3. Assessing and selecting project implementation partners
3. Assessing and selecting project implementation partners

- **Action**: Assess and select project implementation partners through a transparent, competitive process.
- **Objective**: A strong network of partners to work towards achieving project objectives.
- **Key players**: CPMT, PMU, and CPM, with possible support from specialized rural finance consultants as necessary.

This section addresses critical issues related to the identification and assessment of project partners. It focuses on issues unique to rural finance. However, additional, more general elements are also important to consider (e.g. hiring of project staff, communications between headquarters and in-country staff, accounting and disbursement processes).

The issues discussed can arise at different moments in a project’s development and implementation. The identification and initial assessment of partner FSPs, for example, should take place during project design, while the detailed assessment and selection process is somewhat fluid. Depending on the project and regional context, the process may occur entirely during project design, or may begin in the design phase with the development of the selection criteria and conclude in the initial phase of implementation, with the actual selection of FSPs. While the timing varies from project to project, all the issues will be considered.

**Partner financial service providers**

The assessment of an FSP must be conducted by a rural finance specialist with extensive experience in performing institutional diagnostics of these kinds of institutions. CGAP (2007) is a useful resource for these assessments (see also Spann 2008).

**Figure 7. Assessment and selection phase**

![Diagram showing the assessment and selection phase of project implementation partners](image)
An institutional assessment tests an FSP’s depth of interest and its capacity to provide sustainable rural financial services. The institutional assessment varies depending on the type of institution being analysed: institutions with a more-formal, centralized structure (e.g. a bank or financial cooperative) should be handled differently than those with a more-decentralized, community-based structure (e.g. SHGs or credit unions).

Assessing more-formal, centralized FSPs
A formal, centralized FSP should be evaluated based on the strength of its leadership, its profitability, the quality of its portfolio, its access to financial resources and the strength of its systems. In particular, the following areas should be assessed:

- Capacity
- Planning processes and risk management
- Organizational structure
- Market and services
- Management information systems (MIS)
- Financial management and administration
- Financial performance
- Social performance
- Internal controls and transparency

See Table 8 for additional details.

The assessment should also consider the FSP’s business plan, which is an important part of organizational management and capacity-building. Partner FSPs should submit detailed information on their goals, strategy and plans to expand into rural finance markets.\(^{13}\)

The business plan will identify the specific areas in which IFAD support is most needed. Once FSPs have been selected and their commitment established, their business plan should be modified as needed to incorporate the objectives of the IFAD-supported project. Effective business planning requires establishing practical and operational conditions for the project’s implementation. This involves developing appropriate and detailed workplans not only for capacity-building and technical assistance, but also for operational support that could include human resources, equipment, monitoring and reporting.

Assessing decentralized, community-based FSPs
Compared with relatively more-formal FSPs, decentralized, community-based organizations are much smaller, have lower cost structures, different products, and diverse financial administration methods. Their members save, borrow and invest their returns in the association. Thus these groups can only survive by maintaining high levels of member participation and satisfaction.

The following questions can help evaluate the success of a community-based association:

- What is the demand for the financial services provided by these groups, and who benefits from them? How useful do group members find the products or services provided?

\(^{13}\) The preparation of a business plan is not always feasible for community-based FSPs. However, their supporting institutions should have a vision or mission statement, a set of key activities and a clear sense of direction.
• What is the capacity and interest of group members in governing and participating in the groups?
• How well do the groups perform in terms of mobilizing savings, making sound loan decisions, encouraging timely repayment and sharing information? How has this changed over time?
• Are the groups linked to other FSPs that provide a wider range of services? Is this part of the long-term strategy?
• What is needed in terms of capacity-building? What TSPs are available to provide this support?

Effective tools for evaluating community-based FSPs include the following:
• Ratio analysis of community-managed microfinance programs, developed by SEEP (2008); and
• PEARLS – or Protection, effective financial structure, asset quality, ratios of return and costs, liquidity, and signs of growth, developed by the World Council of Credit Unions (WOCCI 2009). PEARLS is a financial performance-monitoring system designed

