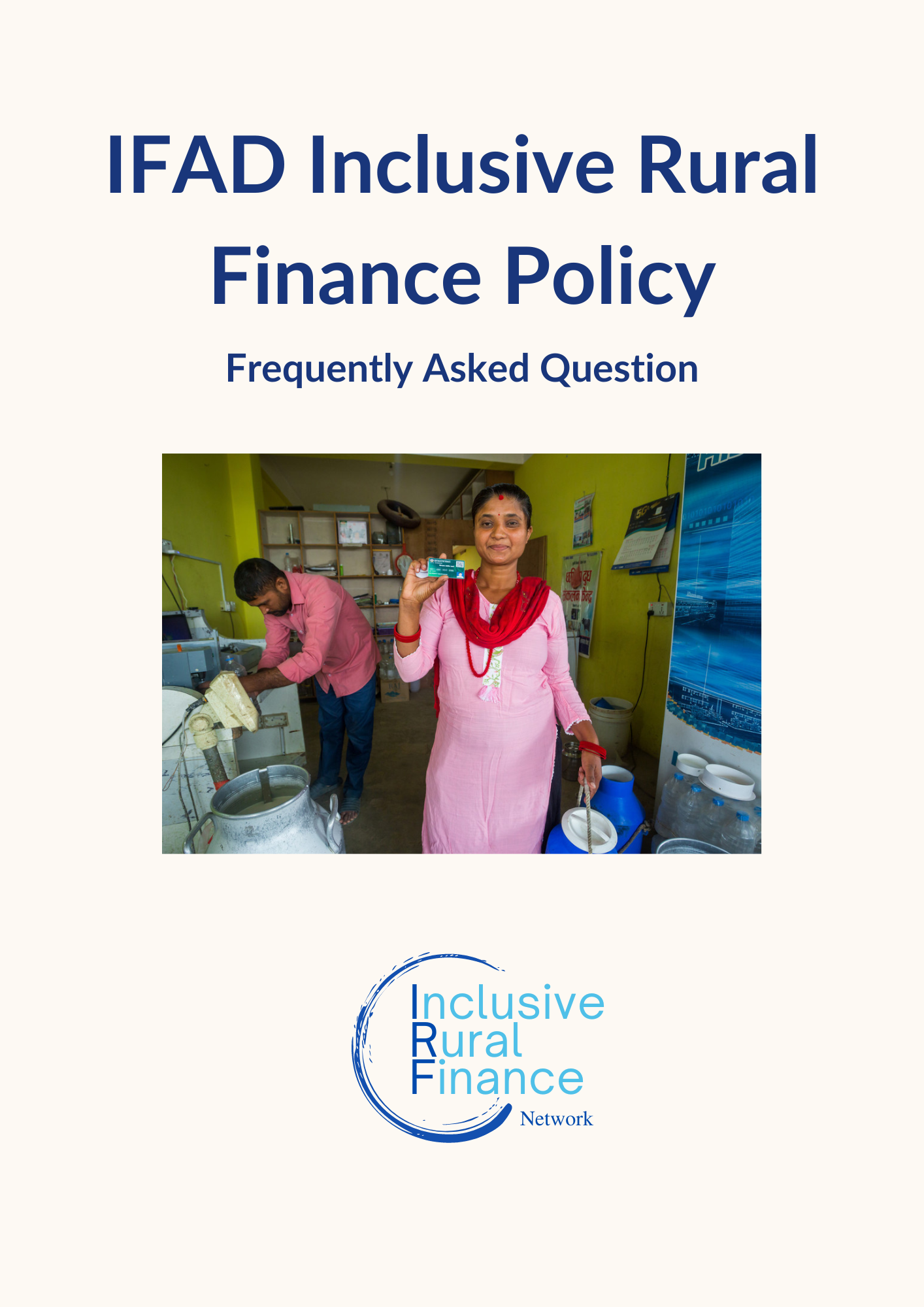
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**Acronyms**

CBFOs Community based financial organisations

FAQ Frequently asked questions

Fintech Financial technology company

FOs Farmer organizations (includes associations, cooperatives etc.)

