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Enabling poor rural people
to overcome poverty

President's memorandum

Proposed supplementary financing to the Republic of Cameroon for the

Rural Microfinance Development Support Project

Note to Executive Board representatives

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Rome, 20-21 September 2012

For: Approval

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed supplementary financing in the form of a loan to the Republic of Cameroon for the Rural Microfinance Development Support Project as contained in paragraph 12, and the modifications to the financing agreement, as contained in paragraph 9.

President's memorandum

Proposed supplementary financing to the Republic of Cameroon for the Rural Microfinance Development Support Project

I. Background

1. This memorandum seeks approval for additional financing in the form of a loan of approximately US\$2.95 million for the Rural Microfinance Development Support Project approved by the Executive Board in September 2008 (EB 2008/94/R.11/Rev.1). This amount represents the total unallocated resources of the 2010-2012 performance-based allocation system (PBAS) for Cameroon.
2. The project is currently financed by IFAD with a loan of about US\$13.5 million. IFAD and the Government of Cameroon have agreed that the remaining resources under the 2010-2012 PBAS allocation cycle should be used to fund a project top-up. The supplementary funding will increase the resources available to the project, enabling it to expand development of sustainable, medium-term agricultural financing instruments under the same methodology and approach it is currently using.

II. Justification and rationale

3. The project's main objective is to reduce poverty, increase incomes and improve the livelihoods of the target population. Its specific objectives are (i) improving the microfinance environment so that rural finance issues are better addressed; and (ii) facilitating the access of target groups to financial services adapted to their needs. The project, which became effective on 7 May 2010, targets some 260 rural microfinance service points reaching 62,000 small farmers in five of Cameroon's ten regions. It has three components: (i) improving the enabling microfinance environment; (ii) improving access to rural financial services; and (iii) project coordination and management.
4. The Government and stakeholders in the rural microfinance sector, including technical partners such as the United Nations Capital Development Fund, have urged the project to accelerate and expand its activities and develop medium-term financing instruments for smallholder agriculture. Indeed, the Cameroon National Microfinance Forum, which brought together government representatives, development partners and microfinance actors in September 2011, concluded that weak access of small farmers to medium-term credit for equipment and investment along the agricultural value chain was a major impediment to improving production systems, processing techniques and access to agricultural inputs. The Forum called on the project to step up its efforts to develop, test and diffuse medium-term financing mechanisms working with its microfinance institution (MFI) partners.
5. The existing mechanism under the project, while technically able to respond to this request, is not sufficiently resourced to support the scale of activity needed to develop and test an adequate number of financial products over a wide enough

beneficiary group. The project will set up a revolving fund mechanism, which will be managed by an independent and competitively recruited fund manager, for medium-term loans to farmers for financing of agricultural equipment and other medium-term investments. Loans will be provided through selected MFIs on the basis of their financial and organizational performance and development plans. However, the project has allocated only US\$1.8 million to this activity, an amount that is insufficient to meet the estimated target group needs. Even with beneficiaries and MFIs contributing about half of the investment, the project could only provide medium-term loans (which average about US\$9,350) to about 300 farmers, or 0.5 per cent of the target group of 62,000 small farmers. The project coordination and management unit will closely monitor the financial activities and performance of both the revolving fund manager and the MFIs, which will be subject to financial audit.

6. Given the pace of implementation and the current levels of fund commitment, the requested expansion of project activities cannot be addressed by simply diverting resources from other project activities. This would negatively impact on the project's ability to achieve key outcomes such as an improved regulatory and supervisory environment for rural microfinance, and stronger and wider MFI outreach. At the same time, delaying expansion would weaken the project's ability to support overall policy dialogue, which is promoting sustainable approaches to working with financial sector partners rather than government-driven lines of credit. Mobilization of additional funding is therefore essential.

III. Project costs

7. The total revised project cost is US\$25.4 million over six years. The sources of financing are: (i) IFAD, with an original loan of approximately US\$13.50 million (53.2 per cent), a supplementary loan of about US\$2.95 million (11.6 per cent) and a grant of approximately US\$0.20 million (0.7 per cent); (ii) the United Nations Development Programme, US\$0.34 million (1.3 per cent); (iii) the Government, US\$2.47 million (9.7 per cent); and (iv) beneficiaries, US\$5.90 million (23.2 per cent).
8. The IFAD supplementary loan will be extended to the Republic of Cameroon on highly concessional terms. Changes in the amounts allocated to the IFAD original loan expenditure categories and to the grant will be reflected in annex II of the amended financing agreement. The supplementary financing will be allocated against the category (v) innovation and subsidy activities for US\$2.80 million and against the category (vi) operating costs of the existing financing for US\$0.15 million.

IV. Proposed modifications to the financing agreement

9. Upon approval of the Executive Board, the financing agreement will be amended to reflect the proposed activity and the supplementary IFAD financing in the project budget. This supplementary financing complements the financing plan initially agreed at design.
10. The Republic of Cameroon is empowered under its laws to receive financing from IFAD.
11. I am satisfied that the proposed additional financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

V. Recommendation

12. I recommend that the Executive Board approve the proposed supplementary financing in terms of the following resolution:

RESOLVED: that the Fund shall provide a supplementary loan on highly concessional terms to the Republic of Cameroon, in an amount equivalent to one million nine hundred and fifty thousand special drawing rights (SDR 1,950,000, approximately US\$2,950,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President