

**UNDP MICROFINANCE
ASSESSMENT REPORT
FOR
Benin**

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A. Abbreviations, Acronyms, Currency Equivalents, Fiscal Year, Official Poverty Indicators

AGEPIB	Agence de Promotion des Initiatives de Base
BAD	Banque Africain de Developpement
BINGOS	Benin Indigenous Non-Governmental Organization Strengthening
BBD	Banque Beninoise de Developpement
BCEAO	Banque Centrale des Etats de l’Afrique de l’Ouest
BIB	Banque Internationale du Benin
BOA	Bank of Africa
CCP	Centre des Cheques Postale
CCF	Country Cooperation Framework
CFA	Communaute Financiere Africaine (African Financial Community--regional currency)
CFD	Caisse Francaise de Developpement (bi-lateral agency)
CGAP	Consultative Group to Assist the Poorest
CIDA	Canadian International Development Agency (bilateral agency)
CLCAM	Caisse Local de Credit Agricole Mutuel (Local Agricultural Credit Union)
CNCA	Caisse Nationale de Credit Agricole
CNE	Caisse Nationale d’Epargne
CRCAM	Caisse Regionale de Credit Agricole Mutuel (Regional Agricultural Credit Union)
coopecs	credit and savings cooperatives
CREP	Caisse Regionale d’Epargne et Pret
CRS	Catholic Relief Services (INGO)
FECECAM	Federation des Caisses d’Epargne et de Credit Agricole Mutuel (Federation of Agricultural Savings and Loan Cooperatives)
GTZ	German aid organization (bi-lateral agency)
GOB	Government of Benin
ILO	International Labor Organization
INGO	International Non-Governmental Organization
ITSP	International Technical Services Provider
LTSP	Local Technical Services Provider
NGO	Non-Governmental Organization (in this document, Beninese organizations)
Oxfam/Q	Oxfam/Quebec
OPT	Office des Postes et Telecommunications
PADME	Projet d’Appui de Developpement des Micro-Entreprises
PAGER	
PAPME	Projet d’Appui de Petites et Moyennes Entreprises
PARMEC	Projet d’Appui a la Reglementation sur les Mutuelles d’Epargne et de Credit (support project for regulations on savings and credit mutuals)
PASMEC	Projet d’Appui aux Structures Mutualistes ou Cooperatives d’Epargne et de Credit (Support project to mutualist structures or savings and credit cooperatives)
PMOC	Programme Management and Oversight Committee (of UNDP)
PNDC	Programme Nationale de Developpement Communautaire (UNDP Benin programme)

PRCG	Programme de Renforcement de Capacite de Gestion (UNDP Benin programme)
PILSA	
PSDP	Private Sector Development Programme (of UNDP)
RBA	Regional Bureau for Africa (of UNDP)
RSP	Relance de Secteur Prive (UNDP Benin programme)
SDC	Swiss Development Cooperation (bi-lateral agency)
SED	Small Enterprise Development
SFD	Systemes Financiers Decentralises (decentralized financial systems)
SMEC	Structures Mutualistes ou Cooperatives d'Epargne et de Credit (or Credit and Savings Cooperatives)
SNV	Dutch development agency (bi-lateral development agency)
SONAPRA	Societe Nationale pour la Promotion Agricole
TRAC	Target for Resource Assignments for the Core (UNDP funding term)
UMOA	Union Monetaire Ouest Africaine
UNCDF	United Nations Capital Development Fund (part of the UN system)
UNDP	United Nations Development Programme (multi-lateral agency)
UNFPA	United Nations Fund for Population Activities (part of the UN system)
URCLCAM	Union Regionale des Caisses Locales de Credit Agricole Mutuel (Regional Union of Local Agricultural Credit Unions)
USAID	United States Agency for International Development (bi-lateral agency)
WB	World Bank

Currency Equivalents

1 USD = 555 CFA

1 USD = 5.8 French Francs

Government Fiscal Year

1 January-31 December

Official Poverty Indicators

GDP Per Capita = \$290

Poverty line income =

Percentage of population below line = 65%

B. Executive Summary

Benin is amongst the poorest countries in the world, and yet there exists tremendous development potential. The primarily rural population of Benin is active in a number of sectors, including agriculture, fishing, livestock raising, petty trade, artisanal activities, transformation of products, and services. Yet the vast majority of these people have little to no access to financial services, limiting their productivity, income, investment, and overall quality of life.

There are a number of groups and institutions that have been created over the years to meet some of the needs for financial services. These institutions, which include member-based organizations and service providing organizations, have done remarkably well, many with no external technical or financial assistance. Currently, however, they are only meeting an estimated 10% of the demand for microfinance.