HTDN How to do note

ICT4D Information communication and technology for development

IFAD International Fund for Agricultural Development

IRFP Inclusive Rural Finance Policy (2021)

M&E Monitoring and evaluation

MSME Micro, small and medium sized enterprise

NSO Non-Sovereign Operation

PFI Partner financial institution

PMI Sustainable Markets and Institution division

RFP Rural Finance Policy (2009)

SDGs Sustainable Development Goals

TA Technical assistance

TOR Terms of reference

VC Value chain

**Inclusive Rural Finance Policy (IRFP)**

**Frequently Asked Questions**

This document presents answers to the most frequently asked questions of IFAD’s Inclusive Rural Finance Policy (IRFP) which was adopted by IFAD in September 2021. The goal of the FAQs is to provide straightforward answers to commonly asked questions related to the IRFP.

The IRFP FAQs is a live document. Questions will be added by the Inclusive Rural Finance desk team, and answers modified as the Inclusive Rural Finance desk team engages with internal and external stakeholders.

The questions below have been gathered by the Inclusive Rural Finance desk through interaction with stakeholders through design activities, implementation missions, knowledge forums, and other activities. Most questions come from IFAD staff, but some are from external stakeholders.

If you want to discuss the questions in greater detail, or if you want to ask a new question, please contact either Marc de Sousa Shields (m.desousashields@ifad.org) or Lorna Grace (l.grace@ifad.org).

# **1.** **What are the three main principles of the IRFP and what do they imply?**

· **Guiding Principle 1:** People-centric inclusive rural finance (IRF), i.e., taking the smallholder household financial needs and *actual* demand as a starting point for design (See point 2 below for implications).

· **Guiding Principle 2:** Impact-driven, catalytic market-building instruments (See question 3 below for implications).

· **Guiding principle 3:** Enabling environment to promote change at scale (See questions 4 and 12 below for implications).

# **2.** **What does people centric IRF imply?**

**People-centric means clearly understanding and focusing on the financial needs and interest of IFAD target beneficiaries. It means understanding smallholder household economics**, rather than just making assumptions about what smallholders need. It means designing programme interventions that meet the needs of the intended beneficiary groups and, therefore, leads to improved livelihoods, strengthened resilience and stability of the value chain enterprises/ stakeholders they depend on.

This also means acknowledging that **each beneficiary group has different needs, and that meeting these needs is the only path to creating sustainable financing solutions**. Thus, a people-centric approach, will necessarily reflect the diversity of beneficiary populations (market segment by beneficiary type), their unique demand for financial and non-financial products and services, and the necessity to protect their rights and data. Moreover, such an approach will embed the design of solutions in the country context. Specifically, the approach entails:

***Demand analysis and implementation:*** **Understanding the financial needs and economic context of beneficiaries is a starting point** for developing viable and sustainable financial services. This requires investing in gathering the evidence to define what the financial needs of beneficiaries are, and how they can be met.

***Supply analysis and implementation*. If beneficiary demands are sufficiently well understood, partner financial institution (PFI) services can be reasonably developed on a sustainable basis**. PFI profitability and capacity to serve the beneficiary market is paramount and assessing it requires an evidence-based understanding of PFI performance and the potential to serve demand in an accessible and affordable manner, including potential for outreach to beneficiary market.

# **3.** **What does catalytic effect imply in the IRF?**

**A catalytic change ignites or enhances the speed and impact of another actions.** In inclusive finance, IFAD paying for a client survey leading to refinements in the terms and guarantee requirements for a PFI credit product can catalyse a dramatic increase in demand by smallholders. Similarly, a reduction in financial service transaction costs through sector digitalization can stimulate the entrance of new financial institutions or expansion of existing institutions into the rural finance market. Financial incentives, such as matching grants linked to accessible and appropriate loan products, short-term rate reductions, or guarantee mechanisms, can also ignite demand.

*“Financial or non-financial catalytic effects can ignite demand for inclusive financial services or financial service provision reacting to client demand.”*

Catalytic effects can be non-financial. For example, providing financial literacy and awareness support to clients, provision of alternative credit history tools, and risk reducing TA for PFIs and or beneficiaries. Providing a small loan to a guarantee fund can help expand beneficiary financing activities. Creating a climate adaptation taxonomy and portfolio assessment can help attract private sector funding into PFIs willing to finance smallholder adaptation technology borrowing. Catalytic effects are intended to produce long-term sustainable results for both beneficiaries and PFIs.

