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**AGRICULTURAL DEVELOPMENT BANKS:
A PARTICIPATORY PLANNING INSTRUMENT OF REFORM**

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AGRICULTURAL DEVELOPMENT BANKS: CLOSE THEM OR REFORM THEM

1. The emerging consensus on rural and microfinance

For decades, financial repression has undermined the evolution of a diversified financial sector with cost-effective services available to all segments of the population. The rural and urban poor in the developing world have been the most affected. During the '70s and '80s, a consensus gradually evolved on **the negative effects of financial repression:**

- Rural areas have been severely underbanked; an effective rural financial infrastructure is largely absent in many countries, particularly in marginal areas.
- Preferential credit programs have tended to curtail - rather than expand - outreach to small farmers and low-income people. These programs have undermined the health of agricultural development banks, cooperatives, and other wholesale credit channels.
- Interest rate regulation has prevented institutions from covering their costs, and had a severe, negative impact on access to financial services among the poor.
- Agricultural credit has all but dried up.
- A credit bias of government-owned development banks has led to a lack of savings deposit facilities, which are a first priority among many of the poor.
- Commercial banks collect savings in rural cities and siphon them off into urban areas.
- Informal financial institutions, which are formed by the local people through self-help, have been given little attention.
- In many countries, there is a lack of suitable legal forms for local financial institutions.
- This has prevented informal institutions from upgrading to registered local financial institutions. Thus, they remain small and isolated.
- In many countries, there is a lack of nonmutualist local financial institutions, such as equity-based rural banks.
- Rural and other microfinance institutions are not supervised, there are no prudential standards, and no enforcement mechanisms. This has had serious consequences, particularly for:
 - ◊ agricultural development banks, many of which are bankrupt;
 - ◊ cooperatives and credit unions, which were used as credit channels, resulting in widespread inefficiency, corruption and the breakdown of whole networks;
 - ◊ credit NGOs, which have been donor-driven, are barred from mobilizing deposits from the public and have shown a limited potential, except when transformed into a bank.

However, in all these fields, there have been notable **new positive developments**. Experience in a variety of countries has shown that with the right policies and strategies, stakeholder participation and donor coordination, the effectiveness of the rural financial system can be greatly improved. What, only ten years ago, would have considered miracles of market policy reform, agricultural development bank restructuring, reform of the sector of financial cooperatives, commercialization of credit NGOs, and linkages between formal and informal financial institutions, is now becoming more widespread. These are no longer mere exceptions, but pace-setting examples. However, depending on the political economy, wide differences still prevail between countries and regions.

Box 1: Recent developments and continued shortcomings in rural and microfinance		
<i>Topic</i>	<i>Recent developments in some countries</i>	<i>Continued shortcomings in the majority of countries</i>
1. Policy environment	Macroeconomic stability; deregulation of interest rates; greater ease in setting up banks, branches, and local MFIs with lower capital requirements	Inadequate policy & legal environment; Slow implementation of deregulation; Inadequate property rights and judicial procedures
2. Agricultural develop- ment banks (AgDBs)	Incipient reforms towards autonomy, operational viability and financial self- sufficiency, with or without privatization	Lack of viability and self-reliance Dependent on budgetary allocations Political interference Inability to meet demand for credit, deposit facilities and insurance
3. Microfinance institu- tions	New legal forms for commercially operating MFIs; increasing numbers of viable and self-sustaining MFIs	Lack of appropriate legal forms Excessive capital requirements;
4. Agricultural finance	Self-financing from profits and savings plus commercial microcredit replace preferential sources	Self-financing and commercial credit from MFIs insufficient in meeting the demand for financial services
5. Upgrading of nonfor- mal financial institutions	New legal framework provides opportunities for upgrading to formal levels and financial market integration	The potential of upgrading millions of informal financial institutions has remained almost untapped
6. NGOs	Innovative approaches to poverty lending in repressive environments; some successful conversions to formal intermediaries	NGOs are reluctant to mobilize their own resources and strive for self- sufficiency Donors support unviable NGOs
7. MFI regulation and supervision	Controversial discussion of the need for effective regulation and supervision of MFIs	First-tier authorities unable to supervise MFIs AgDBs escape supervision Lack of MFI self-regulation

These new developments have created the foundation for a **new consensus** on rural and microfinance, particularly during the 90s¹:

- The poor can save, invest, and repay their loans.
- In order to develop their agricultural activities and microenterprises, prepare for emergencies and provide for the future, they need access to a range of microfinance services, with priority given to savings deposit facilities in particular, credit and insurance.
- This requires a diversified financial infrastructure for competing institutions and diverse strategies adjusted to a given socio-economic context.
- Outreach can only be maximized by sustainable financial institutions, which cover all their costs, mobilize their own resources, protect their funds against erosion from inflation and non-repayment, and make a profit to finance their expansion.
- With sound practices, any type of financial institution can become sustainable and combine outreach and viability; but in most regions, institutions built on self-help and private ownership have better prospects.