C. Political And Administrative Structure

Since its creation in 1975, Benin has experienced seventeen years of a Marxist regime, six coups, eight constitutions, and eleven heads of states--a level of instability known in few other countries in Africa or anywhere. Benin was under the military dictatorship of Major Mathieu Kerekou following a successful coup in October 1972. From 1974 Marxism-Leninism was the official ideology until Kerekou renounced it in December 1989 under pressure from a series of public sector strikes initially led by teachers. Early the next year, he called a conference of "all the active forces of the nation," including the previously banned opposition parties. This led to the drafting of a new constitution based on the principles of multi-party democracy, which guarantees: freedom of association, thought, religion, and expression; rights to individual and collective property, both private and public; and equal protection and rights for non-citizens as well as citizens. In March 1991, Nicephore Soglo was elected President, marking one of the first of such transitions in Africa and establishing Benin as one of the exemplary democracies on the continent. The introduction of multi-party democracy and market forces have provided an opportunity for the introduction of new development initiatives. The return to power of Kerekou in the March 1996 elections has not substantially altered the country's orientation, but the atmosphere is still cautious.

Since independence in 1960, Benin has been divided administratively into six departments: Atlantique, Ouémé, Mono, Zou, Borgou, and Atacora. A new law currently being reviewed by the National Assembly anticipates a greater degree of decentralization by creating twelve departments out of the six. Benin is administered by eighteen ministers, covering the range of political and economic sectors.

D. Socio-Economic Situation

Situated in West Africa, Benin shares borders in the west with Togo, in the east with Nigeria, and in the north with Burkina Faso and Niger. It is bounded on the south by the Atlantic ocean. The surface area of Benin is 112,622 square kilometers.

The population of 5.7 million is growing at a rate of 3.1% per year--a pace which will result in the doubling of the population every 21 years. Benin continues to be primarily rural, with an estimated 69% of the population living in rural areas, with an overall population density of 49 inhabitants per square kilometer, although this varies widely, with the south being more densely populated than the north. The major cities are: Cotonou (economic capital) with 487,000 inhabitants, Porto Novo (political capital) with 208,000 inhabitants, Parakou with 66,000, Natitingou with 51,000, Abomey with 54,000, and Kandi with 53,000.

The predominantly rural population is reflected in economic figures which indicate that 58% of the population earns their living from agriculture, with 34% in service, and 9% in industry. Agriculture is mostly rainfed and mechanization is limited. Despite its relatively modest natural resource base, Benin is self-sufficient in food and has been significantly increasing exports of its main cash crop, cotton, over the last 15 years. Food crops including maize, sorghum, millet, yams, cassava, and sweet potatoes, predominate on cultivated lands, but there are also cash crops of cotton and palm oil. Livestock raising and food processing are important economic activities in rural Benin. The informal sector plays a critical role in absorbing populations without access to employment, especially with the significant layoffs from state owned enterprises and public sector jobs. The industrial sector produces primarily consumption goods such as beverages and soap and a few basic commodities such as textiles and cement. Due to its small size and considerable volume of trade with its neighbors, Benin is particularly vulnerable to economic and political developments in these countries, especially Nigeria where lower costs have tended to result in downward pressure on prices of goods and services produced in Benin. A large part of the economic activity, particularly in commerce, services, and reexport of agricultural products is carried out through informal channels.

UNDP's human development index ranked Benin 156 out of 173 countries, marking Benin as among the least developed countries in the world. The GDP per capita is \$290, which has registered only a 6.9% increase over the last 10 years. With structural adjustment initiated in 1989 has come freezes and reductions in public sector hiring as well as degradation of public services and infrastructure. Only 30% of the population has access to health services, 54% to safe water, and 42% to sanitation.¹ The poor, and particularly the rural poor, have borne the brunt of these cut backs. The addition of social dimensions to the government's National Development Programme has been an attempt to mitigate these negative effects through appropriate sectoral adjustment policies. By some estimates, illiteracy runs as high as 70% in Benin. Women and girls tend to be further disadvantaged by lower access than men to education with a 50% lower enrollment. Moreover, women are expected to take up the additional burdens of raising a family

¹ Economist Intelligence Unit, *Benin: Country Profile, 1995-96*. London: The Economist, 1995, p. 29.

and managing the household. Lack of adequate health care results in a relatively high rate of maternal mortality and child malnutrition. Finally, women tend to have less access to sources of finance than men.

Benin is characterized by a warm, humid, and rainy climate, with dusty winds in December and January. The south is much more humid than the north which is drier and has less vegetation. There are two rainy seasons in the south and one long rainy season in the north. Since so much of the country is dependent on agriculture, the lumpiness of income has significant effects on investments and consumption, with the poorest experiencing a "hungry season" prior to harvests. Loan programmes must take into consideration these seasonality factors to ensure that the loans have the desired impact on the clients and that the clients can repay the loans on a timely basis. After having experienced the effects of the 50% devaluation of the CFA in January 1994, the inflation rate increased to over 43% in June 1995. In 1996, the inflation rate declined to 10% according to IMF figures, although the reality in the markets is the consumable items registered increases of over 30%. These increases have affected the price of imported as well as domestic goods. The removal of export subsidies of supplier countries and the increased demand on the world markets for goods such as rice and tomato concentrate have contributed to this price increase. Although the supply at the national level is often insufficient, consumption is marked by a reorientation of demand towards local products. Investment has been primarily in agriculture, industry, construction, and public works.

