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Enabling poor rural people
to overcome poverty

President's memorandum

Proposed supplementary loan to the Republic of Madagascar for the

Support Programme for Rural Microenterprise Poles and Regional Economies (PROSPERER)

Note to Executive Board representatives

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For: Approval

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed supplementary financing to the Republic of Madagascar for the Support Programme for Rural Microenterprise Poles and Regional Economies (PROSPERER), as contained in paragraph 15.

Proposed supplementary loan to the Republic of Madagascar for the Support Programme for Rural Microenterprise Poles and Regional Economies (PROSPERER)

I. Background

1. The Support Programme for Rural Microenterprise Poles and Regional Economies (PROSPERER) was approved by the Executive Board in December 2007 (EB 2007/92/R.24) for a total programme cost of US\$30.30 million. Current sources of financing are: (i) IFAD, with a loan of approximately US\$17.72 million and a grant of approximately US\$0.29 million; (ii) the Government of Madagascar, with a contribution of US\$4.51 million; (iii) beneficiaries, with a contribution of US\$2.21 million; (iv) the OPEC Fund for International Development, with a loan of US\$4.97 million; and (v) the United Nations Capital Development Fund, with a contribution of US\$0.61 million.
2. This memorandum seeks approval for supplementary financing for the programme in the form of a loan in the amount of SDR 7.3 million (equivalent to approximately US\$11.2 million), on highly concessional terms. The loan will have a term of 40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum.
3. PROSPERER contributes to the Government's National Rural Development Programme (PNDR), which is based on three pillars: (i) value chain development; (ii) strengthening of services; and (iii) support to enterprises. Both programmes pursue a common strategy: fostering public-private partnerships that promote investment by local, national and international companies. PROSPERER is also well aligned with the priorities of the National Private Sector Support Programme (PNDSP), which is responsible for business environment policy and reform, agro-industry development, tourism, the artisanal sector, and rural small and medium-sized enterprises (SMEs). In addition, PROSPERER supports the Government's vocational training efforts, which facilitate youth employment and support the emergence of a highly productive and market-oriented professional agricultural sector. The programme is aligned with the strategic objectives of the 2007-2012 country strategic opportunities programme, particularly its second strategic objective: higher incomes for the rural poor through diversification of farming activities and promotion of rural entrepreneurship.
4. PROSPERER is a seven-year programme being implemented in five regions – Analamanga, Itasy, Upper Matsiatra, Vatovavy-Fitovinany and Sofia. The proposed supplementary financing will contribute to scaling up interventions to four new regions. Scaling up will be based on achievements so far in reducing poverty by transforming rudimentary income-generating activities into dynamic rural SMEs, and transforming already viable SMEs into enterprises that are robust enough to allow beneficiary households to continue

to stay out of poverty in the future. The four new regions – Boeny in the north-west, Analanjirofo and Atsinanana on the eastern coast, and Bongolava in the centre-west – are geographic extensions of the high-potential value chain “basins” already being supported. They are, respectively, contiguous to the regions of Sofia, Vatovavy-Fitovinany and Itasy. In the “old” regions, the proposed supplementary financing will serve to deepen and consolidate the programme’s ongoing activities.

5. The programme has five components: (i) identification and mobilization of rural SMEs; (ii) support services for rural SMEs and vocational training; (iii) rural finance and risk management; (iv) marketing infrastructure and enabling investments; and (v) monitoring and evaluation, knowledge management and communication. No additional funding for component (iii) is foreseen under the proposed supplementary loan.
6. The supplementary financing will allow the programme to increase the incomes of beneficiary entrepreneurs by a total of about US\$18 million. This estimate is based on average additional income per enterprise generated by PROSPERER so far over its four-year lifespan. Again based on programme performance over 2009-2012, the supplementary financing will contribute to the creation of at least 5,500 new jobs and turn 7,900 part-time jobs into full-time jobs.

II. Justification and rationale

7. The programme’s main goal is to increase the incomes of poor rural people by strengthening rural SMEs. Its specific objectives are to: (i) create and support a network of professional and apex organizations to meet the development needs of rural enterprises; (ii) contribute to the formulation of a national policy and institutional framework in support of rural SME development; (iii) improve the competitiveness of rural SMEs in order to boost the performance of SME clusters and value chains within regional economies; (iv) enable entrepreneurs to gain access to sustainable financial and non-financial services and markets while managing risks; and (v) establish an enabling environment for the modernization of rural value chains.
8. The strategic focus of the supplementary financing is to consolidate and scale up the programme’s achievements so far to ensure that households of supported SMEs remain out of poverty in a sustainable manner, and (mostly in the new regions) to help put SMEs with potential for expansion on a higher growth trajectory.
9. With supplementary financing, the programme will reach an additional 15,000 existing or potential rural SMEs, equivalent to 78,000 beneficiaries (based on an average of 5.2 individuals per household). Of these SMEs, 11,000 will be newly supported and 4,000 will be strengthened so that they generate a level of income (set at about US\$685 a year, or three times the national poverty level of US\$228) at which they can be considered robust enough so that beneficiary households will not risk falling back into poverty. This will bring the total target group to 36,000 existing or potential rural SMEs, equivalent to 187,200 beneficiaries.
10. Implementation will be based on strategic partnerships and capacity-building, and foresees the gradual transfer of responsibilities to partners through a balanced, rational and efficient use of resources. Implementation of activities will be outsourced and shifted to the strategically most appropriate level through the involvement of key partners such as the Federation of Chambers of Commerce and Industry, regional chambers of commerce, one-stop multi-service points, microfinance institutions and pilot rural municipalities. Project management will be streamlined and only the following functions will be

maintained: (i) coordination; (ii) financial management; and (iii) monitoring and evaluation and knowledge management (particularly with respect to economic impact and other outcomes). The technical teams at the regional and local levels will be integrated into host institutions and the regional directorates of the Ministry of Agriculture, which is the lead agency for the programme.

11. PROSPERER has a sound track record for financial management, as evidenced by supervision missions and unqualified project audits, and the fiduciary risk related to the supplementary financing is assessed as low. Financial management arrangements – flow of funds, financial reporting and audit – applicable to the original IFAD loan and grant will remain unchanged.

III. Programme costs

12. The revised total programme cost will be US\$47 million. The existing IFAD loan of approximately US\$17.7 million has been disbursed at 64 per cent (September 2012). The proposed additional financing will include a supplementary IFAD loan of the SDR equivalent to approximately US\$11.2 million, a new contribution from the Government of US\$3.7 million and additional beneficiary contributions of US\$1.8 million. The supplementary financing will be distributed over the programme's expenditure categories as follows: (i) infrastructure (3 per cent); (ii) equipment, material and vehicles (6 per cent); (iii) training and capacity-building (55 per cent); (iv) service providers, studies and technical assistance (27 per cent); (v) support fund for rural finance and innovation¹ (1 per cent); and (vi) recurrent costs (9 per cent).
13. The provision of supplementary financing will not affect the programme's duration: its completion date, set at 30 June 2015, and its closing date, set at 31 December 2015, therefore will remain the same.

IV. Proposed modifications to the financing agreement

14. Upon approval of the Executive Board, the financing agreement will be amended to reflect the supplementary financing. This supplementary financing does not imply any substantial modification of the programme description except the widened geographic coverage of the programme.

V. Recommendation

15. 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 Madagascar in an amount equivalent to seven million three hundred thousand special drawing rights (SDR 7,300,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President

¹ Only innovation and demonstration activities will be funded with the supplementary loan under this expenditure category.