Executive summary

Introduction

1. The Rural Microfinance Development Support Project (PADMIR), with a total cost of US$18.75 million and IFAD financing amounting to US$14.5 million, was created to reduce poverty, raise incomes and improve the livelihoods of smallholder family farmers, women and rural youth with limited opportunities. More specifically, PADMIR aimed to create a more conducive institutional environment for rural microfinance, to ensure that the particular challenges of rural finance were better taken into account by the Government and microfinance institutions (MFIs), and to improve sustainable and affordable access by target groups to financial services that were well adapted to their needs.

2. IFAD financing was approved in September 2008, the loan agreement was signed with the Government in May 2009, and the project entered into effect in May 2010. A midterm review (MTR) was conducted in November 2014, and the project concluded as scheduled on 30 June 2016. The project implementing agency was the Ministry of Agriculture and Rural Development (MINADER) and IFAD was responsible for supervision and loan administration. During the first phase, the project targeted the regions of Centre, West and Extreme North. Following the MTR, the North and Northwest regions were added for the second phase, as planned.

3. The target groups of PADMIR were to be reached indirectly through support to MFIs, including credit unions and outlets of partner microfinance networks (MFNs), of which the target groups were members or potential clients. PADMIR efforts focussed on capacity-building for these MFIs and their apex organizations, their expansion into rural areas by establishing new credit unions and outlets, and adaptation of financial products to the needs of target groups.

4. Supplementary financing was approved by IFAD in September 2012 to set up a Facilitation Fund (FF) to refinance medium-term credit for farm equipment. The FF operations did not start until 2014 because of delays in the selection of international technical assistance to manage the fund. A study on FF institutionalization took place in 2015-16, and specific terms and conditions for institutionalization are still under discussion.

Main evaluation findings

5. The overall project approach of supporting MFIs to improve rural people's access to financial services was justified, aligned with best practice, and consistent with the economic context and the strategic and policy orientations of both Cameroon and IFAD. However, to focus support on the expansion of microfinance services by rather weak MFNs, combined with the high complexity of the project (eight subcomponents, at least 26 partners, five regions and two intervention modalities), resulted in fragmented efforts and resources. Project efficiency was undermined by major implementation delays, very high operating and technical assistance costs compared to results, and low internal returns.

6. PADMIR built the capacities of MFNs to expand their services in rural areas, leading to a net increase in the number of members and savers for all partner MFNs and a considerable increase in the number and volume of credits granted by three of the seven supported MFNs. The project provided various kinds of support to a number of credit unions and outlets and their apex organizations or head offices, including training, development plans, procedures manuals, equipment and buildings. The support, which exceeded its target, was appreciated by beneficiary MFNs to varying degrees, calling into question in particular the value added by specific methodological support. In the absence of data, no objective conclusions can be drawn on the achievement of PADMIR's expected outcomes, nor can a direct causal link be established between the support provided and MFI performance. The

sustainability of any improvements will depend on the long-term financial performance of the supported credit unions and outlets. PADMIR also supported the creation of new credit unions and outlets. These were fewer than planned, mainly because of the networks' reasonable concerns about the costs and risks of setting up new credit unions or outlets in remote rural areas. This point underscores the limited relevance of creating new credit unions or outlets without considering their potential viability. The relevance of the project having supported two particularly fragile networks is also questionable. Despite PADMIR support, the accreditation of these networks was withdrawn by the Central African Banking Commission at the project's end.

7. New product development suffered from a lack of clear definition in the component. The project introduced dispersed, small-scale pilot initiatives with very little assessment, learning or dissemination of experiences. As a result, it had no significant impact on adapting the supply of financial products and services to the needs of smallholder producers, women and young people, or on expanding the scope of such services in rural areas. The effectiveness of the FF was limited by its inadequate operation modalities and weak MFI capacity. The duration of fund operations was too short at 22 months, when it was suspended abruptly upon PADMIR's completion as a result of the disagreement between IFAD and the Government on fund management prior to its institutionalization. No action was taken to improve MFI access to commercial bank refinancing, which would have created opportunities for sustainability and scaling up.

8. The interventions put in place to improve the institutional environment for rural microfinance were too small in scale and had little effect on the public agencies, whose actions are limited by budget constraints. As a result, the project's impact on the overall environment for rural microfinance in Cameroon was negligible.