# **4.** **The 2009 rural finance policy focused on micro, meso and macro levels. Are these still relevant?**

The micro (or retail finance), meso (or financial infrastructure), and macro (or regulatory and policy) levels analogy still apply to the development of inclusive finance. **The IRFP, however, collapses the meso and macro levels to the *Enabling Environment***, which encapsulates financial infrastructure, such as technology firms, credit bureaus, payment systems, etc., and relevant financial, telecommunication, and commercial sector policies, regulations, and sector development strategies. Note that **since IFAD has relatively limited resources for supporting changes in the Enabling Environment, programme activities should be opportunistic and highly targeted to support programmatic outcomes**.

*“The IRFP replaces meso and macro level with the Enabling Environment, and the policy emphasizes the importance of targeted interventions at these levels.”*

For example, design work for a sovereign loan and regional programme involving climate finance for Sudan contributed to the Central Bank of Sudan commissioning guidelines for inclusive green finance. IFAD provided extensive input to the first drafts and will support the guidelines as they develop. For more broad-based sector change, e.g., related to an update of a digital finance law, IFAD typically engages in efforts led by other institutions with more resources, often the World Bank. **The test question before engaging, is: Will the resources of time and money enhance country programme outcomes?**

# **5.** **Does the IRFP allow for the use of subsidies?**

The 2009 RFP included the principle of avoiding market distortions, and specifically recommended that interventions that support financial service suppliers “[d]o not subsidize interest rates at client level or support the establishment of interest rate caps or other mechanisms that distort markets.” ***The IRFP provides flexibility around interest rate subsidies and insists any subsidy must be defendable based on data-driven market analysis supporting long-term sustainable outcomes for the PFIs***.

This change is partially in response to the modest potential for any IFAD intervention to distort markets, and due to the highly subsidized loan schemes supported by other development programmes, which can make IFAD interventions uncompetitive.

*“IFAD can employ subsidies, matching grants, technical assistance on production and market access, value chain development, public and private infrastructure development, lines of credit (LOCs) and other interventions to develop sustainable climate IRF markets in developing Member States.”*

This interpretation affects not only loan products, but insurance, savings, leasing, money transfers, or any other financial tool IFAD programmes could use to help smallholders improve their livelihoods or resilience. Such support can also combine elements such as matching grants to smallholders to lower investment costs of production enhancements, and thereby facilitate partial low cost PFI financing. Technical support to beneficiaries and PFIs themselves can have the same effect.

***While the IRFP has more flexible guidance over subsidies than the 2009 RFP, the use of subsidized rates is still discouraged****.* As per above, subsidies can be employed when there is defendable evidence showing lower-than-market rates are required for market development purposes and/ or will result in sustainable outcomes. When a line of credit is provided to beneficiaries to lower the cost of a climate adaptation technology such as drip irrigation system, for example, a subsidized interest rate can help spur demand, particularly if used in conjunction with a matching grant and TA for system use. Once the use by beneficiaries has shown the profitability and risks associated with the system, financial institutions can determine future market rates for lending on a non-subsidized basis.

***Direct or indirect subsidies are permitted to beneficiaries, PFIs or other financial sector actors, including non-bank institutions, such as community based financial institutions (CBFOs), NGOs, and value chain enterprises.*** Designs must contemplate sustainable access to affordable financial services over time and at scale. Ideally, expansion of existing or the introduction of new financial services should be commercially sustainable and profitable (e.g., net profits achieved within an acceptable timeframe given capital expenses and considering opportunity costs of capital).

While the focus is on the sustainability of products, services, financial institutions and market development more generally, ***the creation of sustainable financial service relationships can also be considered a sustainable outcome.*** For example, subsidizing an unsustainable loan product delivered by a PFI can be justified if it leads to the beneficiaries’ exposure to and use of other financial services, such as different loan products, insurance, savings, remittances etc.

***To test whether a subsidy meets the IRFP standard, a projection of programme outcomes should be made assuming no financial subsidy support was available.*** Any subsidized approach also requires a clearly articulated exit strategy that provides defendable evidence of future sustainability for beneficiaries and participating partner financial institutions.