¹ H.D. Seibel, Financial Systems Development and Microfinance. TZ-Verlag, Rossdorf, & GTZ, Eschborn, 1996 (ISBN 3-88085-515-3)

- Through technical and financial assistance, donors can greatly contribute to the development of an efficient rural and microfinance sector, but must be effectively guided by the goals of viability and self-reliance set by rural and microfinance institutions.
- The main function of the State is to provide a conducive policy and regulatory framework, including deregulated interest rates, appropriate legal forms for small financial institutions, and effective delegated supervision.

2. IFAD's evolving rural finance policy

On the basis of its experience and that of other donors, IFAD is now re-examining its support to rural finance and how it can contribute more effectively to rural development, poverty alleviation and empowerment of the poor. As an advocate of the rural poor, the Fund will help governments and the existing networks of rural financial institutions, in cooperation with other donors, to develop the system of rural finance, comprising sustainable financial institutions accessible by the poor as users or owner-users - among them women and the very poor. Highlights of IFAD's proposed rural finance strategy include:

- ⇒ **stakeholder participation** in project development and implementation, including donor coordination and target group participation through representatives of networks of user-based rural financial institutions;
- ⇒ support to different **strategies for developing the rural financial infrastructure**, among them:
 - * the promotion of savings- and equity-driven financial self-help institutions in marginal areas;
 - * upgrading nonformal financial institutions
 - * linkages between formal and nonformal financial institutions
 - * the expansion of networks of different types of local financial institutions;
 - * the establishment of apex organizations of rural MFI networks;
 - * agricultural development bank reform;
- ⇒ support for **institutional enhancement**, including technical assistance for capacity-building, and appropriate forms of financial assistance including equity participation, emphasizing sustainability and outreach to the poor;
- ⇒ participation in dialogue on the policy framework and promotion of prudential **regulation and delegated supervision** of rural financial institutions.

Whether this intervention starts from below - by strengthening microfinance institutions and their networks; or from above - with an appropriate policy and regulatory framework; or from both ends, will depend on the country context and the participating stakeholders. IFAD does not expect to undertake out all these support activities alone. **Strategic linkages** with other donors will be actively sought. This will also require donor coordination of their rural and microfinance policies.

3. Agricultural Development Banks: Ignore them, Close them, or Reform them?

Agricultural development banks (AgDBs) have been identified as being among the main culprits undermining rural finance and development. Historically, they did so on behalf of their government. Donors provided funding and technical assistance. For extended periods of time, neither their performance nor their impact were properly monitored. When donors finally did evaluate their support to AgDBs and other development finance institutions, many virtually eliminated their assistance. In recent years, there has been a tendency to ignore AgDBs in programs of rural and microfinance systems development.

On the negative side, AgDBs are weak or distressed in the large majority of countries. They fail to mobilize voluntary savings and domestic capital market resources. Mandated quota allocations from commercial banks set the wrong signals. Repayment rates are low; and transaction costs are high. Moreover, there has been a lack of supervision by regulatory agencies and donors. As a result, most AgDBs are unsustainable; and their outreach and growth restricted. Many are technically bankrupt; and in Africa and Latin America a number of them have actually been closed.

On the positive side, AgDBs have continued to be major providers of rural and microfinance services in most countries through their branch network. Where they have been closed, their market share has usually not been taken over by other institutions. There are now some examples of successful AgDB reform, particularly in Asia. These indicate that reform may well be feasible and that their financial performance and outreach can be greatly increased. None of the AgDBs have been completely reformed. It appears that the reform process is most promising in rural microfinance, where direct political interference in lending decisions is less rewarding.

There are thus **three responses** that have emerged in response to the failings of AgDBs:

- Ignoring AgDBs
- Closing AgDBs
- Reforming AgDBs

Ignoring AgDBs and excluding them largely from the development agenda is at present the most common donor strategy. A variant of this is the practice of some donors to continue providing credit lines to unviable AgDBs and ignoring their impact on the perpetuation of an untenable situation. In some regions, governments continue to pour vast amounts of funds into their state-owned development banks and into credit subsidies, ignoring the deleterious effect this has on institutional sustainability, outreach to the rural population and particularly the poor, and growth of the rural economy.