9. Although the project results and impact assessments appear to indicate positive trends, no credible conclusions can be drawn about the project's impact on household incomes and assets, agricultural productivity or food security. Moreover, steps taken to improve farmers' access to natural resources, technology and markets, which is essential for farmers to take full advantage of rural financial services, were poorly conceived and developed by the project, so that the likelihood is quite low that any impact on rural poverty can be directly attributed to the project.

10. The project's sustainability strategy was based on capacity-building for private-sector actors specializing in microfinance. However, several project decisions lowered the probability of sustainability, such as taking on recurring expenditures of the Ministry of Finance Microfinance Division and creating new credit unions and outlets within low-performing networks rather than further strengthening existing ones. With respect to institutionalizing the FF, there remain a number of unknowns in the institutionalization scenario selected by MINADER, which makes it hard to evaluate its relevance. In addition, the fund experience was too short to develop internal expertise within MFIs or the Government around medium-term rural finance.

11. The Government approved a second phase of the project, PADMIR 2, which is currently being fully financed by the Government. PADMIR 2 is intended to continue to strengthen MFIs and adapt financial products to the needs of rural people on a larger scale. PADMIR 2 will also, during a first phase, manage the FF prior to institutionalization, whereas IFAD would like the Agropastoral Youth Entrepreneurship Programme to take over management with support from the international technical assistance which provided support to the first phase. Considering the Government's recent budget problems and the lack of external technical assistance in PADMIR 2, the evaluation has doubts about the ability of PADMIR 2 to effectively scale up the results of phase one.

12. Despite preparation of a gender and youth inclusion strategy, the actual interventions by PADMIR to promote gender equality and women's empowerment were limited in scope and poorly documented. The target of 30 per cent women among credit beneficiaries was attained, but did not indicate an improvement compared to the baseline situations. Trainings and workshops were organized to create gender awareness and launch the development of a gender assessment and action plan in each partner MFN, but those outputs were hardly used.

13. As PADMIR was an institutional development project focusing on rural microfinance, environmental and natural resource management and adaptation to climate change were not among its concerns. Nevertheless, it is highly unlikely that the project had any significant adverse environmental impact. However, several opportunities could have been seized to use rural financial services to build the resilience of smallholder producers to climate change: specific products to finance adaptation measures such as irrigation, erosion control, and annual and perennial crop associations; crop insurance schemes; or simply diversification of economic activities. The project could also have innovated by helping MFIs to better assess climate-related risks in granting credit, possibly providing a bonus to clients who take specific action to reduce their climate vulnerability.

14. Although IFAD carried out regular quality support and supervision activities, it shares responsibility for weaknesses in project design and ought to have diversified the teams of consultants employed in supervision, monitoring, and preparing the MTR and completion report. IFAD could also have been more decisive on the question of institutionalizing the FF. The Government's implementing agency carried out its steering role without being very active in project supervision. Counterpart contributions exceeded planned amounts but were often transmitted late. The project coordination unit underwent difficult times with high staff turnover at the beginning of the project and poor fiduciary management capacity, but showed improvement as of 2013 with the replacement of several key officers and stronger involvement of partner MFNs in project implementation. Project monitoring and evaluation was overly complex and ineffective, requiring partner MFNs to provide detailed performance data on a monthly basis, which most were unable to collect regularly from their credit unions and service points. Baseline and impact studies were of moderate quality, providing little evidence that changes in the different IFAD impact domains could be attributed to project interventions.

Conclusions

15. In conclusion, the project was relevant to the policies and strategies of IFAD and the Government, and its design was broadly in line with good practices in rural microfinance projects. However, considering its resources and duration, it was very ambitious to combine three objectives: to strengthen relatively low-performance MFIs; to create new credit unions and service points; and to build internal expertise to develop a range of services adapted to a diverse range of smallholder farmers, women and youth. The project was designed without a thorough understanding of the country context and the financial market. Furthermore, the project did not develop the planned partnerships with other projects in the IFAD portfolio, which could have provided technical and managerial support to small producers to help them take full advantage of new financial services.

