PADME, Benin: Scaling Up a Successful Pilot

On the surface, PADME (Projet d’Appui au Développement des Micro-Entreprises) is one of the most profitable African microfinance institutions (MFIs) that report to the Bulletin. Although this profitability is partly due to low cost funds and under-investment in management and operating systems, in the five years since its creation, PADME has built an efficient operation with solid growth in outreach. It serves predominantly women petty traders in two urban centers in Benin, with loans averaging US$400.

PADME was created as a project in 1993 by the government of Benin, with funding from the World Bank. Initially, it was part of a broader initiative to offset the social effects of a structural adjustment package. The program’s vision was to provide business credit to a broad base of clients, serving those who could not access traditional bank financing. PADME differs from many African institutions because it does not focus specifically on serving the very poor. In this respect, it more closely resembles many Latin American microfinance institutions.

Its origins as a government project have created challenges for PADME as it pursues the goal of becoming an independent institution. The initial World Bank funding for PADME ended in 1997. Three years later, negotiations for its renewal have finally been concluded, although the agreement is still awaiting final government approval in Benin. By the time these political and administrative hurdles are overcome and the agreement with the World Bank is implemented, the first disbursement may not be forthcoming until the summer of 2000 (sic).

Paradoxically, PADME’s funding constraints may have also fostered its strengths as a microfinance institution. Led by a dynamic general manager, the institution has met the challenge by streamlining its operations and diversifying its sources of financing. PADME’s position as one of the most profitable MFIs in Africa is a direct result of its strong efficiency and tight operations.

Growth and Outreach

Despite its funding crisis, PADME has grown steadily by recycling its existing resources and, to some extent, by accessing alternative sources of funds. As shown in Figure 1, the number of borrowers tripled between December 1996 and June 1999, while the outstanding portfolio more than doubled, although the pace of growth has slowed considerably due to limited loan capital.

PADME serves a broadly-based market, with an average balance outstanding per borrower of US$404 as of June 1999. As shown in Figure 2, PADME’s ratio of loan balance to per capita GDP (106 percent) is lower than its peer group (Africa/MENA, 141 percent), but it is twice that of all African MFIs (53 percent). To serve its broadly defined target market, PADME employs a mixture of solidarity group and individual
lending methodologies; group borrowers represent approximately 35 percent of active clients.

Although PADME’s average loan balance is large by African standards, Figure 3 shows that the organization serves a large number of smaller clients. About 60 percent of its borrowers have outstanding balances of less than US$500, which constitutes 17 percent of the portfolio. PADME’s larger loans allow it to serve poorer clients in a cost-effective way, as they help to cross-subsidize the smaller loans.

**Sustainability**

PADME’s financial results are impressive, with a positive adjusted return on assets of 9.3 percent as of June 1999. As shown in Figure 4, this return is exceptional compared to similar institutions in Africa.

The institution’s reported performance is not strongly affected by the *MicroBanking Bulletin*’s adjustments to its financial statements, mainly because of relatively low inflation and interest rates in Benin. PADME’s loan portfolio has been primarily funded through the World Bank (IDA) loan, which generated the bulk of its institutional capital. PADME is not highly leveraged, as reflected in its Capital / Assets ratio of 72 percent (see Figure 2). The remainder of the portfolio is funded through compulsory savings equivalent to approximately twenty percent of the portfolio, and through a concessionary loan from the West African Development Bank. In addition, PADME has access to short-term financing from EcoBank and Financial Bank.

The main factor behind PADME’s current profitability is its low operating expense ratio, shown in Figure 5. This low expense ratio is due to a combination of relatively large average loan sizes and the fiscal discipline imposed by its funding constraints. To a certain extent, PADME’s low operating expense ratio is inflated by an under-investment in infrastructure, as discussed below. However, it has also led to tightly controlled growth, which will serve the program well in the future.

