, GIRSAL takes NIRSAL's five pillar structure but adds one additional pillar. These pillars include the following:

- **Pillar 1: Partial Credit Guarantee (PCG):** This entails the provision of partial guarantees to participating commercial banks and other financial institutions on an individual or portfolio basis. The PCG is designed to provide differential risk coverage ranging from 50 to 80 percent, with the scheme providing greater risk coverage for upstream activities (production and primary processing) and lower coverage for downstream activities (value added processing, services, logistics and marketing).
- **Pillar 2: Technical Assistance Facility (TAF):** TAF is designed to provide capacity building interventions for both supply- and demand-side actors. Capacity building targeting demand-side actors (such as input suppliers, producers, aggregators, processors, trade and logistics) includes training to improve farm and financial management, value addition and marketing. GIRSAL also provides coaching and advisory services targeting Micro-, Small- and Medium-sized Enterprises (MSMEs).

GIRSAL plans to provide technical training through the National Banking and Insurance Colleges of Ghana to enhance the capacity of financial intermediaries to assess and manage agricultural credit risk. Training modules and technical support include establishing agriculture desks at participating FSPs; product development and distribution; risk management; and improving credit information systems. It will also support the development of Knowledge and Innovation Centers through its Agribusiness Knowledge portal. The TAF will focus on MFIs given their large number and proximity to rural areas.

- **Pillar 3: Agriculture Insurance Facility (AIF):** GIRSAL guidelines include provisions for borrowers to access insurance policies through the Ghana Agriculture Insurance Pool (GAIP)²². The pairing of guarantee and insurance products is intended to offer a more holistic de-risking solution and could have a positive impact on risk-adjusted interest rates over the long run. GIRSAL intends to collaborate with GAIP and the National Insurance Commission, the insurance sector regulator, to define the regulatory framework for agriculture insurance in Ghana.
- **Pillar 4: Digital Finance Platform:** a cloud-based platform that would facilitate GIRSAL reporting, as well as the development of predictive models. The platform consists of three elements, namely:
 1. A secure web-based platform that supports a guarantee application portal; payments portal and a Knowledge and Innovation Center (KIC)
 2. A risk scoring engine to be used by lenders to support credit guarantee applications decisions, and by GIRSAL to review applications and present an opportunity to automate credit risk assessment as well as profiling potential borrowers
 3. A data warehouse that integrates information from numerous sources to build Know-Your-Customer (KYC) data on production: transaction, insurance coverage, input purchases, sales and purchases. The portal will include an API to allow the capability for integrating information from credit reference bureaus, academic institutions, mobile money providers, utilities and other actors.

Pillar 5: Bank Rating Mechanism: intended to rate banks in terms of volume and effectiveness of lending delivery to the actors in the agriculture value chain, with the goal of creating additional incentives for banks that are achieving impact in agricultural lending. To date, no activities have been reported under this pillar and detailed information about the operational status of the pillar is not available.

Pillar 6: Bank Incentive Mechanism: provides financial and non-financial incentives to reward banks that are lending to the agricultural sector based on the volume of lending, effectiveness of lending and impacts. To date, no activities have been reported under this pillar and detailed information about the operational status of the pillar is not available.

²² GAIP is a pool of 19 Ghanaian insurance companies that has provided agricultural insurance in Ghana since 2011, including drought index insurance for maize, soya, sorghum and millet, as well as multi-peril crop insurance tailor-made to cover the various risks experienced by commercial farmers and plantations. GAIP is a public-private partnership set up with support from GIZ under the Innovative Insurance Products for the Adaptation to Climate Change (IIPACC) project funded by the German Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) and in collaboration with the Ghana Insurers Association, the National Insurance Commission, the MoFA and the European Commission.

Based on a phased roll-out approach, GIRSAL was launched in 2019 with a GHS 200M²³ (USD 37.5M) injection from the Bank of Ghana, in addition to an African Development Fund (ADF) concessional loan to the GoG of approximately UA 10M²⁴ (USD 14.5M²⁵ to be placed almost entirely under the Risk Sharing Facility (RSF). The GoG, through the MoFEP, is the borrower of the loan, with GIRSAL designated as the executing agency. The ADF loan proceeds are on-lent by the MoFEP to GIRSAL through a subsidiary loan agreement on undisclosed terms and conditions.