# **6.** **The IRFP asserts IFAD’s comparative advantage supporting Community-Based Financial Organizations (CBFOs). Does this mean we should focus on CBFOs over other alternatives?**

Whenever possible, IFAD should seek to leverage and expand existing systems and approaches. Although lacking in product diversity, **CBFOs are proven partners that can deliver financial inclusion to the most underserviced target population, and particularly women, youth, and indigenous peoples.**

Working with CBFOs to reach the poorest bankable clients, and particularly women and youth, can be highly efficient. However, while expanding partnerships with CBFOs is encouraged in the IRFP, IFAD should not shy from alternatives to support and complement CBFOs. As digitization in the inclusive financial sector increases, **linking CBFOs to the formal financial system is an important means of leveraging a key IFAD financial sector comparative advantage**.

*“…digitally linking CBFOs to the formal financial system is an important means of leveraging a key IFAD financial sector comparative advantage.”*

# **7.** **What does this policy imply for design and implementation support?**

Designs must provide evidence-based proof that financial sector interventions are necessary, plausibly sustainable, and responsive to beneficiary needs, are legally permitted, and that they can be supplied by financial service providers operating with good management and governance standards.

The IRFP requires design to adequately understand the smallholders’ needs as a first principle (i.e., Guiding Principle 1: People-centric IRF, see Question 1)***. Therefore, IRF design will reflect the diversity of beneficiary populations,*** their unique demand for financial and non-financial products and services, and the necessity to protect their rights and data. Moreover, design will be embedded in the country contexts and constraints. IFAD also recognizes the diversity of rural economic activities, including farming, non-farm labour, pastoralism, fishing, and other activities.

*“Design must meet beneficiary needs, demonstrate supplier capacity, meet legal requirements, and present plausible sustainability.”*

Implementing the IRFP requires greater efforts to: i) document and understand the needs of IRF target beneficiary groups; ii) develop targeting strategies that prioritize improved livelihoods and strengthened resilience; iii) engage proactively with PFIs and other stakeholders, including governments, to understand the constraints they face; and iv) assist these actors in designing and implementing IRF interventions that serve IFAD’s target group. As a result, IFAD will necessarily support a diversity of financial products and services that rural poor people need. A diversity of non-financial support services is also often required to address demand-side constraints, such as technical production and enterprise development assistance, matching grants or provision of alternative collateral.

*“IFAD will support the diversity of financial products and services that rural poor people need.”*

***Employing evidence and data supporting beneficiary demand is the first step*** towards ensuring long-term sustainability of any financial sector intervention. Data must also show that PFIs are interested and have the capacity to provide the required products or services. Primary data is ideal, but secondary data is acceptable if necessary for budget reasons. Critically, however, ***a PFI’s expressed intention or interest to participate in a programme at design (or otherwise) cannot be substituted for analysis of its management, governance, and operating capacities to provide the anticipated programme products and services and to achieve market outreach goals.***

***Due to modest design budgets, teams may be challenged to provide extensive demand side analysis that leads to the identification or development of concrete financing instruments***. Low-cost methods for data collection include working with focus groups, non-representative or indicative stakeholder surveys, digital surveys, and using secondary data. Design can include a start-up phase in which the programme collects demand data to feed into PFI market development plans. Challenge funds are another approach to commit funds to the preparation of demand-driven products and market development strategies of PFIs. These funds have been used to support conventional market developments, as well as to develop, pilot and scale innovative initiatives.

**During implementation, monitoring and evaluation confirming targeted demand side or beneficiary outreach and financial services use are key** to ensuring programmes aligns with the IRFP (assuming design is aligned in the first place). M&E functions collecting and reporting on PFI outreach, products/ service appropriateness, and financial performance is similarly critical to maintaining financial supply side alignment with the IRFP. Monthly performance evaluation is key to identifying financial service provider financial and or outreach challenges before they become critical. Well defined eligibility criteria are also important.

# **8.** **What is the IRFP’s specific guidance for value chain development?**

**Inclusive rural finance and inclusive value chain development interventions together can support a virtuous cycle of mutually supporting outcomes.** Inclusive rural finance activities must align with the IRFP generally, and, additionally, must often (depending on design) support targeted VC development outcomes. This means, finance activities might have additional targeting parameters beyond smallholder status (e.g., smallholders in specific commodity value chains, or market access points, etc.). Sustainable outcomes are still required over the long term. This goal can be made more challenging if substantial non-finance support is offered to beneficiaries, support which when no longer available may affect a beneficiary’s capacity/ ability to access finance.