Table 8. Elements to examine in potential FSP partners

| Planning                  | • Well-defined vision and mission
|                          | • Thorough business planning
|                          | • Comprehensive planning process
|                          | • Appropriate monitoring mechanism(s) |
| Organizational structure | • Well-defined ownership structure
|                          | • Well-defined legal structure
|                          | • Adequate governance
|                          | • Adequate senior management
|                          | • Adequate organizational structure |
| Markets and services     | • Defined target markets
|                          | • Risk management tools for market risk assessment
|                          | • Assessments of its competitive position
|                          | • Competitive product offerings
|                          | • Documented and updated credit policies and procedures |
| Management information systems | • Adequate data collection
|                          | • Adequate record management and security
|                          | • MIS components linked automatically
|                          | • MIS applicable to FSP needs/requirements
|                          | • Accurately generated reports |
| Financial management and administration | • Adequate accounting and policies and procedures manuals
|                          | • Written portfolio management policies
|                          | • Adequate asset/liability management
|                          | • Appropriate cash and liquidity management |
| Financial performance    | • Adequate sustainability and profitability indicators
|                          | • Adequate asset/liability management indicators
|                          | • Acceptable portfolio quality indicators
|                          | • Adequate efficiency and productivity indicators |
| Internal controls        | • External audit
|                          | • Documented internal controls for all operational and credit processes |
to offer management guidance to credit unions and other savings institutions. It comprises a set of indicators that can be used to compare and rank institutions and facilitate an analysis of their financial condition.

**Selecting FSPs: Understanding their strengths and weaknesses**

A competitive process evaluates an institution’s interest in project participation and its long-term commitment to rural finance. Partnerships should not be established solely on the grounds of having an operational presence in the target markets, but rather on the basis of performance results that demonstrate the capacity to effectively deliver financial services to IFAD’s target group.

Context, capacity and FSP interest govern how many FSPs should participate in an IFAD-supported project. Some IFAD-funded rural finance projects involve several FSPs, while others work with only one. Working with multiple FSPs in a project can stimulate performance and drive results, particularly when technical assistance funding is allocated on a competitive basis and linked to performance. Projects supporting multiple FSPs can also shift technical assistance resources from underperforming institutions to better-performing competitors.

In the absence of a sound rural FSP, it may be possible to find, attract and support qualified FSPs operating in urban and peri-urban areas in expanding into an IFAD project target market. This strategy is often more effective than working with an unqualified partner or starting a new FSP altogether.

If a project team considers working with an FSP that has a number of weaknesses, then these challenges must be accurately analysed. Projects with the goal of resurrecting or improving existing FSPs (particularly state agricultural development banks) are valid, but can reduce short-term client impact.

- If the weaknesses of an FSP reflect poor management and a lack of leadership or commitment, then IFAD should not partner with the institution.
- If the weaknesses are linked to poor systems and limited capacity, but the management is committed to change, then there could be potential for successful partnership and reform. A capacity-building plan that includes jointly established performance milestones and indicators should be negotiated with the FSP. Funding should be disbursed in tranches as each successive set of targets is met.
- If there are weaknesses in the social or gender dimensions of operations, then a decision must be made as to whether it will be possible to address these through a social and gender audit, followed by capacity-building. If the FSP does not seem committed to addressing these concerns, then IFAD could either choose not to partner with the institution or design the project with a set of strict social performance-management and performance-based targets, based on short- and long-term objectives. Funding should be disbursed in tranches as each successive target is met.

Ultimately, any project must squarely intersect with the strategic interests of the FSP if financial services are to be sustainably expanded to rural areas. Partner FSPs must see the market as a competitive advantage and growth market.

The FSP must also be prepared to assign a staff member as the point person on the IFAD project. This person will liaise with the PMU to ensure adequate advancement, issue resolution, risk mitigation, monitoring and reporting. The manager must be senior
enough to command the authority needed to implement the project and to represent the project at the highest levels of the FSP relative to established organizational structures (i.e. in a commercial bank, to a senior manager or the CEO, or in a smaller financial institution, to the management committee or governance body).

### Developing a performance-based workplan with partner FSPs

In addition to integrating the IFAD project into the business plan, the PMU and partner FSP should develop a detailed workplan before any funding is disbursed. Performance-based workplans should be developed that require the partner to meet specific goals before additional resources are turned over. The plan must outline a detailed set of activities, performance standards for each activity, time lines for meeting standards, and the project inputs required to meet the given time lines and standards.

Workplans should set out specific goals, including:

- Mechanisms for staff accountability through performance-based incentive schemes;
- Mechanisms to reduce administrative costs and enhance productivity;
- Prudent time lines for product/service development (i.e. not so slow as to inhibit timely roll-out of services, but not so fast as to jeopardize their quality); and
- Plans to roll out new services or products relatively rapidly once they are operational.

The project workplan should not overdefine the target clients or financial products and services to be offered. Strong support from senior management should be reflected in any agreements (especially the workplan) to ensure that the minimum essential conditions for effective rural finance operations are in place.