Closing AgDBs is a strategy particularly widespread in Latin America and West Africa. In many countries this has resulted in a situation where agricultural credit has all but dried up²; local financial institutions, frequently barred by obstructive legislation, have been slow in moving into the void; and large segments of the rural population are left without any, or with totally inadequate, financial services.

Reforming AgDBs in continued state ownership is a favored strategy applied in several Asian countries. Privatization as a strategy is more in favor in Latin America. A variant of this is a combination of state ownership with autonomous commercial management, eg, through a management contract with a private firm.

² This issue has been taken up by a joint FAO/GTZ initiative and published in: *Agriculture Finance Revisited*, No. 1: Agricultural Finance Revisited: Why? (June 1998); No. 2: Agricultural Finance: Getting the Policies Right (June 1998); No. 3: Better Practices in Agricultural Lending (Dec. 1999); No. 4: Sources of Funds for Agricultural Lending (Dec. 1999); No. 5: Prudential Regulation and Supervision for Agricultural Finance (forthcoming); No. 6: Enhancing Farmer's Financial Management Skills (forthcoming).

In the interest of government finances and good use of scarce donor funds, our first proposal is: **close them or reform them**, but don't continue to ignore them. If there is no scope for reform, for whatever reason, than AgDBs should be closed and make room for other developments in rural finance. However, with the reform technologies available and the need for a diversity of competing institutions with financial services to smallholders, microentrepreneurs and the rural poor, we strongly advocate AgDB reform.

4. Agricultural Development Bank Reform: a Proposal³

4.1 Some cases of reform

Three examples of the reform of the rural microfinance operations of AgDBs are given below, all from Asia. They differ widely in their approach, indicating that there is *no single best way* of reforming AgDBs:

- Bank Rakyat Indonesia (BRI) as a case of big-bang reform following the deregulation of interest rates in June 1983, when BRI was given the option of closing its network of rural units or standing on its own feet;
- Bank for Agriculture and Agricultural Cooperatives (BAAC) in Thailand, as a case of slow and gradual reform;
- Agricultural Development Bank of Nepal (ADBN), which is transforming the operations of its Small Farmer Development Project into autonomous member-owned local financial institutions.

³ *Basic reading:* C. Gonzalez-Vega & D.H. Graham, State-Owned Agricultural Development Banks: Lessons and Opportunities for Microfinance. Economics and Sociology Occasional Paper No. 2245, Rural Finance Program, Dept. of Agricultural Economics, The Ohio State University, Columbus, OH 43210-1099, June 1995; J. Yaron & S. Charitenenko, Making the Transition from State Agricultural Credit Institution to Rural Financial Intermediary: Role of the State and Reform Options. Washington DC, The World Bank, 1999.

Bank Rakyat Indonesia (BRI)⁴:

Within a policy framework of financial deregulation, the granting of management autonomy and carefully-crafted financial products have turned BRI into the largest and most successful provider of financial services to the poor and non-poor in the developing world. This has set new standards for AgDBs – they can be reformed! – and the microfinance industry: sustainability and massive outreach to the poor are compatible!

Box 2:

BRI, Indonesia: The agricultural development bank which revolutionized rural finance

The case of BRI, IFAD's partner in P4K, is evidence that, in a deregulated policy environment, the microbanking division of an ailing government-owned agricultural development bank can be transformed into a highly profitable, self-reliant financial intermediary. Since 1984, BRI has evolved into a major microfinance provider. Massive staff retraining in the new microbanking culture, with its new financial services and incentive schemes, was of crucial importance. Its 3,700 local units serve some 20 million savers and 2.5 million borrowers (December 1998). With non-targeted loans of from \$5 to \$5000 at rural market rates of interest and unrestricted deposit services, it reaches out to vast number of the poor and the non-poor. Making good use of a start-up liquidity injection, it has fully replaced external funds with local savings since 1989.

The ultimate test came with the Asian financial crisis. When the Indonesian banking system collapsed, BRI's Microbanking Division remained profitable. At the peak of the crisis, from June to August 1998, the local units attracted 1.29 million new savers during the three-month period. At the same time, demand for credit stagnated because of a lack of confidence in the future. By June 1999, the division's 12-month loss ratio had dropped to 1.5 percent, substantially below its already low long-term loss ratio (1984-99) of 2.1 percent. Savings balances in the units now exceed loans outstanding by \$ 1.8 billion, requiring new strategies to recycle them within the rural economy – perhaps BRI's greatest challenge.