A good example of VC and inclusive finance working together is an intervention to provide smallholders with loans for improving their production quality and quantity, which in turn increases the incentives of an aggregator to invest in increased storage capacity. The IRFP expresses explicit guidance to support MSME. (See Question 9 below on MSMEs) To use a similar example with a different outcome, the financing of an aggregator’s storage capacity can provide a platform for smallholder warehousing finance scheme.

*“Inclusive rural finance and inclusive value chain development interventions together can support a virtuous cycle of mutually supporting outcomes.”*

Providing working capital for Farmer Organizations or Cooperatives to expand bulk purchasing can drive down smallholders’ purchase costs and increase profitability is another example. Supporting a small enterprise in sourcing organic or regional production can increase the market price of smallholder production. Combining programme investments with IFAD non-sovereign or other private sector engagement activities is another approach to value chain finance opportunities. For example, an NSO financing the expansion of an export–oriented firm’s processing facility can lower smallholder production and financing risk through their participation in a hard currency value chain.

# **9.** **What guidance does the IRFP give on MSMEs?**

The IRFP’s desired outcome and guidance is for MSMEs to have access to useful and affordable IRF products and solutions to strengthen their resilience to climate change and other shocks. ***Financially solid and well-resourced MSMEs are critical to value chain development and related smallholder producers.*** More investments by MSMEs can also directly translate to increase on- and-off farm economic opportunities, and thereby increase market-based income and benefits.

MSME finance is, however, very different from lending to PFIs or smallholders in that it involves substantially different risk analysis and performance metrics. Whereas the cumulative experience at IFAD, and in the inclusive financial sector more generally, has produced a range of standard PFI performance metrics for micro loans, standardized MSME lending metrics are not generally employed in design. Application of PAI’s NSO screening tools, however, provide some guidance for originating and assessing loans to MSMEs.

# **10. What is the role of Farmer Organizations in rural finance?**

Farmer Organizations/Associations/non-financial Cooperatives (FOs) often provide critical input and market access services to members. ***FOs can take several important roles in the development of inclusive rural finance, including:*** i) providing financial literacy and awareness trainings; ii) aggregating member markets for PFI sales; iii) selling financial services or products on a commission basis (e.g., insurance); and iv) being financial service providers (e.g., input supply funding, revolving credit fund manager, liquidity provider for savings and loans groups, warehousing loans etc.). While FOs cannot intermediate savings and generally face substantial capacity limitations constraining them from providing financial services, they can be critically important promoters and aggregators. FOs are not to be confused with Financial Cooperatives that can be formal financial institutions with the legal right to intermediate funds or use member savings for financing member loans.

# **11. What is the IRFP’s guidance on poverty graduation?**

**Poverty graduation integrates increasingly more formal financial interactions with target beneficiaries as they move towards financial independence.** IFAD aims to establish linkages among financial services provision and nonfinancial support to achieve impact at scale, particularly for very low-income and other vulnerable populations – for whom financial services can be bundled with asset transfers, social safety nets, and other graduation programming. As a beneficiary graduates through each step towards economic independence, different and increasingly formal inclusive rural finance products and PFIs can be employed. Graduation often involves formation of CBFOs within the target beneficiary markets, followed by linking of CBFOs to formal financial institutions, to individual dealing with financial institutions directly. Graduation programmes have shown to be particularly effective for the very poor, refugees, and for women and youth. Graduation from one form of financial service provision must be accompanied by a clear understanding of beneficiary needs as they diversify their livelihoods across food systems and beyond.

# **12. What is green finance?**

**A subset of climate finance, climate IRF refers to financing food system stakeholders** in order to enhance resource efficiency, environmental sustainability, climate-smart approaches and the quality and safety of food systems, including the “greening” of value chains enterprise where an investment has positive knock-on effects for smallholders.

The IRFP places emphasis on climate change adaptation and mitigation for rural poor people, to build their resilience against ongoing incremental change to shocks. More broadly, **the IRFP recognizes a range of other “green” production activities** including natural (e.g., less chemical uses), organic, permaculture, nature-based solutions agro ecology, forest, pastureland, waterway conservation, and bio conservation. Financing these activities can advance smallholder livelihood and resilience *while* supporting systemic change through *inter alia* addressing climate-resilient and climates sensitive value chain development, territorial-based soil and water conservation, and agroecological and other sustainable production approaches.