In addition, AGRA invested USD 350 000 into the Technical Assistance Facility (TAF) for two years from the launch to build capacity of the supply-side banks and facilitate the pipeline (demand-side), which would provide direct financing and inputs to small holder farmers. The initial investments attracted additional resources from the Netherlands embassy for TA.

GIRSAL is still in the nascent stage of its development and thus performance is not yet measurable. Preparatory work to date includes the establishment of a business plan, operational guidelines and investment strategy for the RSF; recruitment of personnel; and development of a value chain selection process, among other aspects. By end of 2020, GIRSAL had signed 14 Master Agreements with financial institutions, providing 42 credit guarantees worth USD 1 453 722 to leverage over USD 2 893 158 in the credit agricultural sector. Implementation is planned to accelerate in 2021. The financial institutions that signed Master Agreements with GIRSAL include: Consolidated Bank of Ghana, Universal Merchant Bank, Bank of Africa, Zenith Bank, Access Bank, Ghana Export and Import Bank, ADB Bank, Stanbic Bank, Ecobank, Fidelity Bank, Barclays (ABSA), NIB Bank, Injaro and GCB Bank.

²³ GHS = Ghanaian Cedi.

²⁴ UA = Unit of Account, the reporting currency of the African Development Bank.

²⁵ Memorandum to Parliament by Ministry of Finance for proposed ADF Loan from the AfDB. Terms of the facility from ADF include a five-year grace period, 30-year tenor; 1 percent p.a. interest; 0.5 percent p.a. commitment charge; 0.75 percent p.a. services charge and a 35 percent grant element. 99.93 percent of the facility is intended to capitalize the RSF, while the remaining 0.064 percent amounting to USD ~100 000 would be applied to component 2 - the incentives and enablers.

Programme for Rural Outreach of Financial Innovations and Technologies (PROFIT), Kenya

The Programme for Rural Outreach of Financial Innovations and Technologies (PROFIT) was a USD 83.2M²⁶ IFAD project operational from December 2010 to June 2019.

PROFIT interventions were structured in three components, and five sub-components as follows:

Component 1: Rural Finance Outreach and Innovation comprising of the following sub-components:

- *1.1 Credit Facility (CF)* – a **USD 6.8M Credit Facility** for wholesale refinancing of microfinance banks (MFBs)
- *1.2 Risk Sharing Facility (RSF)* – a **USD 6.9M Risk Sharing Facility (RSF)** in the form of a partial credit guarantee scheme

Component 2: Technical Assistance Facility (TAF) with two sub-components:

- *2.1 Business Support Services (BSS)* – a **USD 2.2M Technical Support Services (TSS)** for supply- and demand-size capacity building to target groups and implementing institutions
- *2.2 Financial Graduation* – a **USD 4.9M Financial Graduation** to test innovative cash transfer models to ultra-poor, rural households using a range of interventions, including technical trainings, small assets transfers, access to insurance, and the formation of community-based savings and loan schemes

Component 3: Programme Management

The RSF was originally conceived as a NIRSAL-inspired instrument called the Kenya Incentive-based Risk Sharing System for Agricultural Lending (KIRSAL) and was under consideration to be implemented as a stand-alone facility, although ultimately it was inserted as a sub-component of PROFIT to leverage the project's other interventions more synergistically.

An **Innovation Facility** – intended to support FSPs with the design, piloting and roll-out of innovative products and services – was also inserted as a third subcomponent of the RFOI at the design stage, although it was subsequently cancelled due to the initial delays in operationalization of the programme that it was meant to support.

²⁶ Total funding included.

Component 1: Rural Finance Outreach and Innovation (RFOI)

Sub-component 1.1: Risk Sharing Facility

The RSF was intended to enhance the risk appetite of Participating Financial Service Providers (PFSPs) by offering a partial, portfolio first-loss credit guarantee in exchange for a guarantee fee of 1 percent. Target demographics included smallholder producers; women and youth; and SMEs operating across select value chains, including input suppliers, traders, processors, transporters and wholesalers.