Numerous lessons can be drawn from BRI's experience:

- (1) Financial sector policies work and create an environment conducive to financial innovations.
- (2) With attractive savings and credit products, appropriate staff incentives, and an effective system of internal regulation and supervision, rural microfinance can be profitable.
- (3) The poor can save, and rural institutions can mobilize their savings cost-effectively.
- (4) Without credit-biased incentives, the demand for savings deposit services exceeds the demand for credit by a wide margin.
- (5) Incentives for timely repayment work.
- (6) Transaction costs can be lowered, and outreach to the poor increased by catering for both the poor and the non-poor alike, with their demands for widely differing deposit and loan sizes.
- (7) Outreach to vast numbers of low-income people is compatible with financial self-sufficiency.
- (8) Agricultural development banks can be transformed into sustainable providers of microsavings and microcredit services.

⁴ H. D. Seibel, How an Agricultural Development Bank Revolutionized Rural Finance: The Case of Bank Rakyat Indonesia. IFAD Rural Finance Working Paper No. B5, Doc. #48881

Bank for Agriculture and Agricultural Co-operatives (BAAC), Thailand:

BAAC has gone through four major phases of reform: 1966-74, laying the foundation for individual lending with joint liability; 1975-87, expanding its lending operations through access to commercial bank and donor funds while greatly reducing loan channelling through cooperatives; 1988-96, striving for viability and self-reliance, under conditions of controlled interest rates, through savings mobilization, improved loan recovery and increased staff productivity; since 1997, adjusting to prudential regulation by the central bank and diversifying into non-agricultural lending. Gradual reform has resulted in the largest outreach achieved by any AgDB: 85% of farm households, combined with viability.

Box 3: BAAC, Thailand: The gradual reformer

BAAC's perennial reform has been guided by two, sometimes conflicting, objectives: outreach to all farm households as its political mandate; and financial viability in the bank's own interest. Important elements in the reform process have been:

- (1) Government respect for the bank's operational autonomy.
- (2) A corporate culture emphasizing cost-effectiveness, productivity and efficiency.
- (3) Decentralization and expansion of branch network operating as profit centers, reducing saver and borrower transaction costs and permitting cost-effective microsavings and microcredit transactions.
- (4) Individual lending through joint liability groups, as a financial technology attuned to Thai culture.
- (5) Substantial improvements in portfolio quality, which created depositor confidence.
- (6) A radical shift in the financial resource base to rural savings mobilization.

BAAC has demonstrated how gradual reform can be carried through under a repressive financial policy regime with ceilings on lending rates, directed credit, and mandated agricultural lending quotas. These restrictions enabled BAAC to expand, forced cost-efficiency upon its staff, and prepared the ground for deposit mobilization at a later stage. The reform agenda is still unfinished:

- (1) With the emergence of private depositors as major stakeholders, ownership of BAAC stock needs to be diversified, with adequate representation of the new shareholders on the Board of BAAC.
- (2) Lending rates need to be liberalized and re-aligned to reflect the true costs.
- (3) BAAC needs a new, performance-related management information system (MIS) which also enables field-level managers to track the performance of both savings and loans of a particular client.
- (4) Performance-related staff incentives, presently under pilot-testing, need to be implemented

OUTREACH 1998

Lending outreach

Number of borrower clients	4.8 million
% of farm households in Thailand	86%
Loans outstanding	US\$ 5.2 billion
Average loan size (farmer clients)	US\$ 2,042

Savings outreach

Number of deposits by individuals	7.6 million
Deposit volume	US\$ 4.1 billion
Average deposit size	US\$ 246
Market share in rural deposits	15%

SUSTAINABILITY 1998

Capital adequacy	Capital/net loans	9.3%
Portfolio quality	Past dues/loans outstanding	16.2%
Operational self-sustainability	Income/operational cost	228%
Financial self-sustainability	Income/operational cost and cost of funds	98%
Self-sufficiency in funds	Loan to deposit ratio	83%
Efficiency	Administrative cost/average loans outstanding	3.1%
Productivity	Number of active borrowers/credit officer	473

Source: Klaus Maurer, AgDB Reform: The Case of BAAC. IFAD Doc. #46498.

Agricultural Development Bank of Nepal (ADBN)⁵:

In Nepal, IFAD assisted ADBN up to 1992 in establishing an infrastructure of small farmer groups, which in turn formed intergroups and management committees under sub-project offices. On that basis, the Bank is now helping the farmers to establish autonomous local financial institutions, transforming an unsustainable project into vibrant financial cooperatives.