16. As a result, the project has experienced start-up and implementation difficulties. It has been able to provide support to partner MFNs that responded to their needs, but in a disparate way and generating results with limited sustainability. The project did not provide sufficient opportunities for MFNs to exchange experiences, which would have allowed for lessons to be learned and disseminated, particularly on the financing of smallholder agriculture. The FF, which was to refinance MFNs to promote medium-term agricultural credit, encountered start-up, methodological and management difficulties. These limited the number of medium-term credits granted and the FF's impact on the internal capacity of MFNs. To ensure

sustainability of the mechanism, the project committed to the institutionalization of the fund, but this is still uncertain to date.

17. Consequently, the impact of the project on rural poverty, which is otherwise difficult to demonstrate due to weaknesses in monitoring and evaluation, is uncertain. The evaluation could not affirm a significant and lasting impact on the institutional environment of rural microfinance in Cameroon, on the performance of partner MFIs, or on the availability of financial services that are well adapted to the conditions and needs of small producers, women and youth. It is also unlikely that access to natural resources, technology and markets has improved, which is essential for the rural poor to fully benefit from better access to rural financial services.

Recommendations

18. **Recommendation 1. Simplify the design of rural microfinance projects, with better integration into the country programme**. Projects in support of rural microfinance should be better defined, with a narrower scope in terms of objectives, intervention modalities, partners and geographical areas, in order to facilitate effectiveness and efficiency, particularly in implementation contexts exposed to multiple risks and therefore deemed difficult. The role and objectives of capacity-building vis-à-vis each microfinance partner should be clearly defined on the basis of a needs assessment and business plan. When the lead-time between project formulation and start-up is long, it is necessary to update design on the basis of a verification/validation study of baseline assumptions, particularly around market conditions and demand.

19. In addition, a purely rural microfinance-oriented project must be well integrated into the IFAD country programme as a whole if it is to maximize complementarities with other projects and non-lending activities. In fact, as demonstrated by the PADMIR theory of change, only a judicious combination of improved access to rural finance services – under the rural microfinance project – and technical and entrepreneurial strengthening of targeted populations and their organizations – under other projects in the portfolio – can generate the desired impact on agricultural productivity, incomes and food security for poor rural people. Furthermore, rural microfinance projects should receive significant support from IFAD, the Government and its development partners to capitalize, institutionalize and scale up innovative experiences.

20. **Recommendation 2. Select sound partner microfinance networks based on judicious institutional assessment**. A project intended to act on the supply of financial services by introducing new products and services must above all target sound MFNs with management and innovation capacity, using incentives – such as facilitated access to market resources to reach a new client base and technical support to adapt services – that are based on their performance, and without project interference in internal MFN policies and procedures. Accordingly, the selection of partner MFNs should be thorough and proactive so as not to limit it to MFNs responding to calls for proposals by the project. This partnership selection process should be conducted in several stages and with strict performance criteria so as to select only MFNs presenting strong capacities in terms of implementation and sustainability of services.

21. **Recommendation 3. Meet key requirements for setting up new para-statal institutions.** Prior to financing a process to set up a new para-statal institution, whether financial or otherwise, IFAD should ensure that certain conditions are met:

    (a) The existence of a solvent market that is large enough to ensure that the institution is financially viable;

    (b) A proven economic model from the outset that builds in the cost of expertise needed for good performance and the future cost of financial resources;

(c) The new supply of services generated does not cause market distortions or crowd out private providers already in place; and

(d) Opportunities to strengthen existing private supply have been considered as an alternative to creating a new mechanism.

22. **Recommendation 4. Continue supporting medium-term agricultural credit in Cameroon.** IFAD should step up its efforts to engage with the Government, donors and partner MFNs on the issue of institutionalizing the FF. First of all, concrete recommendations should be presented to the Government on how to fill the gaps in the current proposal on FF institutionalization – e.g. validating market assumptions and the economic model, and more clearly defining the nature of governance and operating costs – to give the proposal more credibility among donors and partner MFNs. At the same time, in the short term and if interest exists among well-performing MFNs, the Government and IFAD could consider allocating a line of credit to one or two sound MFNs that wish to develop their medium-term agricultural financing portfolio. The line of credit should be equipped with conditions around targeting, objectives and performance, on which the MFN should report regularly. An independent assessment should then be conducted jointly by the Government and IFAD within two or three years to draw lessons learned from these two experiences carried out in parallel.