**Interest Rate Policy**

PADME’s interest rates are lower than other African MFIs. Its portfolio yield as of June 1999 was 24 percent in nominal terms, compared to the average of other MFIs in its peer group of 30 percent, which translates into a real portfolio yield of 23 percent for PADME and 22 percent for its peer group. Lower financial expenses due to Benin’s moderate inflation and prevailing interest rates have allowed PADME to charge lower interest rates than its peers while achieving a higher net interest margin.

PADME charges a nominal monthly interest rate of 2 percent paid on declining balances, with an initial fee of 1 percent. Compulsory savings of 10 percent are required as a condition of the loan, and interest is not paid on these savings. The average loan term is one year, and payments are monthly. On this basis, PADME’s annualized effective interest rate is 31.4 percent.

Management at PADME believes that its interest rates are too low to support a commercially viable operation. While the rates are sufficient to cover PADME’s current operating expenses, an increase in operating expenses related to expansion or commercialization could endanger the institution’s future profitability. However, PADME is prevented from charging higher interest rates due to usury restrictions of the PARMEC law. In addition, its main competitors, such as VITA’s Microbank and FECECAM, charge equal or lower interest rates. New commercial entrants to the market, such as FINADEV, a subsidiary of Financial Bank, will be limited to charging 18 percent APR by the usury laws that apply to banks.

**Efficiency**

As shown in Figure 7, administrative expenses are very low for PADME, both in comparison to its peer
group and to all African MFIs. At 11.5 percent of average loan portfolio, they are approximately two-thirds of the peer group average of 16.7 percent. This strong efficiency is based on a number of factors: PADME’s funding constraint has required the institution to find creative ways of stretching its scarce resources; it has avoided significant expenses of back office and loan repayment systems by utilizing the services of specified bank branches at no cost; and it has focused operations on urban areas.

PADME has achieved high productivity compared to its peers. On average, staff members manage 182 clients, more than double the peer group average of 69. This productivity more than compensates for its smaller average loan balance (106 percent vs. 141 percent of GNP per capita), and slightly higher salaries (11 times vs. 10 times GNP per capita).

Like many MFIs, PADME intended to expand its portfolio through new branch offices and increased geographical coverage. However, expansion toward the interior of Benin has been delayed while the funding situation is resolved. Instead, PADME has deepened its coverage of the markets served by its existing branches. PADME extended the market of its two branches, in Cotonou and Porto-Novo, by establishing four small lending units to serve other areas of the cities. Deeper penetration of local markets contributes to PADME’s high staff productivity. On average, loan officers manage close to 400 clients.

Wages are on par with other African institutions and also with the formal financial sector in Benin. However, average staff salaries have declined sharply since 1997, contributing to PADME’s impressive expense ratios. This decline is due to salary freezes and an under-investment in staff. For example, a key manager left the program in 1998 and has not been replaced. PADME’s current management is overstretched, and intends to fill vacant senior management positions in early 2000 (sic).

PADME’s clients currently repay their loans through branch offices of banks. This arrangement has allowed PADME to avoid the investment in cashiers and security personnel in its own branches. Management believes, however, that this system will not be sustainable as the number of clients grows. At least one of the banks has expressed an interest in entering the microfinance market itself, and PADME has no desire to hand over its best clients to its bankers. Even in the absence of competitive pressure, the volume of transactions is becoming too large for the banks to handle. It will be necessary for PADME to invest more in the capacity of its own branches in the future.

Despite these issues of under-investment, PADME has achieved significant gains in efficiency. Due to the efforts of a strong management team, the institution has continued to grow solidly during a period of tight funding. As a result, PADME is in a good position to expand quickly once its funding restrictions are resolved.

Conclusion

PADME has recently received additional funding from USAID for loan capital and technical assistance. These resources, combined with its new relationships with local banks, gives PADME access to the resources it needs to quickly scale up its operations. Plans are underway to invest in the capacity of management and branch-level operations. Now operating with a comfortable profit margin, PADME is also able to build its institutional capital to continue its growth in outreach.


This article, by Jennifer McDonald, Calmeadow, is reprinted from the MicroBanking Bulletin, February 2000, with minor editing and additional comments in brackets. The World Bank expresses appreciation to
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