**The definition of what constitutes a “green” smallholder investment varies by context and institution.** Investments can include drip irrigation systems, soil conservation, drought resistance seeds, solar power units, purchase of natural fertilizers and insecticides. Indeed, a taxonomy of climate adaptation and mitigation investments in Sudan produced a list of over 150 financeable methods and technologies. Green value chain investments can vary similarly ranging from solar powered refrigeration, milk collection tanks, improved warehousing reducing food waste, to opening market access for organic and natural food distribution etc.

**Green finance products and services are numerous.** The IRFP notes and supports green IRF interventions that go beyond the simple provision of credit particularly insurance and savings. Smallholder products and services can include savings plans, remittance investment programmes, loans for climate adaptation and mitigation, warehousing loans, and risk products such index-based and other types of insurance, etc. MSME green financial services supporting the greening of value chain finance can include various type of debt instruments, quasi and equity investments, trade finance, etc.

**Non-financial support through technical assistance, as well as market and product development can also catalyse green finance**. Since most financeable climate adaptation strategies are relatively new, non-financial interventions IFAD employs include asset purchase subsidies, matching grants, production technical assistance, improved market access, value chain development, public and private infrastructure development. These activities improve a smallholder’s or MSME’s capacity to profit from investments. They also serve to reduce the risk of financed investments both to borrower and the financing institution.

# **13. To what extent can IRF integrate green finance (both for climate, environment, biodiversity etc.)? What are recurrent challenges and the emerging opportunities for developing sustainable green finance?**

The impacts of climate change fall disproportionately on smallholder farmers and other rural poor people. **Well-designed climate IRF interventions can help smallholders increase the resilience of their production and enterprises. Moreover, IRF can help smallholders adapt to and mitigate climate risk** through investments in climate-smart assets like drip irrigation, soil conservation, lower chemical-dependent (more “natural”) value chains, agro-ecology and other sustainable production methods.

Climate IRF interventions should go beyond the simple provision of credit to meet insurance and savings needs. Climate adaptation finance has proven to be challenging given the typical need for larger investments in assets and working, coupled with longer payback terms. These challenges persist even for investments with demonstrated profitability.

*“The IRF seeks to include green finance as priority of the policy’s implementation.”*

It is important to note that ***climate adaptation finance*** is subject to the same accessibility issues as non-climate finance. IFAD can *de-risk* loans with financial tools (e.g., insurance, guarantees and other alternative collaterals, etc.) and non-financial tools (e.g., matching grants, technical production assistance, improved market access etc.). ***Mitigation lending*** is, however, straight forward as renewable energy technologies, and other mitigation investments provide multiple value to households beyond production or enterprise use, and can produce financial savings, which can cover most if not all financing costs (e.g., solar cook stoves, pumps, electrical supply etc.). In these cases, vendor leasing/renting/rent–to-own, bank lending, etc. can be viable forms of finance. Finally, because renewable energy technology lending is usually based on a resalable asset and usually comes with long life spans, collateral requirements can be reduced (assuming movable collateral laws exist and are enforceable). Nature finance is an emerging financing category as well which entails both public-private finance mobilization and encourages private sector to disclose impacts on nature, considering the risks and dependencies on nature (can include innovative biodiversity credit, biodiversity impact bonds, as well as specialty funds for water, forests etc.)

**Ultimately, both adaptation, mitigation and biodiversity financial services are relatively new market developments**. Therefore, IFAD is keen to encourage innovation by piloting new services and products such as climate credit risk apps, climate loan taxonomies, climate lending product and service development, blended climate and nature finance funds, etc.

# **14. What is the IRFP guidance for operating in a context of high fragility?**

The IRFP provide no specific guidance for IRF in highly fragile contexts. This is because following the general principles and related guidance of the policy, particularly related to understanding demand, apply in all contexts. The IRFP does not that while there is increasing knowledge of a range of context specific considerations for IRF including fragile states, each has its distinct rural populations and financial sector challenges and opportunities. Greater caution must be exercised in the design of inclusive rural finance in fragile situations, given that economic and financial sector can suffer periodic shocks and or lack capacity in general. Often graduation approaches (see question 11) and CBFO support are employed in fragile situations. Enabling environment engagements may be important if a fragile context is stabilizing (e.g., recovering from crisis, conflicts, etc.).