The project team and FSP will also establish detailed capital requirements for project implementation. If funding is required, then FSPs should be encouraged to commit a portion of their own resources as a complement to IFAD funding, particularly loan portfolio capital. Dedicating cofunding to a project allows an FSP to demonstrate its interest in the market, commitment to project implementation, and institutional confidence in facing the risks inherent in any rural finance project.

### Partner apex organizations

As with FSPs, apex bodies must be assessed to determine their ability to provide services efficiently and effectively towards the project’s goals (Levy 2002). Among other considerations, the main criteria to select partner apex organizations should include:

- A clear sense of mission and market-oriented management;
- Organizational structure with decision-making autonomy, free of political interference, particularly when apex institutions are state-owned or agencies of a government administration. Governments should not control apex bodies, and their participation in management should be limited to the extent possible;
- Segregation of microfinance from other mandates and responsibilities;
- Sound management information systems and internal controls;
- Strong leadership, with extensive experience in microfinance and the capacity to resist possible external pressure;
- Well-trained and motivated staff, with appropriate incentives.
Except in the rare case where a large group of substantial, credit-worthy FSPs exists when the apex body is set up, it is strongly recommended that initial funding to an apex be small, with subsequent tranches disbursed based on progress in expanding outreach and improving the financial performance of partner FSPs. Disbursements should follow, rather than try to drive, demand from promising FSPs and the development of the apex organization’s own skills and systems. All stakeholders should be educated to expect only modest results from the apex institution in its initial years.

Apex bodies should also avoid unnecessary conditions for FSPs, such as interest rate caps or a focus on target populations or regions that may not be bankable. In addition, apex institutions must avoid competing with commercial lending from banks and investors or crowding out savings.

Finally, and perhaps most importantly, apex bodies should be free from inappropriate donor and government pressure. Donors and governments often have a strong preference for large, rapidly disbursing projects. But this kind of outside pressure makes the task of apex managers exceedingly difficult by hampering the application of sound funding criteria and interfering with the natural evolution of the apex body’s skills and systems. Furthermore, acquiescence to outside pressures creates an environment in which political interference becomes more likely. Where disbursement pressure is likely to be great, and the apex institution and member FSPs have only limited capacity, IFAD projects should avoid partnering with an apex organization.

**Partner technical service providers (TSPs)**

Technical assistance (TA) to partner FSPs and apex organizations can be an important part of any IFAD intervention in rural finance. The workplan, mentioned above, should focus on the organization’s capacity-building priorities and should detail all TA-related activities, the required human and budgetary resources, implementation milestones and time lines, and related performance expectations. It should also be aligned with the project’s logical framework and key performance indicators to ensure that overall goals are being met in a manner consistent with the IFAD RFP.

**TA plan**

While each partner institution will require a unique approach, many will often need the same or similar TA services. The PMU or equivalent should organize and manage all TA provision using a TA plan. Such a plan outlines how technical assistance will generally be provided (e.g. short-term, fly-in consultants, long-term resident advisers), though it is important to maintain some flexibility on the specific services provided in the short- to mid-term in order to accommodate changing FSP needs and inevitable scheduling challenges.

Box 20 shows a number of options for providing technical assistance. The support required will depend on the types of FSPs or apex organizations involved in the project and the nature of their strengths and weaknesses.

At this point, it is important to define how these TA services will be delivered. A rural finance expert can then estimate the types and costs of TA service provision (though the most accurate estimates are derived from a competitive project management bid). Various TA service-delivery models are available:

- Contract a project management consulting firm (for- or not-for-profit) that designs and delivers TA service-provision systems, sharing the responsibility with them to meet project goals. This is the most effective delivery system;
• Hire long-term resident technical advisers that work on site at the FSPs on a range of TA challenges;
• Contract a mix of long- and short-term advisers to do specific tasks. This is the most common approach.

Adviser models require significant expert input on TA service delivery, as well as knowledge of when FSPs are likely to need specific services in their development cycle. More often than not, PMU staff do not have the capacity to organize and source expert, international-quality technical assistance. Nevertheless, using the PMU staff to manage and/or provide such assistance is usually the least effective model. Whatever strategy is chosen, it will be important to include social, gender and, where relevant, environmental expertise as part of the assistance.

**Conducting a transparent, competitive selection process for TSPs**

Establish a clear selection framework for TSPs in the project design in order to attract the best expertise, make the process as transparent as possible and ensure that TSPs are accountable for the results.

- Identify specialized TSPs – whose expertise is proven and acknowledged as international-quality – that could be relevant to the IFAD-supported project.
- Outline a transparent, competitive selection process for international-quality TSPs that clearly details the requirements, qualifications, selection criteria and performance metrics used to evaluate their potential participation.
- Prepare to establish contractual agreements between the IFAD project and the TSP that include a detailed workplan, time line, expected results and the required human and financial resources.