E. Cultural Context

Benin's culture is determined by the various ethnic groups and diverse regions that make up the country, despite its small size. Nearly 50 different ethnic groups reside in Benin, reflecting the diversity of West Africa. There are six major ethnic groups in Benin: Fon 66%, Bariba 9%, Somba 5%, Fulani 4%, and others 6%, with a commensurate number of languages spoken. In the south, the Fon, Adja, Mina, and Yoruba are predominate, whereas in the north, the Gournatche, Pila-Pila, Bariba, Dendi, and Fulani are the main ethnic groups.

Some of the major characteristics of the different groups are described below. The majority ethnic group in Benin, most Fon reside in the regions of Abomey, Allada, and Porto Novo. After having played a leading role in the country's history, particularly because of their high level of military organization, the Fon are now partial to artistic and intellectual endeavors. They have a reputation of being serious and hardworking. Originally from Nigeria, the Yoruba are active in commerce and like to travel. They are the second most populous ethnic group in the country. The Bariba, originally from Burkina Faso, are pastoralists and cultivators and highly skilled horsemen. The Adja tend to be artists and fishermen. The Fulani are traditionally herders, but now undertake a variety of activities, and are particularly well integrated into society in Benin. The Mina are also part of the intelligentsia of western Benin, playing a significant role in administration and commerce.

Benin has a rich oral tradition, which has served to transmit the history of the Dahomey kingdom. In addition, the arts have flourished throughout the centuries and continue today, including sculptors, tailors, weavers, blacksmiths, etc. Artisanal activities play a major role, particularly in the informal sector.

Five religions are practiced in Benin: animist at 61%, Catholic at 19%, Islam at 15%, Protestant at 3%, and others at 2%.

F. Finance And Banking

In the 1980s, national banks granted extensive credit to public enterprises, the majority of which did not respect traditional banking norms. As a result, by the end of 1987, nearly 75% of the portfolio of the national banks was irrecoverable--a situation which led to the liquidation of the Caisse National de Credit Agricole (CNCA) in 1989, the Banque Beninoise de Developpement (BBD) in 1989, and the disappearance of the Banque Commerciale du Benin in 1990.

After the liquidation of state owned banks, the financial sector in Benin underwent fundamental restructuring. By the mid 1990s, the financial sector consisted of the central bank Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO) ², five private commercial banks, a national savings bank (CNE) and a postal checking center (CCP), a three life insurance companies, leasing companies (including Equibail, set up by BOA), the rural savings and loan cooperative network (FECECAM), non-bank financial institutions (such as Credit Promotion Benin) and an active informal sector.

The central bank can best be described as “a borrower of last resort.” ³ The central bank accepts the excess liquidity of commercial banks and onlends to other banks in the UMOA. This explains, in part, why the commercial banks in Benin have little incentive to compete with each other to provide attractive products and services to clients, and why consequently the transformation rate is so low. The central bank also has a regulatory function, based on Article 44 of the 1990 Banking Law, which accords it the power to take any measures regarding interest rates and other conditions of transactions between financial intermediaries and clients. Until the October 1993 reform, the central bank imposed a maximum interest rate on loans and a minimum rate on deposits. Commercial banks were discouraged from mobilizing long term deposits as they were required to pay higher rates, and therefore resources for longer term loans were also diminished.

In October 1993, the Council of Ministers of the UMOA adopted major reforms, including: introduction of a system or reserve requirements; securitization of consolidated debt of governments to BCEAO; liberalization of deposit and lending rates, provided they remain below the usury rate--defined as two times the discount rate; and replacement of the system of administratively set interest rates on the regional money market by periodic auctions by the BCEAO. The prudential framework in Benin established by the UMOA Council of Ministers in October 1991 and by the national Banking Law of July 1990. This framework covers the conditions to be met to enter the industry, the accounting rules and regulations, the financial transactions rules and regulations, and management norms. ⁴

² The headquarters of the BCEAO are in Dakar, Senegal for the 7 members of the Union Monetaire Ouest Africaine (UMOA). These members are: Benin, Burkina Faso, Cote d'Ivoire, Mali, Niger, Senegal, Togo.

³ World Bank, *Republic of Benin. Country Economic Memorandum: A Policy Agenda for Alleviating Constraints to Sustainable Growth*. October 12, 1995. Pp. 36.

⁴ World Bank, *Republic of Benin. Country Economic Memorandum*. Pp. 37-39.

The private commercial banks in Benin include the Bank of Africa Benin (BOA), Ecobank Benin, Financial Bank, and the Banque Internationale du Benin (BIB), and Credit Lyonnais Benin (subsequently replaced by Continental Bank). Savings increased from 3.7% in 1989 to 11.5% in 1994. The increase in deposits from the latter part of 1995 can be attributed to the return of confidence and stability after the devaluation. Bank credit is mainly used to finance trade, particularly wholesale trade and various services. The shares of manufacturing, and especially construction and public works, as well as transportation are low. The majority of loans are short term, with moderate medium term and little long term financing being made available. In general, the commercial banks are not interested in lending to the microfinance sector, finding the loans too small, too risky, and too costly to administer. Furthermore, it is only recently that some of these banks have opened branches outside of Cotonou and Porto Novo. The Financial Bank has started to indicate interest in the sector. This interest can be attributed in part to its experience with PADME (it provides check cashing and repayment services to PADME clients) in which it has seen the significant volumes of money--even if the loans are small--and the high repayment rates. BIB has also expressed interest in learning more about lending to the microfinance sector.