The RSF Facility was also originally intended to include at least four to six banks, but due to substantial delays in establishing the facility and many institutions not meeting eligibility criteria, the USD 6.9M RSF was ultimately placed with two PFSPs, namely: (1) USD 3.7M to Barclays, a commercial bank; and (2) USD 3.2M for the parastatal Agricultural Finance Corporation (AFC).

As of Q1 2019, the two PFSPs had disbursed a total of USD 32.9M to the target clientele, which compared with an established target of USD 41.4M (comprised of USD 23.4M for AFC and USD 9.2M for Barclays) represented approximately 79 percent achievement (further details below). Considering notable implementation delays; complexities with the timing and intensity of the TA; and absorption capacity-related issues, this represents an interesting achievement and notable additionality, even more so when leverage ratios are considered.

AFC was able to leverage RSF credit enhancement 6.4 times over, while Barclays were able to leverage it 2.9 times over. In the case of AFC, but also for Barclays, this compares favorably with the average ratios of PCGs suggested in existing literature which indicates developing country median values of 3.3x globally and 1.7x regionally in Africa, where PCGs tend to be the least efficient. Admittedly, this characterization is more directional, and caution must be exercised in drawing this parallel given that leverage ratios vary considerably depending on the country context, sectoral coverage of the PCG, and profiles and risk of targeted beneficiaries.

The total number of beneficiaries under the RSF was reported to be 153 194, representing a 131 percent achievement against the established target of 116 800 beneficiaries. To date, neither arrears nor claims have been reported by either PFSP, which reflects a positive improvement, especially for AFC whose initial PAR was very high compared to the industry average.

Sub-component 1.2: Credit Facility (CF)

The component was originally designed to provide short- and medium-term on-lending capital to newly licensed, deposit taking MFIs in order to address short-term liquidity constraints in addition to facilitating sustainable deposit mobilization strategy to address long term liquidity and portfolio expansion. As part of participation, MFBs were expected to: (1) develop or enhance their value chain financing product and outreach strategies; (2) target project-defined demographics and clientele; (3) test and roll out technology-based and innovative financial products (agricultural insurance, warehouse receipts, leasing products, etc.); and (4) avail the support from the Innovation Facility to develop innovative savings products and remittance services.

The CF subcomponent was allocated USD 6M and was ultimately implemented with four MFBs through a public tender, namely (1) Kenya Women Microfinance Bank (KWFT); (2) Rafiki Microfinance Bank; (3) Faulu Microfinance Bank; and (4) Small and Micro Enterprise Programme (SMEP), with the aim of expanding their rural and agricultural portfolios through affordable refinancing of their balance sheets. Subsidiary credit agreements were signed with the Ministry of Finance in 2012 and funds transferred in one tranche to the MFBs in 2013. The CF lending terms were highly concessional and included a ten-year tenor with a four-year grace period at an annual interest rate of 5 percent on declining balance. In Q1 of 2019, the total amount of disbursed loans by the MFBs by utilizing funds from the CF was reported at USD 6.9M against USD 5.1M in the previous quarter, implying a 35 percent growth and a 1.15x multiplier on the CF.

Component 2: Technical Assistance Facility (TAF)

Sub-component 2.1: Technical Support Services (TSS)

The TAF was designed to provide supply- and demand-side technical assistance and capacity building to participating institutions and was implemented between 2017–2018 – a substantial delay given that the project became operational in 2010. The TAF was ultimately delivered by eight TSPs through a total of 12 TA contracts.

Supply-side TSS

PROFIT expanded its supply-side TSS to include a wide range of PFSPs, in addition to the SACCOs. This was a success factor for those PFSPs where the TSS was delivered simultaneously with the financial support instruments. For the MFBs which received wholesale facilities from the CF in 2012, the TSS resulted in improvements in performance. However, to have more

durable and transformational effects, that TA should have been more appropriately timed to precede the financing instrument.

