ICR Review
Operations Evaluation Department

Report Number : ICRR11106

1. Project Data:		Date Posted : 08/13/2001		
PROJ ID:	P000120		Appraisal	Actual
Project Name :	Rural Credit II	Project Costs (US$M)	10.0	8.9
Country:	Benin	Loan/Credit (US$M)	3.8	3.8
Sector(s):	Board: RDV - Central government administration (82%), Sub-national government administration (18%)	Cofinancing (US$M)	6.2	5.1
L/C Number:	C2529			
		Board Approval (FY)		93
Partners involved :	CFD/FAC (France) , SDC (Swiss Development Cooperation)	Closing Date	06/30/1999	12/31/2000

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2. Project Objectives and Components

a. Objectives

The project's broad objective was to continue the rehabilitation and strengthening of the network of rural savings cooperatives initiated under the First Rural Savings and Loan Rehabilitation Project . Henceforth the apex organization or Federation of individual savings and loan cooperatives (S&L) or CLCAMs is referred to as FECECAM. The project supported the development of a privately owned (cooperative) financial intermediation system in rural areas.

- The SAR states "*The specific objectives of the project would be to assist the Network in establishing an efficient institutional structure and making substantial progress towards financial viability . It is expected that by the end of the project, all primary level cooperatives (CLCAMs) would not only break even financially, but also finance up to 30% of the Network's regional and national levels* "
- At appraisal, policy-based rules and targets were established for (a) lending and loan recovery; (b) financial autonomy; (c) opening and closing of CLCAMS; (d) socioeconomic investments; and (e) financial performance.
- Rules and targets for (b) included: (i) a growth rate of deposits of 15%/annum; (ii) a limitation on the use of external credit lines to a maximum of 30% of deposits; (iii) CLCAMs were to contribute up to 30% of profits to finance the network costs.
- Specific targets set for (e) were: (i) reduction of losses by URCLCAMS (regional union of CLCAMS) so that in project year 5 only 15-25% of such losses would have to be covered from external sources; (ii) a substantial increase in the ratio of profit to administrative costs for all levels of the network (varying between 320 and 380%); and (iii) a review of cost structure for the regional and federal levels at mid -term.
- In response to "undesirable trends", and enabled by the improvement of MIS systems, a more comprehensive set of indicators and "financial ratio analysis" were introduced in 1997, building on the logical framework introduced in the same year. There was one major revision, the target for "loans:savings ratio", was raised from 50% to 85% because of the need to improve profitability . FECECAM set additional targets for (i) membership as a percentage of eligible population; (ii) access for women; and (iii) quotas for representation by beneficiary groups in the democratic organs of the network .

b. Components

The project costs of $14 million comprised:

1. **Support to CLCAMS (26%) -** for operating costs of new units, provision for past losses and for physical rehabilitation.
2. **Support to URCLCAMS (20%)** - to cover operating costs for a part of current expenses and vehicles .
3. **Support to CPU (the Central Project Unit) and FECECAM (54%)** - for staff and operating costs, technical assistance, vehicles, training equipment, computerization, studies, research, training and audits .

c. Comments on Project Cost, Financing and Dates

Although appraised in 1992 and approved in 1993, the project did not become effective until December 1995 owing to lengthy negotiation between the Borrower and donors.

3. Achievement of Relevant Objectives:

The targets established in 1997 were revised in 1998 and were being achieved at this time. At one time considered an example of best practice, by the project's end the system was in need of a recovery plan and major management changes:

Outreach - a coverage of 18% was achieved with 300,000 individual members, each representing a family. The target was 14%. During the project period the number of CLCAMs doubled to 96 and in addition 56 Caisse Villageoises (provisional local cooperative credit and savings societies) were established under CLCAM supervision.

Financial Viability - measured against the specific objectives set in the SAR, the outcome was unsatisfactory. The CLCAMs did not break even, falling far short of the requirement that 90% be financially viable at all times, and that full financial autonomy of the network be achieved in 2001. In 1999, 26 out of 96 CLCAMs made an operational profit (27%.) The subsidy-dependence index was 79% at the end of 1979 (this means that in order to cover all expenses either the lending rate needs to be raised by 79%, or that 44% of costs must be covered from external sources.) When arrears were above 10%, lending was automatically stopped, regardless of the creditworthiness of individual loan applicants. This has led to negative profitability.

Credit Discipline - The target was to be 97% recovery at all times. The average in September 2000 was 70% with only 6 of 96 CLCAMS reaching the target.

Prudential Ratio or Loans:Saving Ratio - this was achieved and declined to about 35% because of automatic suspension of lending by the large number of CLCAMs that exceeded the 10% overdue limit.

Ownership and Autonomy - The federation was established and its administration and MIS now work satisfactorily. FECECAM is also managed outside of day-to-day Government control, by elected officials and staff recruited on the open market. The URCLCAMs are now service organizations, providing assistance in accounting and management as well as an inspectorate.