The CNE and CCP both operate under the Office des Postes et Telecommunications (OPT). The CCP serves primarily civil servants, whereas the clientele of the CNE is more varied. The resources mobilized by these two are redeposited in the commercial banks. Although the amounts mobilized by these two are relatively modest, their potential importance rests on the possibility of reaching a large number of clients through their network of 61 post offices throughout the country, particularly outside the major urban centers. In order to play a more dynamic role, however, the two institutions would require major reforms to integrate them into the financial system and particularly into the prudential framework.⁵ To date, however, these two institutions are not considered major players in the financial sector and there are no efforts underway to reform them.

The life insurance companies consist of the state owned company, SONAR, and two private companies, the Union beninoise d'assurances-vie and Groupe Ama. This sector continues to be under-developed.

The informal financial sector is quite diversified, but tends to be on a small scale. Taxes tend to be absent or limited, capital intensity is weak, technology simple, reliant on customary rules, and based on affective relations. At one end are the traditional tontines and at the other are enterprises which engage in financial intermediation by making loans to other businesses. In between are numerous mutuals, credit and savings cooperatives, and non-governmental organizations which have entered into financial intermediation in Benin. These informal financial institutions tend to reach those who do not have access to formal sector financial services: for example, people living in less accessible areas--particularly rural areas, the poor and those without acceptable collateral. The rate of transformation of deposits into credits is generally far higher in the informal sector than among formal sector institutions.

⁵ World Bank, *Republic of Benin. Country Economic Memorandum*. Pp. 31-32.

The informal financial sector is dominated by the informal commercial sector, which represents approximately 140,000 active individuals in over 97,000 enterprises, compared to only 72,000 people in the informal commercial sector, according to the Programme d'Enquet sur le Secteur Informel.⁶ Besides agriculture, which provides employment for over two thirds of the active population, the majority of workers in the informal sector are found in commerce.

Much of the informal sector is soon to be regulated by the PARMEC law, approved by the Council of Ministers of the Union Economique et Monetaire de l'Ouest de l'Afrique (UEMOA) in December 1993. The Project d'Appui a la Reglementation sur les Mutuelles d'Epargne et de Credit (PARMEC) is an initiative of seven of the countries of the UEMOA--Benin, Burkina Faso, Cote d'Ivoire, Mali, Niger, Senegal, and Togo. This project is managed by the Central Bank of West African States, with technical assistance from Developpement International Desjardins of Canada and funding from the Canadian International Development Agency (CIDA). The law anticipates only three types of savings and credit institutions: (1) mutualist institutions and similar organizations, to which the law applies; (2) savings and credit associations, defined as loosely structured institutions, including tontines and informal savings groups, and which will not be governed by the law, but could apply for recognition in order to legalize their operation and provide privileges such as tax exemption; and (3) other institutions, which will be regulated by the banking laws of each country, or by a 5 year renewable contract ("convention cadre") negotiated individually with the Minister of Finance, rather than the PARMEC law. The benefits of being included under the PARMEC law are protecting the name of the institution, exempting it from taxes, and legalizing its operations. These institutions will also be subject to the usury law, which prohibits charging interest rates more than two times the discount rate. If subject to this law, a number of informal sector institutions currently operating in Benin would not be able to cover their operating and financial costs.

The PARMEC law was passed by Benin's National Assembly in August 1997--Benin was the last country of the seven to pass the law. The law and decrees have not yet been promulgated, however. It is unclear what effect the PARMEC law will have on microfinance institutions in Benin. While some regulatory and prudential framework is certainly desirable, the PARMEC law seems to place an excessive burden on smaller, less sophisticated mutuals in terms of monitoring, supervision, and reporting. More importantly, by not explicitly addressing non-mutualist institutions but instead consigning them to sign 5 year contracts with the Ministry of Finance, the law implies that non-mutualist institutions may use this time period to comply with the requirements of mutuals. The microfinance institutions currently operating in Benin have adopted their institution type and do not intend to change it, however. The challenge for the sector is thus to work together and with the Ministry of Finance to develop an appropriate "convention cadre" which can be utilized for non-mutual institutions, with the objective of providing a suitable regulatory and prudential framework, without placing an excessive burden on those subject to its laws. Part of these negotiations will necessarily involve the application of the usury law.

⁶ The Dantokpa Market, the largest in West Africa, is the center of much economic activity in Benin. Nearly 50,000 traders are active daily, roughly half of which have fixed places whereas the rest mobile. The market is also the center of significant informal financial sector activity, with numerous tontines and moneylenders offering financial services.

