Consultative Group to Assist the Poorest (CGAP)
Working Group on Savings Mobilization

FEDERATION OF THE AGRICULTURAL SAVINGS AND CREDIT UNIONS, BENIN (CASE STUDY)

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CONTENTS

ABBREVIATIONS

Ann.	Annual
Av.	Average
BCEAO	Banque Centrale des Etats d'Afrique de l'Ouest
CGAP	Consultative Group to Assist the Poorest
CLCAM	Caisses Locales de Crédit Agricole Mutuel
CNCA	Caisse Nationale de Crédit Agricole
CNE	Caisse Nationale d'Epargne (National Savings Bank)
CRCAM	Caisses Régionales de Crédit Agricole Mutuel
CVECA	Caisses Villageoises d'Epargne et de Crédit Autogérées (Self-reliant Village Savings and Credit Banks)
DFS	Decentralized Financial System
FCFA	Currency (Franc Communaute Financiere Africaine)
GDP	Gross Domestic Product
GM	General Manager
GNP	Gross National Product
MAIR	Mission d'Audit Interne Régionale
n.a.	Not available
NGO	Non-governmental Organization
PARMEC	Projet d'Appui Régional aux Mutuelles d'Epargne et de Crédit (Regional Support Project for Mutual Savings and Loan Societies)
URCLCAM	Unions Régionales des Caisses Locales de Crédit Agricole Mutuel

LIST OF TABLES/GRAPHS

1 CONTEXT

1.1 Macroeconomic context

Benin is a small country whose territory covers 113,000 square kilometers with a 150-km long Atlantic coast facing the Gulf of Guinea. The GNP was US$2.2 billion in 1996, resulting in a US$396 GNP per capita. Commerce consists mainly of transit trade for the Sahelian countries and Nigeria and plays a dominant role in the country's economic life. The tertiary sector represents 49% of GNP and employs 30% of the active population, not including the thriving informal sector. The primary sector, chiefly agricultural, follows at 38% of GNP and absorbs 56% of the economically active population. It is mainly based on cotton production, which has grown considerably over the last 25 years, reaching 140,000 tons in 1996/1997 for 290,000 ha cultivated. The parts of the country that are most active economically and more densely populated are the three coastal departments, Mono, Atlantique and Oueme. The Northeastern department of Borgou, heart of the cotton production, is a well-off farming region. The mountainous Atacora in the Northwest is the poorest part of the country.

After a period of price adjustment subsequent to the devaluation of the FCFA in 1994, inflation has now been reigned in with 4.9% in 1996. One US$ is rated at approximately FCFA550. The FCFA is a stable currency, France guaranteeing its exchange rate to the French Franc, and Benin's economy is thus not dollarized.

1.2 Context of the financial sector

1.2.1 Role of the central bank

Benin is a member of the West African Economic and Monetary Union and all its banking and financial activities are regulated by the West African States' Central Bank (BCEAO) whose head office is in Dakar. The Central Bank enjoys a high degree of autonomy in defining its policy. Due to the influence of the Bretton Woods institutions, its main tasks are central note-issuing authority, guardian of the money and supervision of the banking sector. The monetary policy is liberal, based on supply and demand. The Central Bank has stopped its automatic discount policy and credit control and has created an open monetary market; it influences the money supply by issuing bids on treasury bills and thereby has an indirect impact on interest rates.

The vast informal sector, reinforced in Benin by the proximity of Nigeria and its non-convertible and unstable currency, the Naira, which makes the FCFA a refuge currency, and the predominance of fiduciary money on substitute money are factors that limit the efficiency of the monetary policy.

1.2.2 Regulation and supervision

Regulation is adopted by the Central Bank and its council of Finance Ministers of member countries and must be ratified by each country's parliament before it can be enforced. The banking legislation includes high minimum capital requirements, limits on setting interest rates[1] and the obligation to provide the Central Bank's Bank Commission with regular information on activities and accounts. A specific chart of accounts is defined for banks and

[1] Lending rates have to be lower than the usury rate, defined at first as twice the Central Bank's discount rate, which has now been raised to 18% for banks.

financial institutions as well as obligations regarding loan loss reserves. Banks must have annually audited accounts and are further supervised by the Bank Commission.