Both signatories to the RSF – AFC and Barclays – received TSS. AFC was assisted to improve management performance and to develop and implement innovative agriculture sector lending models, to reach smallholders through financing of: (1) anchor agribusinesses; (2) SACCOs; and (3) MFBs. Barclays received technical support to strengthen its agricultural sector domain expertise; build up their market intelligence and undertake more robust value chain analyses; develop relevant corporate strategies and associated business planning and process adjustments; and to adapt their due diligence process flow for agri-SMEs clients. In addition, they received support for the development of lead firm-based VCF financing facilities similar to AFC.

The four MFBs and 44 SACCOs received TSS in (1) developing new or revisiting existing agriculture sector outreach strategies (including in some cases, the establishment of dedicated agribusiness units); (2) building up market intelligence through sector and value chain analyses; (3) adaptation or development of new products; and (4) staff training and capacity building.

Demand-side TSS

A total of 283 agri-SMEs and producer organizations received a range of institutional capacity strengthening support, which led to improved business planning, operations, accounting and financial management, in addition to establishing linkages with FSPs. The project trained 24 942 members of producer organizations against a target of 33 000 – a 76 percent achievement rate.

Sub-component 2.2: Financial Graduation Programme (FG)

The FG component was implemented by two NGOs, BOMA and CARE, with technical support in design and implementation from BRAC, inspired by their extensive experience in this intervention and predication on the BRAC Ultra-poor Graduation Model. The interventions were delivered in sequenced form between March 2017 and March 2019 and were harmonized across pilot locations between the two institutions. They included participatory targeting; cash-based and in-kind asset transfers; technical training; a cash transfer to support consumption; healthcare-related support in the form of access to insurance; savings support through promotion of solidarity groups; mentoring and life skills training; and social integration.

Against the overall target of supporting 2 600 ultra-poor beneficiaries to improve their socioeconomic and financial status, by March 2019, BOMA had reached 95.4 percent of its target outreach and CARE had reached 98 percent of its target outreach. The socioeconomic impact of the Financial Graduation methodology was considerable, as revealed by project documentation – average monthly income of participants in BOMA's coverage increased approximately 77 percent, from KES 4 500²⁷ (USD 44) at baseline to KES 8 000

²⁷ KES = Kenyan Shilling.

(USD 79) at midline, and approximately 44 percent in CARE's coverage area, from KES 3 500 (USD 34) to KES 5 000 (USD 49). In both counties, the average amount of savings increased 971 percent from KES 700 (USD 7) at baseline reaching to above KES 7 500 (USD 74) by midway through the intervention.

The Livelihoods and Food Security Programme (LFSP), Zimbabwe

The Livelihoods and Food Security Programme (LFSP) is a six-year, USD 67.7M integrated rural development programme funded by the UK through the Department for International Development (DFID), and is currently in its final year of programming. The programme has three main components:

1. Agricultural Productivity and Nutrition (APN);
2. Market Development (MD); and
3. Production Safety Nets (PSN).

FAO is leading the implementation of the largest component (APN) with a budget of USD 48M which comprises several subcomponents including rural finance; extension and nutrition; market development; policy support; biofortification; monitoring and evaluation; and accountability and learning, with gender mainstreaming across all components.

The LFSP – APN component, signed in December 2013, is implemented by:

- Three NGO consortia led by Practical Action, Welthungerhilfe and World Vision International.
- Two strategic technical partners: Agricultural Policy Research and Outreach Institute (IAPRI) for policy influence and HarvestPlus for biofortification.
- Three commercial banks.
- One wholesale facility: the Zimbabwe Microfinance Fund (ZMF).
- Five Microfinance Institutions (MFIs).
- The USAID-managed Development Credit Authority (DCA) Facility.