G. Undp Country Office

1. Strategy⁷

The strategy of UNDP in Benin for the period 1997-2001 is to empower the poor and vulnerable through capacity building. Priority will be given to national efforts to consolidate achievements in the area of democratization, make significant and measurable progress towards poverty eradication, and achieve sustainable economic growth. UNDP will focus on two broad thematic areas: Poverty Eradication and Good Governance. Cross-cutting themes will be Gender and Development, HIV/AIDS, the Environment, and Disaster Prevention and Management.

2. Programme Overview

During the 1997-2001 period, UNDP will concentrate its core resources on three national programmes falling under the two thematic areas identified above. Following is a description of these three programmes.

a. National Community Development Programme (PNDC)

This programme, which falls under the theme of poverty eradication and sustainable livelihoods, will support the government's strategy to promote productive employment and fight poverty by strengthening the capacity of village and other grassroots organizations to enable them to become more self-sustaining, as well as fostering participatory development, empowering communities, and contributing to the decentralization process. It aims to significantly improve the living conditions of urban and rural populations to meet the basic needs of the greatest number of people possible. It will promote prudent local management of natural resources and infrastructure. The programme will be carried out through six sub-programmes: (i) community education and training; (ii) reinforcement of institutional and organizational capacity of communities; (iii) promotion of community managed health and sanitation; (iv) community management of the environment and development infrastructure; (v) development of entrepreneurial capacity at the community level; and (vi) improvement of the institutional and legal framework for community actions. Forty percent (40%) of core resources will be devoted to this programme area.

b. Capacity Building for Development and Institutional Management(PRCG)

⁷ The UNDP strategy and programme overview sections are based on National Strategy Note (which defines the government's top priorities for United Nations' assistance), the Advisory Note (which outlines UNDP's views on how to ensure that its support to Benin's development efforts is based on the country's development priorities and is consonant with UNDP's mandate), and the Country Cooperation Framework (which establishes the basis for cooperation between the country and UNDP).

This programme, which falls under the theme of good governance, will reinforce the government strategy adopted in 1995. This strategy aims to: I) redefine the role of the State; ii) undertake administrative reforms in order to take advantage of modern management practices; iii) develop operational financial management tools; iv) introduce methods and tools to permit more strategic management of the development process; v) introduce modernized information systems to improve monitoring and evaluation of socio-economic indicators; and vi) undertake territorial and management decentralization as a step towards strengthening local government and empowering local communities. Thirty-three percent (33%) of core resources will be targeted for this programme.

c. National Private Sector Support Programme (RSP)

This programme also falls under the theme of good governance. The strategy for this programme centers on: I) privatization as part of the ongoing Structural Adjustment Programme (SAP); ii) improving the regulatory framework to promote private sector growth and create productive employment; iii) instituting continuous dialogue between government and the private sector; iv) strengthening support and services to private enterprises; and v) improving the capacity for growth within the private sector by actively promoting industrial activities, export promotion, industrial free zones, SMIs, etc.

H. Donor And International Ngo Interventions In Sector

1. The World Bank

The World Bank has intervened in the microfinance sector in Benin since 1990 with its support of the rehabilitation of the CLCAMs after the liquidation of the CNCA and the creation of FECECAM in 1994. In addition, it provided the inspiration and financing for PADME and PAPME, government projects designed to improve access to credit of microenterprises and small/medium enterprises, respectively. Other World Bank financed activities which have contributed to the availability of microfinance and more generally the reinforcement of the private sector are the PILSA and AGEPIB projects. In the future, the World Bank will provide support to the sector in the following areas: (1) financing the extension of PADME's activities to Bohican, Ouidah, Parakou, etc. as well as its institutionalization into a non-governmental organization; (2) providing technical assistance to the Ministry of Finance in developing an appropriate standard contract ("convention cadre") for non-mutualist microfinance institutions not currently covered in the PARMEC law and in designing a sound supervision system of these institutions; (3) supporting the development of the Consortium Alafia. CGAP has been involved in this initiative by offering a two day training during the meeting to create the Consortium, and financing additional training for Consortium members. CGAP is looking at ways to continue to support the development of the network, particularly through capacity building; (4) providing financial assistance to FECECAM to enable it to achieve financial sustainability by the year 2007--the current programme will continue until 2001 and no new initiatives are planned.

2. United States Agency for International Development (USAID)

The interventions of the United States Agency for International Development (USAID) in the microfinance sector in Benin are relatively recent and tend to fall under its good governance theme. USAID is still reflecting on further involvement. Current sector interventions are typically executed by international non-governmental organizations, such as Africare and CRS. A project is being prepared to help develop community level income generating activities to help finance local health and education efforts. USAID's appropriate technology project can also be seen as a bridge between appropriate technology development/promotion and microfinance. USAID has been supportive of the development of the Consortium Alafia, a consortium of Beninese and Togolese NGOs working in microfinance.