# **15. What are blending finance tools and how are they linked to IRF at IFAD?**

Blended finance refers to the strategic use of development finance to mobilize additional financing for sustainable development. It can come from private investors as well as other investors such as public development banks. It relies on structured financial instruments that combine lower-than market return expectations and higher risk tolerance capital to facilitate investments with social and environmental impact that might not otherwise be financeable. `Blended capital instruments can be offered at the international (green bond issues) national (wholesale capital funds for financing inclusive financial institutions), financial institutional level (structured refinancing offering investors higher risk positions e.g., subordinated debt, and or lower than market rates of return)

For the purposes of IRF at IFAD, blended capital instruments are intended to catalyse private and public sector investments in IRF targeting smallholder beneficiaries. Effective implementation of blended finance instruments requires a nuanced understanding of stakeholder incentives (both beneficiary demand and PFI needs) and market dynamics (competition and alternative investment opportunities). Blended IRF instruments should be used in a targeted manner to facilitate positive outcomes in private sector value chains, infrastructure and productivity interventions and to ensure that benefits accrue to the underserved target groups.

# **16. How will the IRFP guide central banks on macroeconomic policy (monetary and exchange rate) instruments to influence the costs of lending and borrowing targeting the rural sector?**

**The IRFP does not provide specific guidance on how to influence macroeconomic policy but does recognize that sound enabling, and policy environments are a prerequisite for expanding IRF.** When consistent with IRF interventions’ objectives and market maturity, IFAD will provide support to strengthen enabling environments for IRF, including market-building macroeconomic, fiscal and other policies, as well as financial market infrastructure activities.

*“Sound macroeconomic policy can contribute to effective IRF interventions, and IFAD should use its influence to foster good practice approaches to support stable macroeconomic environments.”*

Making the most of its limited resources, IFAD should target enabling environment interventions to effectively serve country programme objectives. Sound macroeconomic policy can contribute to effective IRF interventions, and IFAD can use its influence to foster good practice approaches to encouraging stable macroeconomic environments. Exemplary activities are supporting national, regional and international knowledge generation and dissemination or working with partners and other financial stakeholders on financial sector committees. Advocating for good practices in financial sector development more generally is also encouraged within the scope of IFAD’s resources and capacity.

# **17. What kind of enabling environment does the IRFP encourage to pursue through country programs?**

As part of designs involving IRF, an assessment of the enabling environment is a prerequisite to understanding the demand and supply of inclusive rural finance. Both the regulatory environment, as well as the nature of the financial sector infrastructure (e.g., digital finance infrastructure, credit bureaus, payment systems etc.) must be assessed. **Enabling environment** **bottlenecks that constrain IRF need to be identified during COSOP development and reaffirmed in detail during design.** Given IFAD’s limited capacity to undertake sector-wide enabling interventions, designs should target modest and focused change supporting specific programmatic outcomes. Focusing on a single digital regulatory change or supporting the roll-out of agency banking in rural areas are examples.

# **18. Does the IRFP intend to guide governments and central banks to enact policy and institutional change to encourage the development of inclusive digital finance in rural areas?**

**IFAD takes a broad, demand-driven and incremental approach to IRF innovation that includes the growth of digital financial services.** Given IFAD’s position as a leading international financial institution working in complex rural settings, the emphasis on innovation that incrementally reduces risk and transaction costs should remain central to its work on IRF.

Increasingly, IFAD is supporting Fintechs, i.e., entities that use digital technologies to provide financial and non-financial services at the retail level and or to other financial service providers in IFAD’s IRF target group. Their services can include payment infrastructure such as agency banking platforms, retail loans, transfer services, financial literacy, digital extension etc. Fintechs can be private, public, or non-governmental entities. Mobile network operators (MNOs) often provide fintechs with digital platforms and several offer financial services themselves.

*“IFAD will encourage digital enabling environments for targeted IRF intervention outcomes, inter alia through the use of regulatory sandboxes and the strengthening of monitoring and supervision capacity.”*

**IRF business models and solutions – particularly those that leverage IFAD’s comparative advantage in supporting CBFOs – will improve digital financial system suppliers’ effectiveness** and the integration of their product and services into the formal financial sector. (See questions 11 and 12 above re: enabling environment) IFAD will also leverage its value chain experience to expand IRF through a broader range of value chain financing activities. Employing non-financial digital advances is a part of this priority (e.g., block chain confirmed smallholder producer sales records to develop alternative credit history mechanisms).