The aim of the rural finance sub-component is to enhance access to a wider range of demand-driven financial services by the target LFSP agricultural producers and value chain players. LFSP adopted a two-pronged approach to achieve this: on the one hand, the component mobilizes resources to enable smallholder farmers to invest in farm enterprise diversification, productivity-enhancing technologies, and non-farm economic activities and livelihood strategies contributing to food security. This is achieved through enhancing the

capacity of communal farmers to save through informal community-based microfinance institutions called Internal Savings and Loan Groups (ISALs). On the other hand, the component established three rural finance instruments to support formal financial institutions to enhance their capacity to serve the targeted rural communities and to enhance risk-management. These include a:

- 1. Risk Sharing Facility (RSF) for banks**
- 2. Technical Assistance Facility (TAF) for the FSPs (Banks and MFIs)**
- 3. Refinance Facility for MFIs**

Risk Sharing Facility (RSF) for banks

The USD 18.6M guarantee facility was established under the Development Credit Authority (DCA) of the US government in 2015 and two participating banks (Steward Bank and CABS) were accredited in early 2016²⁸. The programme invested USD 1.5M into the guarantee scheme to buy credit insurance of about USD 10M for the LFSP districts. Of this USD 10M, CABS were allocated a USD 5M utilization limit and Steward Bank were initially allocated USD 2M, which was subsequently increased to USD 4M after positive performance under the facility.

To qualify for the PCG, loans were required to target borrowers including i) communal farmers and ii) agricultural value chain actors (such as input suppliers, traders, transporters and processors). Portfolios or batches of applications that fulfil the following conditions will be eligible for 50 percent guarantee cover:

- At least 50 percent of the loan volume should be of loan amounts below USD 5 000 and to communal farmers resident in selected districts (for agricultural and non-agricultural purposes); and
- At least 70 percent of the loan volume should be to finance agriculture-based activities undertaken by various actors in agricultural value chains in the selected districts.

The PCG experienced mixed performance. At the end of 2019, the utilization level of the facility stood at just 58.3 percent, of which Steward Bank was the predominant user, with CABS not issuing any new credit under the facility during 2018 and 2019, despite its allocation. This utilization level requires contextualization in the unstable macro-economic environment in which notable inflationary pressures and currency instability was experienced.

²⁸ A third bank that expressed interest – CBZ – was deemed ineligible under the DCA due to the government shareholding in this bank.

Refinance facility

In 2015, LFSP partnered with the Zimbabwe Microfinance Fund (ZMF) – a wholesale facility that provides capital to FSPs (MFIs, banks, SACCOs) for on-lending to MSMEs – to enable MFIs to access appropriately structured financing to expand their rural lending portfolio in LFSP target districts. The original capital injection was for USD 3M, later increased to USD 4.6M under various amendments. This was in response to the substantial liquidity constraints faced by many MFIs, precipitated by a protracted period of economic meltdown, hyperinflation and an unstable currency regime. ZMF was entrusted with resources to create a sustainable and financially feasible credit portfolio, composed of appropriately structured loans provided to target MFIs who were already partnered and whose outreach strategies had been selected and qualified under the LFSP Technical Assistance Facility (TAF).

Technical assistance facility

The facility was implemented through two phases: (1) a pre-implementation phase in which innovative market research and rural outreach strategies were developed; and (2) an implementation phase where FSPs received technical support to execute those strategies. The facility and the rural outreach strategies included new product development and piloting; development of alternative and low-cost delivery mechanisms; and enhanced communication and client education strategies. The programme used a combination of institutional service providers and individual consultants contracted to provide TA to eight FSPs and one Wholesale Fund on a cost-sharing basis. In addition, it provided support for the formation of Internal Savings and Loans (ISALs) schemes.

The Agricultural Financing Incentive Mechanism Support Project (ProMIFA), Togo

The Government of Togo (GoT) introduced a new five-year National Development Plan (PND 2018–2022) as the roadmap for the structural transformation of the economy through robust, sustainable, resilient and inclusive growth leading to social progress and well-being. Development of its agriculture sector is viewed as playing a key role. GoT adopted specific sector policies and strategies to fight rural poverty, based on increases in productivity through the organization of farmers to facilitate their access to a range of services (inputs, finance, infrastructure, energy, etc.) and the structuring of the agricultural economy around value chains. The success of these strategies depends in a large part on access to financing and the existence of financial products tailored or adapted to the needs of smallholder farmers and SMEs in the agro-pastoral value chains.