Box 4:

ADBN, Nepal:

Transforming an unsustainable credit program into viable local financial intermediaries

Since 1975 the Agricultural Development Bank of Nepal has built up its Small Farmer Development Project, a subsidized credit program targeted at the poor. With assistance from IFAD as the first major donor until 1992, farmers were organized in some 25,000 small groups (end-1998 data). With repayment rates, since 1980, of 39-54% and a savings ratio consistently below 1 %, plus high transaction costs, the program was unsustainable, and growth of outreach to poor farmers remained restricted. However, the credit line to ADBN had enabled poor farmers including women to build up a group structure. In the more liberal policy environment of the 1990s, ADBN, assisted by GTZ and inspired by a charismatic Nepali leader, has now embarked on positively responding to the farmer's initiatives. The groups under each subproject office are transformed into autonomous *Small Farmer Cooperatives Ltd. (SFCL)*, which mobilize savings and cover their own costs. The initial results have been spectacular: the repayment rate of channeled funds doubled; internal resource mobilizations progresses rapidly; and the repayment rate of loans from internal resources is almost 100%. By the end of 1998, 73 SFCLs had been established, comprising 6,083 small groups. Some are now receiving their limited banking licence, which allows them to further increase their outreach. At the same time, restructuring ADBN into a viable bank is under way.

Two lessons are derived from this experience:

- (i) Through user ownership and vigorous savings mobilization, unsustainable credit programs can be transformed into networks of viable local financial intermediaries.
- (ii) As progress may build up only after policy changes and a succession of donor interventions, lessons can only be drawn if information is stored and reassessed in the institutional memory beyond the closing of a project.

⁵ H. D. Seibel & G. Ketterer, *Small Farmer Development Project Nepal: an Evaluation*. GTZ, Eschborn, 1996; H.D. Seibel & M. Mortuza, *Rural Financial Systems Development in Nepal*. GTZ, Eschborn, 1995.

4.2 How to initiate reform

How best to initiate reform is an issue to be discussed in a participatory manner, in two fora: the donor community and representative organizations of AgDBs. In order to agree on a conceptual framework, division of labour and steps to be followed, some initiatives have been taken, as indicated below:

- A joint IFAD/FAO initiative on the restructuring of AgDBs (Rome, May 1999)
- The establishment of a CGAP Working Group on AgDB Reform (Abidjan, June 1999), comprising members from AfDB (Abidjan); AsDB (Manila); GTZ and KfW (Germany); OECF (Japan); SDC and SODC (Switzerland); UNCDF/UNDP (New York); World Bank (Washington)
- Discussions during AsDB's Regional Workshop on Microfinance Development Strategy (Manila, September 1999)
- A presentation to the Donors' Working Group on Financial Sector Development (Rome, September 1999)
- Discussions during the Third Annual Seminar on New Development Finance (Frankfurt, September 1999)
- A presentation to the Donors' Working Group on Financial Sector Development in Rome, September 1999
- Preliminary agreements with the regional agricultural credit associations (RACAs, which are partner organizations of FAO and IFAD): Afraca (Nairobi), Apraca (Bangkok) and Nenaraca (Amman) on workshops to initiate reform among member AgDBs

New studies of AgDBs are being undertaken by:

- AfDB on development finance institutions in Africa;
- AsDB on the role of central banks in microfinance in 12 countries in Asia;
- FAO on CNCA in Morocco;
- IFAD on BAAC in Thailand⁶;
- OECF on the non-agricultural lending operations of BAAC in Thailand.

During 2000, regional workshops on AgDB reform are planned by NENARACA for North Africa and the Near East (Tunis 30.4.-1.5.) and by APRACA for Asia; as well as a series of sub-regional workshops by AFRACA (Abuja 4.-7.4.; Dakar 10.-12.5.; Arusha 5.-9.6.; Douala 4.-6.7.; Maseru 8.-10.8.), with the following tentative agenda:

- Initiate a participatory process among AgDBs, RACA and donor agencies
- Review AgDB reform experiences and needs
- Work out appropriate strategies of AgDB reform
- Examine the demand for consultancy services to AgDB member institutions
- Work out a coordinated approach to AgDB reform in a participatory way
- Identify AgDBs for pilot reform initiatives
- Assist member AgDBs in accessing donor support for reform
- Support networking and exchange of experience on AgDB reform among member countries
- Disseminate the results through workshops and publications

These discussions are to prepare the ground for a number of projects in RACA member countries and for donor agreements on their support. It is expected that the generation of political will to reform AgDBs will require a multidonor approach, including prolonged and concerted negotiations by the

⁶ Agricultural Development Bank Reform: The Case of the Bank for Agriculture and Agricultural Cooperatives (BAAC), Thailand. IFAD Rural Finance Working Paper No. B6, Doc #46498

IMF, the World Bank, IFAD, FAO, the regional development banks and other multilateral and bilateral donors with the concerned governments.