IFAD will encourage digital enabling environments for targeted IRF intervention outcomes, inter alia using regulatory sandboxes and the strengthening monitoring and supervision capacity. IFAD will also seek to promote good practices for supporting digital public goods, including the adoption of [Principles for Digital Development](https://digitalprinciples.org/).[1] Targeted technical assistance and capacity-building incentives supporting IFAD programme outcomes could also be provided for governments and other stakeholders to support IRF expansion through digitization. To which SDGs is the IRF particularly contributing?

The IRF activities of IFAD contribute to a range of SDGs, but particularly SDG 1 (No poverty), SDG 2 (Zero hunger), and SDG 3 (Good Health and well-being). Depending on the intervention design, IRF can also contribute significantly to SDG 5 (Gender equality), SDG 7 (Affordable and clean energy), SDG 8 (Decent work and economic growth), SDG 10 (Reduced inequalities), and SDG 13 (Climate action).

# **19. What are the differences between this policy and the one from 2009?**

**The IRFP 2021 includes five significant changes compared to the 2009 RFP.**

***First, it puts greater emphasis on client demand*** and understanding and serving their financial needs. This is a necessary condition for determining what the financial sector can sustainably provide in response to beneficiary needs.

***Second, it recognizes that promoting IRF requires working with a wide range of distribution channels*** and building stronger partnerships with conventional and emerging actors from the public and private sector, including fintech, impact investors and public development banks.

***Third, the IRFP provides greater flexibility regarding the use of subsidies,*** recognizing the need to use smart and focused subsidies to foster the sustainable development of the IRF market (see question 6 for details).

***Fourth, the IRFP places greater emphasis on*** ***climate and green finance*** to promote climate change adaptation and mitigation for rural poor people, and to improve their resilience to shocks. The IRFP raises the profile and acknowledges the need for more value chain finance, particularly through financing of MSMEs, FOs and other value chain stakeholders. Finally, the policy stipulates enabling environment interventions should support IFAD programmatic goals over broader inclusive rural finance/ inclusive finance sector development.

***Fifth, the IRFP advances the centrality of value chain finance as a critical tool*** for encouraging/ improving smallholder production investments and access to finance (see question 9 for details).

# **20. What kinds of support can I receive from PMI when designing and/or implementing projects to ensure alignment with the IRF policy?**

PMI has an IRF expert in each region. Other resource persons who can provide support include regionally and globally assigned Value Chain specialists, and the ICT4D desk. Support can be provided either directly as part of a mission, or indirectly in the form of ad-hoc technical advice. This applies equally to design, supervision, implementation, and completion and evaluation missions.

# **21. Are there specific IRFP compliance metrics?**

***The IRFP’s guidance cannot anticipate all context and situations and is intended to provide a common-sense approach to supporting sustainable access to financial services for programme beneficiaries.*** As a result, IRFP guidance may seem unclear. PMI is ready to help support all IRF initiatives with the promise of filling its overarching objectives. Although it is expected that projects generally conform to the IRFP terms in that they are demand-driven innovative initiatives whose anticipated outcomes are based as much as possible on data-driven evidence.

# **22. Are there resources and tools that could help me design projects that are compliant with the IRFP?**

IFAD has a planned series of *How to Do Notes* (HTDN) covering several themes relevant to the implementation of the IRFP (links to come). As per the IRFP Action Plan, a number of these documents are in the process of being updated to better reflect IRF developments since their publication. The IRFP Action Plan states that other themes will also be addressed, including HTDNs on climate finance, value chain finance and IRF market analysis. Examples for IRF consultant TORs, templates for demand surveys and focus group interviews and Excel Sheets for PFI analysis will also be prepared. Feel free to check the IRF Community of Practice Network for updates on upcoming resources and tools.

[1] Building on earlier efforts by the UNICEF Principles, the Greentree Principles, and UK Design Principles, The Digital Principles were first created in consultation with organizations such as The Bill and Melinda Gates Foundation, the Swedish International Development Agency (SIDA), the UN’s Children’s Fund (UNICEF), UN Development Program (UNDP), the World Bank, and the U.S. Agency for International Development (USAID), and the World Health Organization (WHO).