To enable the Togolese agricultural sector to make a greater contribution to inclusive economic growth, GoT then launched an innovative initiative similar to, and based on the experience of, Nigeria's NIRSAL. Togo's Agricultural Financing Incentive Mechanism based on risk sharing (MIFA)²⁹ was set up to help remedy the fragmentation of agricultural value chains, boost agribusinesses and mitigate the risks associated with agriculture financing. The multi-donor-funded MIFA was initially created as a public entity with an economic and social scope under the joint authority of the Ministries in charge of Agriculture and Finance, a Managing Director and a Board of Directors with representatives, among others, of producer organizations, the private sector, and technical and financial partners.

Within this context, GoT solicited the first³⁰ co-financing partnership with IFAD in support of MIFA. Hence, the six-year (2019–2024) USD 35.07M Agricultural Financing Incentive Mechanism Support Project (ProMIFA) was designed and approved by IFAD's Executive Board (EB) in December 2018 to contribute to the strengthening of MIFA to develop and implement solutions that will: (1) promote better organization of value chains; (2) provide support to value chain stakeholders to improve the quantity and quality of their goods and services to respond to a growing and dynamic market; (3) ensure that the risks associated with agricultural financing are shared; and (4) offer customized financing tailored to the needs of the various value chain stakeholders (smallholder farmers, producer organizations, cooperatives, agribusiness, SMEs, etc.) with a focus on women and youth.

Intervention area and target groups

As ProMIFA is only three months³¹ into the implementation stage, there is not yet much to report on in terms of experiences and results³². ProMIFA has national coverage with interventions that initially focused on a limited number of agricultural value chains, namely rice, vegetables, poultry and maize, while remaining open to others such as sesame and cassava. Maize production (the main input in poultry feed) was envisioned to support the poultry value chain. ProMIFA was designed to reach some 50 000 households representing 300 000 direct beneficiaries from impoverished groups, rural family farms, professional organizations (cooperatives, unions, federations) and agricultural microenterprises. The targeting and gender strategies were highly inclusive and age- and gender-sensitive to ensure that young people (male and female) accounted for at least 40 percent of the beneficiaries, and adult women for at least 30 percent.

²⁹ *Mécanisme Incitatif de Financement Agricole Fondé sur le Partage de Risques.*

³⁰ A second co-financing partnership was signed in March 2020 with GIZCALIFA Fund. Details are yet to be disclosed in the public domain.

³¹ ProMIFA took 15 months after the EB approval to kick-start the implementation of its technical activities with a start-up workshop in March 2020.

³² The design of a support project to the NIRSAL-inspired MIFA is worth highlighting in this study.

The overall goal, development objective and expected outcomes

The overall goal of ProMIFA is to support the implementation of MIFA to contribute to poverty reduction, sustainable and inclusive economic growth, and the creation of decent jobs in rural areas. Its development objective is to offer stakeholders in successfully organized agropastoral value chains sustainable access to markets and customized financial and non-financial services. Three outcomes are expected: (1) the productivity and quality of products and services of small producers, their organizations and other players along the various segments of the supported value chains are improved and their access to markets strengthened; (2) access of small producers, their organizations and other players along the various segments of the supported value chains to customized and inclusive financial services is enhanced; (3) the performance of MIFA is strengthened and effectively contributes to the implementation of the national agricultural policies and of Togo's National Development Plan (PND 2018–2022).

ProMIFA components

The objectives of ProMIFA will be accomplished through the implementation of the following three components:

Component I provides technical support for the development of agro-pastoral value chains through: (1) in-depth analysis of the selected value chains and identification of the various players along the various segments; (2) targeted organizational technical and technological support; (3) capacity building in financial education and business development services (BDS); (4) strengthening partnerships along the value chain players; (5) support for the building of inter-trade organizations (inter-profession) bringing together the various segments of the value chains, and (6) support to the development of a quality approach.

