



1. Project Data :
OEDID: C2459
Project ID: P001571
Project Name: Rural Finance Technical Assistance Project
Country: Madagascar
Sector: Agricultural Credit
L/C Number: C2459-MAG
Partners involved :
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2. Project Objectives, Financing, Costs and Components :
Objectives : To stimulate the creation of rural savings and loans associations at grass roots level to provide financial services on a sustainable basis and, overtime, develop banking relations with the formal financial system .
Components : (a) support for the creation and development of savings and loan associations (SLAs) with technical assistance from specialized non-governmental organizations; (b) support to the Mutual Savings and Loan Development Association (ADMMEC) for project management, monitoring and evaluation; (c) provision of basic and entrepreneurship training for rural microenterprises . The project closed on December 31, 1997, as planned.
Project Costs and financing : appraisal estimate US\$4.6 million; actual US\$4.82 million; IDA credit US\$3.8 million.

3. Achievement of Relevant Objectives :
The project met its primary objective of introducing a new approach to rural finance . The legal and regulatory issues were addressed through the promulgation of the necessary laws and three networks with a total of 54 savings and loan associations were created, exceeding the appraisal target of 29 SLAs. The SLA networks have mobilized a significant amount of savings and have made substantial progress towards self -sustainability. Progress on the technical assistance and training components was initially slow; however, belatedly progress was made and the naturally slow institutional building process is expected to continue for some time . The goal of self-sustainability, however, is proving to be a challenge to the SLAs, and as a result they have started to include urban areas in their operations (8 of the 54 SLAs are in urban areas).

4. Significant Achievements :
A shift in the paradigm to rural finance towards a more sustainable, savings based, and grass roots oriented system for delivering rural financial services .

5. Significant Shortcomings :
Slow progress in delivering technical assistance and training in a project designed to be a technical assistance project. The problem appears to have been over-optimism at appraisal on the pace of capacity building and institutional development.

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Satisfactory	Satisfactory	
Institutional Dev .:	Partial	Modest	Equivalent rating in OED terminology
Sustainability :	Likely	Likely	
Bank Performance :	Satisfactory	Satisfactory	
Borrower Perf .:	Satisfactory	Satisfactory	

Quality of ICR :

Satisfactory

7. Lessons of Broad Applicability :

1. Institution building, especially in rural finance, is a slow process and requires patience and constant vigilance. It is also very costly (Bank staff costs alone amount to US\$511,000 for a credit of US\$3.8 million).
2. Sustainability is achievable given political and macro-economic stability, and emphasis on savings mobilization, portfolio quality, and positive real interest rates. The experience from this project, however, indicates that the goal of sustainability may be difficult to achieve for institutions operating exclusively in poor and sparsely populated rural areas.
3. Bank policy needs to be consistent across sectors. In this case, the Social Fund program financed by the Bank was disbursing subsidized loans, undermining the financial discipline advocated by this project.
4. There is also need for a consistent policy by the Borrower to coordinate the various rural finance schemes of different donors.

8. Audit Recommended? Yes No

Why? An innovative approach which appears to be working well. It would be instructive to learn from the project's experience about the feasibility of such an operation in poor rural areas and its implications for financing agricultural activities.

9. Comments on Quality of ICR :

The ICR is rated as satisfactory as it summarizes the key elements reasonably accurately. However, it lacks information on key impact indicators such as the repayment rates for SLA loans, other financial and performance data on the SLAs, the rural -urban distribution of the SLAs and their members.