3. Caisse Francaise de Developpement (CFD)

The Caisse Francaise de Developpement (CFD) is involved in the microfinance sector through their ongoing support to FECECAM, which began in 1988. The CFD anticipates that it will continue to provide some support to FECECAM for an additional 3-4 years; its involvement in the sector will be limited to this institution. Support to FECECAM has included technical support, provision of consultants on both short term and long term basis, establishment of computerized system, construction of a headquarters, and other forms of reinforcement. The CFD has provided grants in the past to FECECAM to help it liquidate its debts at the time of

restructuring. The objective of the CFD's intervention with FECECAM is to help it achieve autonomy--financial and managerial. Other major donors in this effort are the World Bank, the Swiss Development Cooperation, and French Cooperation--all of which now effectively have more funds available for their efforts as a result of the devaluation. The CFD does not plan to provide external funds to capitalize FECECAM, because of the risk of introducing "cold money" into the system which could lead to non-reimbursement. The emphasis from the donor perspective is on consolidation (there are currently 69 caisses), whereas FECECAM is eager to continue expansion. FECECAM also needs to develop new products, especially medium to long term loans--although new savings products will need to be introduced to ensure prudential ratios are maintained. The cooperant representing the CFD was worried about competition for FECECAM from other structures, despite FECECAM's low penetration rate at less than 10% and evidence of strong demand throughout the country for access to microfinance. He felt that, even if these structures did not have the staying power of FECECAM, they could perturb FECECAM's operations.

4. Swiss Development Corporation (SDC)

The Swiss Development Corporation (SDC) has intervened in the microfinance sector in Benin since 1990 with financial support of nearly 1.2 billion CFA for the CLCAM-FECECAM network. It has also provided institutional support on a more modest scale to local NGOs PASSEF and Initiative et Developpement (ID), and more recently to CBDIBA, as well as some smaller local initiatives. Some experiments have included supporting the development of "health mutuals" to help members cover medical expenses as well as financing group income generating activities such as village shops--which also provide better access to local inhabitants to basic goods.

5. SNV

SNV's intervention in the microfinance sector has been primarily with the creation and support of PASSEF. In addition, it supports a number of smaller microfinance initiatives through its other project activities.

6. Catholic Relief Services (CRS)

Catholic Relief Services (CRS) has been active in the microfinance sector in Benin since 1992. CRS now works with three NGOs, CREDESA, GRAPAD, and CERIDAA, using the village banking approach. Together they have launched 59 banks including nearly 2,800 members. Based on the success of its current initiative, CRS is proposing an extension and expansion of this project to USAID to begin in 1998. CRS plans to identify 4-5 additional NGOs, in order to reach 20,000 clients through 400 banks. CRS has played a leadership role in the microfinance sector, with its SED Manager convening NGOs from Benin and Togo in May 1995 to talk about issues in the sector; this eventually led to the creation of the Consortium Alafia, of which the CRS SED Manager was elected President. CRS is a member of the Consortium Alafia.

7. Africare

Africare is a private, non-profit organization dedicated to improving the quality of life in rural Africa, in the following main areas: agriculture, water resource development, environmental management, health and emergency humanitarian aid; it has recently added private sector development and governance. Africare began its activities in Benin in 1993 with the Benin Indigenous Non-Governmental Organization Strengthening (BINGOs) project funded by USAID, which includes ongoing training and strengthening of 21 local partners. In addition to the training, the BINGOS programme offers three types of grants: small institutional support grants to help NGOs professionalize as well as develop income generating activities to provide institutional revenues; micro project grants to allow NGOs to follow through on programme initiatives and gain practical experience; and partnership grants are made to US-based NGOs to train and establish partnerships with BINGOS NGOs. Without initially intending to get involved in microfinance, Africare has found that nearly 40% of requests for micro project grants are in the area of income generation. In addition, a number of the NGOs with which Africare works have a income generation or microfinance component, although it may not directly receive Africare financial or training support. As a result, Africare has become involved in the sector, especially with its recent training on interest rates and dealing with delinquency, subcontracted by CGAP.

8. Oxfam Quebec

Oxfam Quebec support to the microfinance sector is indirectly through promotion of income generation activities for women as components of community development projects. At the level of the group management as well as individual income generation activity management, Oxfam Quebec emphasizes the importance of training and better resource management. It does not anticipate significant involvement in the microfinance sector in the future, partially because there is no in-house expertise in the sector.

9. Conclusions Regarding Donor Support to Sector

Although there has been significant investments by donors in the microfinance sector in Benin, the vast majority of it has been directed FECECAM. This is appropriate given the fact that FECECAM is reaching about 80% of the clients reached by microfinance institutions today in the country. On the other end of the spectrum, is donor support to income generating components of broader community development projects, which although laudable, are unlikely to lead to sustainable microfinance services and enterprise development.

C. Local Institution Interventions in Sector

1. Categorization

The assessment team met with 13 different microfinance institutions during the course of the mission, in addition to the four with which the consultants had extensive contact during previous work. Through the Consortium Alafia, the team had access to information on other institutions active in this sector. The team estimated that there are at least 39 organizations active in microfinance in Benin (See Annex VII). It is likely that there are numerous other local initiatives in the form of tontines, savings and credit groups, village banks, and mutuals, of which the

mission is not aware or was not able to identify during the mission. The assessment team categorized the institutions into six different types: non-governmental organizations--which are active in other areas besides microfinance (27), mutualist organizations (6), cooperatives (2), mutualist-cooperatives--which have characteristics of both (2); microfinance institutions--independent institutions solely focused on provision of financial services (1); and the Chamber of Commerce--which did not fall into the above categories (1). Thirty-one of the organizations examined are members of the Consortium Alafia--the other 5 members of the Consortium from Benin are either donors, international organizations, or do not yet have clients.