Component II seeks to increase access to customized financial services for organized smallholder farmers and other stakeholders in agro-pastoral value chains³³. This component enhances access to customized rural financial services through: (1) technical assistance for the development of adapted financing and risk mitigation solutions together with new customized financial products, implemented in two phases: first the development of the required tools and procedures for the new mechanisms and a second phase to test the systems put in place; (2) support for the development of adapted financial products and services together with strengthening capacity of MFIs in agricultural financing; and (3) financing and risk mitigation arrangements including a cost-sharing Financing Facility for Agricultural Development (FFAD) and a risk mitigation mechanism.

³³ A financial sector analysis showed overall low levels of borrowing in Togo, with less than 2 percent of the lending portfolio going to smallholder agriculture.

Component III provides: (1) institutional support to MIFA to become fully operational and effective. In close collaboration with the transitional bureau of MIFA, ProMIFA provides for the necessary technical assistance, equipment, training, study tours, learning routes, M&E strengthening, surveys, capitalization/sharing workshops, etc., to accompany the evolution of MIFA into a public liability company and its strategic thinking for its effective positioning in the country policy landscape; and (2) ensure everyday running and fiduciary management of ProMIFA through a small unit initially established separately from MIFA's current operations, working closely with the transitional bureau. The unit will be responsible for overall coordination, management for results, M&E and knowledge transfer.

ProMIFA implementation approaches and principles

From a technical standpoint, ProMIFA uses the organizational setup of MIFA, employing an outsourcing approach. To implement its interventions, the project relies on service providers/operators specializing in rural finance and agricultural value chains. The project seeks to support the development and delivery of a support package to individual smallholder farmers, farmer organizations, cooperatives, micro-, small- and medium-sized agricultural enterprises and other value chain stakeholders to increase their access to financing for their activities and to the market. In addition to agricultural financing and value chain development, the project supports the operationalization of MIFA in order for MIFA to meet its objectives. Thus, the ProMIFA approach is demand-based and starts with helping stakeholders prepare and execute their business plans. Under the outsourcing approach, the implementation of ProMIFA activities relies mainly on outside services provided by competitively selected national, regional or international service providers.

ProMIFA is being executed in two phases according to a staggered implementation plan and with precise milestones: phase 1, lasting two years, to prepare for implementation, and a second phase of execution and consolidation of a duration of four years. The mid-term review will assess the progress made conditioning the transition from the first to the second phase, which will be triggered subject to the effective achievement of the following six performance indicators: (1) The four key studies of needs and markets are finalized; (2) At least two financial products pre-identified in the studies are ready to be implemented; (3) At least five financial institutions have signed a partnership agreement with the MIFA in order to finance the players in the selected sectors by a multiplier factor of at least 400 percent; (4) At least one co-financier has committed to joining the Government and IFAD in support of MIFA; (5) The MIFA structures are in place in accordance with Presidential Decree N° 2018-090 dated 25 April 2018 (establishing a public institution with an economic and social function): the nine members of the Board of Directors are appointed, the Chief Executive Officer is appointed and key personnel recruited and trained; (6) The financial management system is in place and the institutional and staffing capacities of MIFA are acceptable to IFAD.

ProMIFA's organizational and management framework

ProMIFA is implemented by a Project Coordination and Management Unit (PCMU) based at MIFA and reporting to the MIFA Board of Directors. The Board of Directors is composed of the Ministry of the Economy and Finance and the Ministry of Agriculture, Livestock and Fisheries, as well as representatives of the Agricultural Chambers, of the professional associations of banks and financial institutions, insurance companies, private sector organizations, and technical and financial partners. At the administrative and operational level, the MIFA Board of Directors will be responsible for the delegated management of ProMIFA. The PCMU will be administratively and financially independent, while constantly interacting with the Bureau of MIFA. The mid-term review, to take place at the end of year 3, will assess MIFA's maturity and progress towards full operationalization and propose a strategy to phase transfer of the PCMU functions to MIFA.

Update on the implementation of some MIFA SA financial instruments and results achieved to date

As part of the implementation of component 2 of ProMIFA, it should be noted that MIFA SA has signed partnerships with 13 financial institutions, namely BTCL, SOGEMEF, Orabank, BOA, BAT, BSIC, BIA, SUNU Bank, Ecobank, FUCEC, African Lease TOGO, UTB and DECAWOWO.