4. Significant Outcomes/Impacts:

1. The federation and regional unions developed their capacity to plan, monitor and lead the cooperative credit and savings societies in Benin. The policies, manuals, procedures and practices, and monitoring systems provide a good basis for operating the network efficiently.
2. Despite losses made during the past two years, network capital is still positive due to prudent reserves for losses in the past.
3. By the project end, the MIS could produce necessary information without substantial delays, although accounting, financial control and MIS did cause frequent concerns during implementation.
4. Following the February 2000 Bank supervision mission, elected officials were relieved of control in 52 of the 96 CLCAMs and placed under direct supervision of FECECAM.
5. A recovery plan has been prepared for the network, with the support of the Canada-based Desjardin organization. It is the third attempt to assist the cooperatives become self-sustaining but none of the three main project co-financiers (IDA, Swiss Development Agency and French Agency) will consider further assistance to FECECAM, because "all believe that the period of their assistance has been long enough to permit FECECAM to become self-sustaining."

5. Significant Shortcomings (including non-compliance with safeguard policies):

1. The project design did not require a formal financial model for monitoring, evaluating and managing performance. Such a model would have linked proforma profit and loss statements, balance sheets and cash flow. The purpose would have been to allow management to make consistent predictions of the consequences of different actions. The Bank and other donors either failed to ensure appropriate expertise was available, or FECECOM disregarded it. "Banking education and experience in rural credit schemes" or "experience in agricultural credit" were not adequate descriptions of the technical skills required for supervision.
2. External auditors and teams financed by the co-financiers were unable to influence management decisions at the CLCAM level, while local politicians were successful at interfering with repayment commitments, especially of larger borrowers. Despite adequate "doomsday warnings" from supervision teams and auditors, "FECECAM staff and administration may have thought that meeting the outreach and other social targets, introduced later in the project life, following new trends in the Bank, was more important than improving the financial viability of the network, perhaps encouraging them to prepare their very ambitious 5-year expansion plan in 1997."
3. FECECAM management was unable to persuade boards of administration and annual general meetings to take the steps necessary to halt the trend of increasing arrears from large borrowers, or to close down CLCAMs whose capital base had eroded.
4. Lack of a coherent human resources development policy and below-market salaries led to many skilled staff leaving for more attractive employment, and FECECAM experienced constant staff shortages. The Federation prepared accelerated expansion plans without taking full account of the resulting costs and demands placed on human capacity. The Bank was perhaps too slow in reining in local euphoria and warning about the dangers of expansion.
5. Even after 5 years of project experience the ICR concludes "It is unclear to what extent the problem CLCAMs can be blamed on the performance or management inadequacies of the regional unions."
6. FECECAM allowed external donors to continue putting loanable funds through the network, exceeding its

capacity and reducing the "psychological responsibility for repaying the loans (the members' argument that "the money that we borrow is saved by ourselves; we have to repay it " became partially invalid.)

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Satisfactory	
Institutional Dev .:	Substantial	Substantial	
Sustainability :	Likely	Non-evaluable	The FECECAM/Desjardins recovery plan is being implemented, but with existing capacity and the withdrawal of technical assistance, and an SDI of 79%, the network faces a tough challenge on the sustainability of its operations. Based on the information avaiable at this time, OED rates sustainabililty as non-evaluable.
Bank Performance :	Satisfactory	Satisfactory	
Borrower Perf .:	Satisfactory	Satisfactory	
Quality of ICR :		Satisfactory	

NOTE: ICR rating values flagged with ' * ' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

1. A detailed business plan, incorporating a formal "live" financial model is needed for managing the network. A model requires no more than basic accounting and a knowledge of spreadsheets . The inputs are the variables management has some control over - e.g. the interest rates on borrowing and lending, lending policy/procedures, advertising and promotion expenditures, liquidity and bad -debt reserves. A model would have highlighted the need to produce enough income to cover expenses and illuminated trade -offs. Having a predictive framework, even an imperfect one, would have allowed the setting of annually revised financial objectives, perhaps achieving a controlled expansion and definition of phases when adjustments in the policies and practices needed to be made. As it was, the concentration on outreach targets and capping of lending, regardless of the creditworthiness of individual borrowers, reduced interest revenue, and increased overhead costs leading to operating losses and erosion of capital .
2. Appropriate delegation of powers to executives or higher organs in the vertical structure, may improve performance of weaker units. This is now being attempted by FECECAM. The democratic governance common to all cooperative societies may not be the best organizational form for a bank . This project supports the view that financially naive committee members often make poor strategic decisions, and additional self -interested pressures from the members at large is easily succumbed to .
3. The financial situation of a microfinance institution, although originally satisfactory, can deteriorate very quickly, endangering the sustainability of the institution. The supervision missions were judging both implementation progress and development objectives as "Highly Satisfactory" for the first 5 years.

8. Assessment Recommended? ● Yes ○ No

Why? A database exists for a more complete evaluation of the lessons learned . There are enough positive elements in this story to justify reconsidering withdrawal of all TA . An independent review may be one way of facilitating such a reconsideration. The PAR should also more thoroughly investigate the sustainability of project outcomes.

9. Comments on Quality of ICR:

Satisfactory. The ICR is adequate for establishing appropriate ratings but :

- The MIS is said to be adequate and timely, but the latest data refers to the end of December 1999 while the ICR is dated June 28, 2001.
- Given the richness of detail in the SAR and the availability of corresponding MIS data, the ICR could have improved its explanations by including a comprehensive annex of historical financial information .