4.3 A planning framework for AgDB reform

The following *objective of AgDB reform* is suggested:

Agricultural development banks are transformed into viable and sustainable providers of financial services to all segments of the rural population, including the poor.

To reach this objective, the following key results (detailed with outputs in Box 5) need to be achieved:

- ✓ activating the political will to reform or to close down
- ✓ adequate reform strategies (among them privatization, as one alternative)
- ✓ an effective planning process
- ✓ operational autonomy and freedom from political interference
- ✓ an appropriate legal and regulatory framework with prudential norms
- ✓ financial restructuring
- ✓ organizational restructuring
- ✓ human resource development, including staff retraining
- ✓ an effective delivery system (a decentralized network of branches as profit centres)
- ✓ demand-driven financial products
- ✓ financial sustainability
- ✓ effective internal control and external supervision

IFAD's special focus would be on the reform of the AgDBs' microsavings, microcredit and other microfinance services to smallholders and microentrepreneurs, including their self-help groups, informal financial institutions, business associations or supporting NGOs. AgDB reform exceeds IFAD's capacity and will require cofinancing with the World Bank and the regional development banks. In countries where state-owned enterprises (SOEs) are among the major customers of AgDBs, the cleaning up of the bank's portfolio of bad debts may require the prior consolidation of the SOEs.

Close cooperation of IFAD and other donors with agencies such as the regional agricultural credit associations (AFRACA, APRACA, and NENARACA), CGAP and others, is expected to contribute to the generation of the political will to reform.

Box 5:
AgDB Reform: Objective, key result areas, and outputs
<i>Objective:</i> Rural and agricultural development banks (AgDBs) are transformed into sustainable providers of financial services to the rural population
<p>1. <i>The political will to reform the AgDB is activated:</i></p> <p>1.1 The political decision is taken by government to reform its AgDB</p> <p>1.2 A participatory planning process involving all stakeholders is agreed upon</p> <p>1.3 The AgDB management and the stakeholders agree on the mandate and market of the AgDB</p>
<p>2. <i>Adequate reform strategies are worked out:</i></p> <p>2.1 Alternative reform strategies are examined including:</p> <ul style="list-style-type: none"> - government-owned AgDB under autonomous management - government-owned AgDB under commercial bank management - full or partial privatization - transformation of microbanking operations into user-owned local financial institutions - closure or fusion <p>2.2 Appropriate reform strategies are selected</p> <p>2.3 Adequate process technologies are developed</p> <p>2.4 Implementation phases of the reform process are determined and periodically revised</p> <p>2.5 Logistic support of multilateral institutions is secured</p> <p>2.6 Reform strategies of international financial institutions are coordinated</p>
<p>3. <i>The planning process is implemented:</i></p> <p>3.1 A feasibility study is carried out</p> <p>3.2 An operational plan for the implementation of the reform process is prepared</p> <p>3.3 External technical and financial support of the reform process is mobilized and coordinated</p> <p>3.4 The process of restructuring and reform is monitored</p>
<p>4. <i>Operational autonomy is effective:</i></p> <p>4.1 The AgDB is granted operational autonomy</p> <p>4.2 A commercially experienced, politically independent general manager is appointed</p> <p>4.3 The Central Bank or Bank Superintendency enforces the attainment of operational autonomy</p>
<p>5. <i>An appropriate legal and regulatory framework is provided:</i></p> <p>5.1 A dialogue is initiated on the policy, legal and regulatory framework conducive to AgDB reform</p> <p>5.2 The ADB law is revised</p> <p>5.3 Politically motivated loan forgiveness is excluded by law</p> <p>5.4 Prudential norms are defined and enforced</p>
<p>6. <i>The AgDB's finances are restructured:</i></p> <p>6.1 The portfolio is cleaned</p> <p>6.2. The bank is recapitalized</p>
<p>7. <i>The bank structure is reorganized:</i></p> <p>7.1 Microfinance services are organized in an autonomous corporate division</p> <p>7.2 Savings deposits are recycled among the microfinance units</p> <p>7.3 Branches are decentralized into profit centers</p> <p>7.4 The branch network is expanded</p> <p>7.5 Outreach is expanded to the poor and their self-help groups</p>
<p>8. <i>Effective delivery schemes are operational:</i></p> <p>8.1 Viable wholesale schemes are operational</p> <p>8.2 Linkages with self-help groups, informal financial institutions and NGOs are initiated if feasible</p> <p>8.3 Viable retail schemes are operational</p>
<p>9. <i>Effective financial services are offered according to demand:</i></p> <p>9.1 Savings are mobilized through appropriate savings products and collection services</p> <p>9.2 Interest rates on savings are adequate, with positive real returns</p> <p>9.3 Credit products with appropriate terms and collection services are provided</p> <p>9.4 Insurance and other financial products are provided</p>
<p>10. <i>Financial sustainability is attained:</i></p> <p>10.1 Viability is attained through adequate interest rate spreads and adequate repayment performance</p> <p>10.2 Self-reliance is attained through savings mobilization and retained earnings</p> <p>10.3 Financial self-sustainability is attained through adequate returns on capital</p>