Although the planned studies have not yet been carried out, the MIFA and its partner financial institutions (PFIs) have already set up five financial products including seasonal credits, leasing, factoring, lines of credit and collateralized drafts.

Thanks to term deposits (DAT), MIFA SA has mobilized CFA 13 312 815 535³⁴ in financing from its PFIs and signed a market contract worth CFA 126 259 918 398 on behalf of farmers. This mobilized amount will be used to finance the projects of 134 244 actors in the agricultural production value chains, including 125 259 producers.

The economic impact of this funding has led to the creation of 4 314 direct jobs, 16 165 indirect jobs and 142 199 temporary jobs over the two years of MIFA implementation.

In addition, MIFA SA is in partnership with the Africa Guarantee Fund for the establishment of a guarantee mechanism called "Guarantee of financing for actors in the agricultural value chain". This partnership will allow the two parties to collaborate for the formalization and implementation of portfolio guarantees covering 50 percent of the amounts of the projects submitted by MIFA SA to PFIs.

³⁴ A financial sector analysis showed overall low levels of borrowing in Togo, with less than 2 percent of the lending portfolio going to smallholder agriculture.

This situation reflects the enthusiasm of the banking sector around the activities of MIFA SA and the hope it arouses for the various players in the Togolese agricultural sector. ProMIFA has a particular role to play in strengthening the capacities of partner FIs, and in developing tools and procedures for managing the financing mechanism and the risk hedging mechanism.

Moreover, in the implementation of the activities of component 1, the project helped to support the Ministry of Agriculture initiative to train young people and women in 13 prefectures (Lomé, Notsé, Agou, Atakpamé, Sokodé, Kara, Bassar, Niamtougou, Mango, Dapaong, Vogan, Sotouboua and Agoè) to inspire them to become entrepreneurs, to become new entrepreneurs in a new product processing industry premises or to develop and create their own enterprise with a view to professional and quality production. This training series was organized in an innovative concept of “Camps of the future”.

After this first wave of training, a second workshop was organized to finalize all the business plans collated during the camps. A total of 19 152 people were trained, including 8 996 women and 8 227 young people. A total of 592 cooperatives have been formed, and 634 business plans have been developed. These business plans will be transferred to MIFA for review, approval and submission for financing through the 13 PFIs. ProMIFA will monitor these entrepreneurs and their results from the implementation of business plans capitalized as part of ProMIFA results.

Table 1: Situation of financing and jobs created within the framework of MIFA SA interventions

Year	Number of beneficiaries	Number of producers reached	Number of direct jobs created	Number of indirect jobs created	Number of temporary jobs created	Total amount of signed contracts	Total amount of signed contracts	Financial institutions (banks and MFIs) signing the contracts
2018	1 106	10 958	1 118	2 800	13 290	1 471 772 500	1 024 194 005	BTCl, SOGEMEF, Orabank, BOA (4)
2019	76 323	70 064	1 991	8 200	84 567	20 699 089 376	8 108 546 180	BAT, BSIC, BIA, SUNU Bank, Ecobank, FUCEC, African Lease TOGO (7)
2020	56 815	44 568	1 205	5 165	44 342	104 089 056 522	4 180 075 350	UTB, DECAWOWO (2)
Total	134 244	125 590	4 314	16 165	142 199	126 259 918 398	13 312 815 535	13



In recognition of the well-understood challenges with promoting rural and agricultural finance, the need for a more systemic approach to promoting financial inclusion is gaining traction in the thinking and programming approaches of the community of practice. Within this system-level view, the concept of de-risking the overall operating environment of agricultural value chains is recognized as a critically important factor. Accordingly, numerous project-based and stand-alone “de-risking” arrangements have recently been launched or are at various stages of design throughout sub-Saharan Africa. The generation of evidence of performance, impact and cost effectiveness is critical to validating the relevance of these types of schemes, as well as to informing design improvement and implementation, for the sake of scalability and replicability. This study takes stock of these experiences in an effort to contribute to building up the evidence base to help inform the future strategy and design of similar programmatic interventions.

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