The team also categorized the institutions into levels of development, based on the products offered, the systems in place, and the management of the portfolio and institution. According to this classification, 19 institutions are “non-professional,” 10 institutions “semi-professional,” and 10 institutions “professional.”

The geographic distribution of current interventions by microfinance institutions is heavily weighted to the Atlantic department (with 23 institutions intervening in the department), followed by Mono (10) and Oueme (9). There are very few interventions in Borgou (6), Zou (5), and Atacora (3). Although one can find poverty in every department in the country, the three departments with the fewest institutions intervening in microfinance tend to be more isolated with less access to a variety of services.

2. Statistical Profile of Microfinance Sector Institutions

During the mission, the team compiled the self-reported data of 16 microfinance institutions.⁸ (See Annex VIII for statistical profile and Annex IX for institutional profiles) The institutions together reach a total of 249,620 clients/members, of which FECECAM reaches 204,000 (82%). The average number of credit staff is 6.3, which does not include FECECAM. The percentage of women clients falls in the range of 75% to 100%, with the exceptions of Benin-Credit Mutual (28%), FAC-Mono (52%), and UCECO (20%)--no information was provided for the Chamber of Commerce, CREP-2000, or FECECAM. The total amount outstanding in loans is 14,246,180,000 CFA, of which FECECAM accounts for 10,892,000,000 CFA (76%). With two exceptions⁹, the loan size ranges from 20,000 CFA to 2,000,000 CFA. Loan durations are generally 4-12 months, with FAC-Mono and FECECAM offering some loan products of up to 24 months and 36 months respectively (most of their loans are also for 12 months or less). Repayment schedules are overwhelmingly by installments of interest and principal on a monthly basis. Monthly interest rates on loans range between 0.83% to 3.25%; 8 institutions charge at

⁸ The organizations are the following: Benin-Credit Mutual, CBDIBA, CERIDAA, CREDESA, Chamber of Commerce, Convergence 2000, CREP-Sasakawa 2000, Dowe Wou Sin, FAC-Mono, FECECAM, GABF, GRAPAD, PADME, PASSEF, Sia N'Son, and UCECO. The data is for the end of December 1996 or June 1997. The data is self-reported and has not been verified.

⁹ The exceptions are Benin-Credit Mutual with a maximum loan size of 3,000,000 CFA and the Chamber of Commerce with a maximum loan size of 5,000,000 CFA. The team does not consider these two institutions to have a focus on microfinance, although they do offer some microfinance products.

least 2.0% per month, with an additional 5 charging at least 1.25% per month. Ten out of the 13 institutions with information charge interest on the initial loan amount (flat rate) and all of them charge some additional fees. All of the institutions except PADME offer savings services. Total savings is 19,004,568,000 CFA, of which FECECAM has 15,759,000,000 CFA in savings (83%). Interest rates paid on savings ranges from 0% to 1.5%. Self-reported repayment rates range from 73% to 99%. Loan losses range from 0 to 5%. More research is required to ascertain the degree of self-sufficiency of the 16 institutions; the mutuals and cooperatives tend to be better able to cover their costs since they often do not have additional external sources of funds. PADME is also more than covering its operational costs, but this is only after significant investments in equipment and operating costs by donors, as well as access to a line of credit for lending operations.

3. Consortium Alafia

The new and important feature of microfinance in Benin is the emergence of the Consortium Alafia. The roots of its creation was in May 1995 when CRS organized a meeting to discuss microfinance in Benin and Togo and to study the possibility of setting up an information exchange network. Two years later around 50 institutions came together to form a general assembly, elect the executive committee, and outline the main elements of a plan of action. The Consortium Alafia was created in order to provide a framework for reflection, exchange, and harmonization of members' activities in microfinance in Benin and Togo. The goal of the Consortium is to improve the capacity of microfinance institutions to offer better services to the target population. The primary objectives of the Consortium are: (1) to promote the transfer of knowledge and experience to members via exchanges, trainings, workshops, and other means; (2) to reinforce the relations between members and promote regional integration; (3) to facilitate increased access to financing for initiatives promoting microenterprises; (4) to play an intermediary role in between microfinance institutions, government, and partners; and (5) to provide members with tools and training to improve their services to members and clients. Membership to the Consortium is open to all microfinance institutions, upon payment of membership fees of 30,000 CFA. The vast majority of key players in microfinance in Benin are members of the Consortium, with the notable exception of FECECAM, who had a representative at the constitutive meeting but has not yet become a member (the Executive Secretary of FECECAM had apparently not even heard of the Consortium five months after its creation). The Consortium Alafia has developed an action plan for which it is seeking financial and technical support; it has already begun carrying out a number of the components of the plan.