11. Human resources are developed:

- 11.1 Staff selection procedures are established for the hiring of appropriate staff
- 11.2 Training and retraining schemes are established to inculcate the reformed operational practices
- 11.3 Staff training and retraining is implemented on a continuous basis
- 11.4 Staff incentive schemes are operational
- 11.5 A performance-based staff testing and promotion system is established

12. Internal and external supervision are effective:

- 12.1 International accounting standards are operational
- 12.2 Prudential norms are observed
- 12.3 A MIS with effective on-time monitoring of loans and prompt action taken is operational
- 12.4 Internal supervision is operational
- 12.5 External supervision is operational
- 12.6 Effective supervision services to wholesale clients are provided by the AgDB

AFRACA: Rural and Agricultural Development Bank Reform
A participatory planning workshop
Worksheet A: Objective and key results
(to be discussed and revised)

Objective: Rural and agricultural development banks (AgBDs) are transformed into sustainable providers of financial services to the rural population	
Key results:	
1. <i>The political will to reform the AgDB is activated:</i>	
2. <i>Adequate reform strategies are worked out:</i>	
4. <i>The planning process is implemented:</i>	
4. <i>Operational autonomy is effective:</i>	
5. <i>An appropriate legal and regulatory framework is provided:</i>	
6. <i>The AgDB's finances are restructured:</i>	
8. <i>The bank structure is reorganized:</i>	
8. <i>Effective delivery schemes are operational:</i>	
9. <i>Effective financial services are offered according to demand:</i>	
10. <i>Financial sustainability is attained:</i>	
11. <i>Human resources are developed:</i>	
12. <i>Internal and external supervision are effective:</i>	
13.	
14.	
15.	

Personal notes

	<i>Notes</i>
<p><i>Objective:</i> Rural and agricultural development banks (AgBDs) are transformed into sustainable providers of financial services to the rural population</p>	
<p>1. <i>The political will to reform the AgDB is activated:</i></p>	
<p>2. <i>Adequate reform strategies are worked out:</i></p>	
<p>5. <i>The planning process is implemented:</i></p>	
<p>4. <i>Operational autonomy is effective:</i></p>	
<p>5. <i>An appropriate legal and regulatory framework is provided:</i></p>	
<p>6. <i>The AgDB's finances are restructured:</i></p>	
<p>9. <i>The bank structure is reorganized:</i></p>	
<p>8. <i>Effective delivery schemes are operational:</i></p>	
<p>9. <i>Effective financial services are offered according to demand:</i></p>	
<p>10. <i>Financial sustainability is attained:</i></p>	
<p>11. <i>Human resources are developed:</i></p>	
<p>12. <i>Internal and external supervision are effective:</i></p>	
<p>13.</p>	
<p>14.</p>	
<p>15.</p>	

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Worksheet B: Key results and outputs
(to be discussed and revised)