---

**Box 20**

**Common TA activities**

- **Human resources**
  - Design staff hiring policies and procedures
  - Plan staff training
  - Expand training modules for staff
  - Support staff assessment and incentives

- **Operations**
  - Streamline and improve operational processes and procedures
  - Organize branch offices
  - Prepare process manuals on administration, accounting, operations and internal controls
  - Manage information systems
  - Establish internal audit and control systems

- **Methodologies and tools**
  - Develop systems and techniques for mobilizing savings
  - Improve loan appraisal and portfolio management
  - Implement marketing research and client surveys
  - Develop marketing plans

- **Product development**
  - Design and test savings products
  - Design and test credit products
  - Design and test new products, such as insurance and leasing
In most cases, national, regional or international rural finance TSPs will need to be recruited to help the IFAD-supported project meet the challenge of building new rural finance networks or strengthening partner FSPs. It is important to set the right selection framework to attract the best expertise, making it clear that the TSP will be accountable for the results.

Where tendering is used for such recruitment, the following framework for a request for proposals could be used (adapted as needed) to select potential applicants. It needs to address both technical and financial dimensions and should include:

- A brief description of the rural finance TSP firm, its rural finance projects or programmes (including past, present and planned projects), and the administrative, financial and technical support services that the TSP firm can provide;
- A description of its capacity-building strategy, areas of technical expertise and resources required;
- The human resources available to implement programme activities, including their qualifications (i.e. résumés or curricula vitae) and references;
- A preliminary workplan, including a time line.

In order to rank the proposals for final selection, a scoring methodology could be used to distribute points among the selection criteria. On the basis of a scale of 100 points, for example, the technical quality and feasibility of the proposal could account for 70 of these points, and the cost-effectiveness could account for the other 30. Each proposal could be evaluated as follows:

- Rural finance experience of the TSP (20 points);
- Proposed operational strategies for implementation (25 points);
- Experience and qualifications of the operating team assigned to the project, which is often the best assurance of the quality of the assistance to be provided (25 points);
- Cost-effectiveness of the proposal and the proposed budget for TA activities (30 points).

**Box 21**

**TA workplan checklist**

An effective workplan for the delivery of technical assistance should include the following elements, outlined in sufficient detail to be carried out in a timely, responsive manner:

- Assurance and evidence that FSP personnel have the capacity to support the project;
- Objective of the technical assistance and the means for its delivery;
- Clear identification of the person responsible, important benchmarks and deadlines for each activity;
- All aspects of expected institutional change;
- Any additional external professional assistance required;
- Pending or needed agreements;
- Process of risk identification and mitigation as well as issue resolution;
- Mechanism for monitoring and reporting on the workplan and updating it as needed;
- Clear timing schedule for fund transfers that corresponds to the overall workplan.
Establishing performance-based contracts

It is important to establish performance-based relationships with partner FSPs, TSPs and other service providers. Objective, measurable performance targets should be set by the FSP or TSP, PMU and governing body before project implementation, and should be included in the contractual arrangements. Disbursement of funds in IFAD-supported projects should be linked to the performance of an organization and its contribution to project objectives.

In general, projects should

• Use performance-based contracts with agreed performance targets and exit strategies;
• Include a few core indicators to track financial and social performance (for FSPs: general outreach, outreach to poor people, portfolio quality, profitability/sustainability, efficiency), without burdening them with too many indicators;
• Collect the baseline measurements of these core indicators to understand the current performance of the institution, highlight weaknesses that call for prompt intervention, and define a point of reference to later understand progress towards the project’s objectives;
• Tie renewal or continuing support to the achievement of clear, meaningful performance targets;
• Be prepared to stop supporting institutions that do not perform as agreed, either by discontinuing subsequent tranches of support or requiring reimbursement (where feasible);
• Require institutions to fulfill their own responsibilities under the contract (e.g. timely disbursement, prompt responses to questions) (CGAP 2006a, 12).

Corrective action must be taken if performance does not meet the pre-agreed standards. Project designers should:

• Allow sufficient time for technical assistance to show results, and define progressively higher minimum performance standards;
• Create a provision that, if the institution has difficulty meeting the standards, a series of discussions or negotiations could be held to determine a mutually agreeable course of action and define new performance targets;
• Set a time limit on meeting any new standards. How long an institution should be given will ultimately rely on expert judgment, but most projects do not allow more than a year to turn things around.

If an institution cannot meet this challenge, then the project design should provide for the suspension or withdrawal of funding. When more than one FSP is involved in the project, funds can be moved from underperforming FSPs to others with stronger performance.