IFAD’s Role in Promoting Ethical Financing for Development

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Dr Jonathan N. Agwe (DM)
Senior Technical Specialist
Inclusive Rural Financial Services
1. The global demand/market for ethical finance for development

2. Brief background - why ethical finance for development?
   - Economic growth with poverty increase (e.g., SSA)
   - The value proposition for ethical finance for development

3. IFAD’s ethical finance for development: innovations in inclusive rural financial services (IRFSs)
   - IFAD’s portfolio for IRFSs
   - IFAD at the frontier of innovations in IRFSs
   - IFAD promoting the triple bottom line.

4. Some suggested readings.
About 2.7 billion people around the world have no access to formal financial services.

Over 90% of people in rural areas lack access to financial services mainly because FSPs perceive such poor as risky.
Why ethical development financing: economic growth is not translating into poverty reduction (e.g., in SSA)

Even with an average annual real growth rate of 5%

➢ the location of the region’s growth engines doesn’t align exactly with the location of its poor.

➢ the growth elasticity of poverty appears to be fairly low.

➢ there is need to investigate the key mechanisms through which growth translates into sustainable poverty reduction.

Aggregate trends miss:

➢ The disproportionate distribution of growth benefits at the bottom of the income scale

➢ The volatility of SSA economies – it’s the biggest historical challenge.
The value proposition for ethical development finance: invest economic growth in poverty reduction (e.g., SSA)

- FDIs in SSA back on the rise but risk of investment protectionism persists

- By 2030, 21 percent of Africa’s population will be poor having stood behind the 70 cent mark today

- Projected FDIs and poverty trends in SSA are rising simultaneously

- The simultaneous economic growth and poverty increase give an indication as to the complexity of solving Africa’s poverty challenge.
➢ Inclusive rural financial services:
Financial services used in rural areas by people of all income levels

➢ Microfinance:
Financial services for poor and low-income people

➢ Agricultural microfinance:
Financing agriculture-related activities, from production to the market
IFAD (and likeminded IFIs) in ethical development finance: focusing on rural smallholder financing

➢ 17% of IFAD’s portfolio
  ➢ USD $1,148 million is dedicated to rural finance

➢ Commitments by region:
  ➢ SSA - 44%; APR - 24%; NEN - 22%; LAC - 9%; Global 1%

➢ Interventions at the three levels of the financial sector:
  ➢ micro, meso, macro

➢ Strong focus on:
  ➢ investment finance and capacity building
IFAD is a global leader partnering with strategic stakeholders doing - PPPPs:

- Inclusive capitalism - *Searching for a purpose beyond profit*
- Impact financing

IFAD’s scope and approach has broadened significantly

- Combining financial and non-financial services (savings, loans, capacity development);
- Supporting financial graduation programs
- Promoting technology-enhanced delivery systems (digital finance);
- Integrating holistic smallholder risk management
IFAD in ethical development finance: supporting and scaling-up innovations in rural development financing

- supply and demand analysis and segmentation
- Product research and development
- Functional and financial literacy capacity development
- Technology-enhanced delivery systems
  - Mobile & Agent banking
  - Biometrics
  - e-Payment systems (remittances)

- **Decentralized community-based financial systems development**
- **Bundling-Plus**
  - Good ag. Practices (GAP)
  - Adapted credit
  - Holistic ag. risk management
  - Markets
  - Good prices
IFAD in ethical development finance: promoting the triple bottom line in financial services.

➢ The triple bottom line:
  ➢ a social commitment to benefiting clients (People);
  ➢ a financial commitment to operating profitably (Profit);
  ➢ a commitment to protecting the environmental (Planet)

➢ Focusing on:
  ➢ client protection
  ➢ social performance
  ➢ green microfinance

➢ IFAD in programs with triple bottom line
  ➢ SPTF,
  ➢ GAP,
  ➢ ESCAP,
  ➢ PARM,
  ➢ ASAP.
Suggested readings.

➢ IFAD policy in Rural Finance
   www.ifad.org/ruralfinance/policy/index.htm
➢ IFAD Decision Tools for Rural Finance
   http://www.ifad.org/ruralfinance/pub/index.htm
➢ Technical and How-To-Do Notes
   http://www.ifad.org/ruralfinance/pub/index.htm
➢ Trends in International Funding for Financial Inclusion - IFAD Focus
   http://public.tableausoftware.com/profile/edlirad#!/vizhome/IFAD/GeneralTrends
➢ UN-UNCTAD’s World Investment Report 2013
➢ World Bank’s Poverty and Equity Data Platform
   http://povertydata.worldbank.org/poverty/region/SSA
➢ Brookings’ Africa’s Challenge to End Extreme Poverty by 2030: Too Slow or Too Far Behind?
   http://www.brookings.edu/blogs/up-front/posts/2013/05/29-africa-challenge-end-extreme-poverty-2030-chandy
➢ ODI’s Growth, employment and poverty in Africa: tales of lions and cheetahs
➢ Inclusive capitalism: Searching for a purpose beyond profit
   http://www.theguardian.com/sustainable-business/finance

THANK YOU
GRAZ IE