Key results and outputs:	
<p>1. <i>The political will to reform the AgDB is activated:</i></p> <p>1.2 The political decision is taken by government to reform its AgDB</p> <p>1.3 A participatory planning process involving all stakeholders is agreed upon</p> <p>1.4 The AgDB management and the stakeholders agree on the mandate and market of the AgDB</p>	
<p>2. <i>Adequate reform strategies are worked out:</i></p> <p>2.2 Alternative reform strategies are examined including:</p> <ul style="list-style-type: none"> - government-owned AgDB under autonomous management - government-owned AgDB under commercial bank management - full or partial privatization - transformation of microbanking operations into user-owned local financial institutions - closure or fusion <p>2.2 Appropriate reform strategies are selected</p> <p>2.7 Adequate process technologies are developed</p> <p>2.8 Implementation phases of the reform process are determined and periodically revised</p> <p>2.9 Logistic support of multilateral institutions is secured</p> <p>2.10 Reform strategies of international financial institutions are coordinated</p>	
<p>6. <i>The planning process is implemented:</i></p> <p>3.1 A feasibility study is carried out</p> <p>3.2 An operational plan for the implementation of the reform process is prepared</p> <p>6.3 External technical and financial support of the reform process is mobilized and coordinated</p> <p>3.4 The process of restructuring and reform is monitored</p>	7.
<p>4. <i>Operational autonomy is effective:</i></p> <p>4.1 The AgDB is granted operational autonomy</p> <p>4.3 A commercially experienced, politically independent general manager is appointed</p> <p>4.4 The Central Bank or Bank Superintendency enforces the attainment of operational autonomy</p>	
<p>5. <i>An appropriate legal and regulatory framework is provided:</i></p> <p>5.1 A dialogue is initiated on the policy, legal and regulatory framework conducive to AgDB reform</p> <p>5.2 The ADB law is revised</p> <p>5.3 Politically motivated loan forgiveness is excluded by law</p> <p>5.4 Prudential norms are defined and enforced</p>	

<p>6. <i>The AgDB's finances are restructured:</i> 6.2 The portfolio is cleaned 6.3. The bank is recapitalized</p>	
<p>10. <i>The bank structure is reorganized:</i> 10.1 Microfinance services are organized in an autonomous corporate division 10.2 Savings deposits are recycled among the microfinance units 10.3 Branches are decentralized into profit centers 10.4 The branch network is expanded 7.5 Outreach is expanded to the poor and their self-help groups</p>	11.
<p>8. <i>Effective delivery schemes are operational:</i> 8.1 Viable wholesale schemes are operational 8.3 Linkages with self-help groups, informal financial institutions and NGOs are initiated if feasible 8.4 Viable retail schemes are operational</p>	
<p>9. <i>Effective financial services are offered according to demand:</i> 9.1 Savings are mobilized through appropriate savings products and collection services 9.4 Interest rates on savings are adequate, with positive real returns 9.5 Credit products with appropriate terms and collection services are provided 9.6 Insurance and other financial products are provided</p>	
<p>10. <i>Financial sustainability is attained:</i> 10.1 Viability is attained through adequate interest rate spreads and adequate repayment performance 10.3 Self-reliance is attained through savings mobilization and retained earnings 10.4 Financial self-sustainability is attained through adequate returns on capital</p>	
<p>11. <i>Human resources are developed:</i> 11.2 Staff selection procedures are established for the hiring of appropriate staff 11.2 Training and retraining schemes are established to inculcate the reformed operational practices 11.3 Staff training and retraining is implemented on a continuous basis 11.4 Staff incentive schemes are operational 11.5 A performance-based staff testing and promotion system is established</p>	
<p>12. <i>Internal and external supervision are effective:</i> 12.6 International accounting standards are operational 12.7 Prudential norms are observed 12.8 A MIS with effective on-time monitoring of loans and prompt action taken is operational 12.9 Internal supervision is operational 12.10 External supervision is operational 12.11 Effective supervision services to wholesale clients are provided by the AgDB</p>	

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Worksheet C: Activities for selected outputs

Output no:	Activities:	Activities:	Activities:

<i>Output no:</i>	Activities:	Activities:	Activities:

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Worksheet D: Indicators and assumptions

<i>Objective and key results:</i>	<i>Indicators:</i>	<i>Assumptions/Conditions:</i>
Rural and agricultural development banks (AgBDs) are transformed into sustainable providers of financial services to the rural population		
<i>1. The political will to reform the AgDB is activated:</i>		
<i>2. Adequate reform strategies are worked out:</i>		
<i>8. The planning process is implemented:</i>		
<i>4. Operational autonomy is effective:</i>		
<i>5. An appropriate legal and regulatory framework is provided:</i>		
<i>6. The AgDB's finances are restructured:</i>		
<i>12. The bank structure is reorganized:</i>		
<i>8. Effective delivery schemes are operational:</i>		
<i>9. Effective financial services are offered according to demand:</i>		
<i>10. Financial sustainability is attained:</i>		
<i>11. Human resources are developed:</i>		
<i>12. Internal and external supervision are effective:</i>		