4. Conclusions Regarding Local Interventions in Sector

There is a recognition among those intervening in the sector that they need to improve their capacity to develop and deliver quality services to significant numbers of members/clients. In addition, these institutions are seeking additional sources of funds besides members' savings in order to better respond to the demand for credit. Finally, a number of these institutions now appreciate the benefits of collaboration in order to improve and expand their activities.

I. Demand For Microfinance

The needs and uses of microfinance in Benin are multiple and diverse. Based on empirical evidence as well as breakdowns of uses of loans provided by institutions active in microfinance, these needs and uses can be separated into the following categories: agriculture, commerce, artisanal activities, and transformation of products.

1. Demand for Agricultural Microcredit

Agricultural potential remains enormous and the needs for credit in this sector significant. Credit is required for cotton cultivators, the main cash crop in Benin, as well as producers of food crops such as maize, millet, sorghum, rice, beans, igname, manioc, sweet potatoes, and tomatoes. In addition, producers of oleaginous products such as peanuts, coffee, karite, and palm. Fisherman also have significant credit needs. Finally, herders and livestock breeders require access to credit.

Cash crops: Even though much of the credit needs for seeds and other inputs for cotton are covered by SONAPRA, increasingly farmers are accessing agricultural microcredit of the CLCAMs for loans up to 1,000,000 CFA for working capital to purchase inputs--often at a lower price from Nigeria, in order to avoid some of the SONAPRA policies. They also use these microcredit for the harvest, commercialization of their products, and consumption needs during the hungry season. For the 1996-97 agricultural campaign, of the approximately 150,000 producers from the four cotton producing departments of Borgou, Atacora, Zou, and Mono, two thirds accessed agricultural microcredit from a CLCAM. If the average loan size is 50,000 CFA and this loan is provided to 100,000 producers (two thirds of the 150,000 producers total), then the microcredit needs in agriculture would be estimated at 5 billion CFA. In reality, however, the demand of cotton producers is for loans ranging in size from 300,000 CFA to 1,000,000 CFA and most of the 159,000 producers (rather than two thirds) would want access to microcredit. Therefore the hypothetical demand could be as high as 150 billion CFA.

Food crops: Producers of food crops in Benin typically rely on microcredit, as they often do not have access to any other credit. Food crop producers are active in every department, although the departments in the south are specialized in food crops, since those in the north have specialized in the cash crop of cotton. If there are at least 200,000 producers who specialize in food production, and if loan vary from 50,000 CFA to 150,000 CFA, then the demand could be as high as 30 billion CFA. This figure would be even higher if one included the credit utilized for food crops for own consumption produced by cash crop farmers.

Oleaginous crops: The three most important crops in this category are peanuts, palm oil, and palm kernels, particularly the two latter products. Credit needs for these two are relatively high, as for the first, credit for processing is required as well as for cultivation, and for the second, credit for storage and marketing is required as well as for cultivation. The total demand in this sector is at least 7 billion CFA.

Fishing: If both artisanal and semi-industrial fishing are taken into consideration, there are roughly

300,000 fisherman. Taking into consideration the standard size of microcredit loans, that is a range from 200,000 CFA to 1,000,000 CFA, and if one considers that at least 50,000 people engaging in fishing on a full time basis, the total estimated demand in this sector is 10 billion CFA to 50 billion CFA.

Livestock: Livestock raising is commonly practiced by households engaged in agriculture, as well as those who are nearly exclusively dedicated to livestock raising. The population who actively engages exclusively in livestock raising can be estimated at 10,000 people. Credit needs in this sector range from 500,000 CFA to 2,000,000 CFA, for a total demand of approximately 20 billion CFA, if one takes the volume of credit distributed by the FECECAM network to this sector as indicative.

2. Demand for Commercial Microcredit

Commercial activities in microfinance are predominantly in petty trade, with a small amount for wholesale trade and services. The majority of these activities are in the informal sector. Although a majority of people carry out some kind of commercial activities, for the purposes of estimating demand, we have used 20% of the economically active population as engaging in commercial activities as their major source of income, or 570,000 people. The overwhelming majority are microentrepreneurs. If one considers that the average loan size is 200,000 CFA (which is consistent with the experiences of current practitioners), then the potential demand is roughly 100 billion CFA for working capital and fixed assets. The experience to date of microfinance institutions in Benin indicates that roughly 10% of commercial sector loans are for artisanal activities, 2% for transformation of products, and the rest for petty trade and services. It is estimated that only about 10% of the demand for microfinance is currently being met.

As shown in the table below, total potential demand for microfinance for the agricultural sector, including fishing and livestock, approaches 200 billion CFA, whereas total potential demand for microfinance for the commercial sector approaches 100 billion CFA. The total potential demand for microfinance in Benin is therefore on the order of magnitude of 300 billion CFA.

Demand for Microfinance (billions CFA)		
Sector	Currently Available	Potential Demand
Cash Crops (cotton)	30	100
Food crops	10	30
Oleaginous products	7	-
Fishing	10	50
Livestock	5	20
Sub-Total Agriculture	62	200

Demand for Microfinance (billions CFA)		
Sub-Total Commercial	10	100
Total Demand	72	300