Until 1995, all organizations involved in savings and credit activities had to abide by the banking legislation. In 1995, the PARMEC Act was adopted, which recognizes the specificity of microfinance and defines a legal frame for savings and credit unions. As the usury rate was later redefined, a specific rate was set for microfinance institutions at 27% instead of 18%, further recognizing the fact that the conditions of intervention of decentralized financial systems (DFS) justify a specific approach.

1.2.3 General development and characteristics of the financial sector

The formal banking sector in Benin is highly concentrated in the six largest cities. It was nationalized in 1974, but collapsed in 1989 with the liquidation of the three public banks, including the *Caisse Nationale de Crédit Agricole* (National Agricultural Credit Bank). The sector now has five private banks and three financial institutions, all located in the large towns with an urban clientele and high access thresholds. These banks account for resources amounting to FCFA307 billion as of 30 September 1997. Their lending only represents one quarter of their resources; therefore they are confronted with the problem of surplus liquidity. The rural and informal sectors are completely ignored by the banks for various reasons:

- The commercial banks are used to financing manufacturing industries and large-scale commerce. They have few individual clients and mainly do wholesale banking;
- They are not ready to assume the costs incurred by the creation of new branches and to manage small loans to individuals, especially for agriculture, seen as very risky and not very profitable;
- West-African banks generally have a very cautious attitude.

The *Caisse Nationale d'Epargne* (CNE) (National Savings Bank), which has counters in the post offices, offers more accessible savings possibilities for all Benin citizens, but does not provide access to credit. It manages 250,000 savings accounts with a total value of FCFA8.6 billion.

The microfinance industry includes a large number of institutions, mostly very small-scale NGOs. FECECAM is the giant of the sector. As of 30 September 1997, FECECAM's resources valued FCFA23 billion, a figure amounting to 85% of the resources of the smallest bank and 7% of those of all banks together. Its lending amounts to 16% of that of the banking sector, making it the second lending institution in the country. CNE activities represent half of the savings collected by FECECAM with a slightly higher number of accounts.

Some associations of DFS are emerging, but none is yet very mature. The main one is the Alafia network, which includes more than 60 DFS and NGOs involved in the provision of microcredit. Its main activity to date is the organization of training for its members.

Cotton, the main cash crop of the country, absorbs most of the banks' credit lines and one third of FECECAM's loans. The cotton sector's reorganization and privatization generates difficulties that impact its actors' financial health and are a source of concern for the financial sector.

The informal financial sector is very active:

- Rotating savings and credit associations (tontines) exist throughout the country, especially among women and traders, with a wide range of amounts and frequencies.

- Private moneylenders are active throughout the country, especially in the rural areas, with interest rates around 10% per month.
- In the urban markets, private individual "itinerant bankers" (banquiers ambulants) collect informal vendors' savings daily or weekly and sometimes give their regular customers advances on their savings. Their remuneration is usually one day's collection per month.

1.2.4 Outreach and characteristics of state interventions

The monetary policy is not set at state level but at the regional level of the West-African Union. Interest rates have been deregulated except for a ceiling lending rate, of 18% for banks and 27% for microfinance institutions. The parity between the FCFA and the French Franc is set, with budgetary support from France to maintain its value, so West Africa has no further autonomous exchange rate policy. No state refinancing facilities are available, but banks can access the interbank monetary market to access credit at the most advantageous conditions. Credit lines from donors are available, usually restricted to a specific sector, target group or geographic zone and with conditions on the final lending rate.

1.2.5 Social security system

Social security is centralized in a state-owned institution, the *Office Béninois de la Protection Sociale*, and covers all the workers in formal institutions, i.e. a minority of the population. The cost is 20% of the gross salary, 16.4% paid by the employer and 3.6% by the employee. These contributions entitle to social security benefits in case of accident, illness and maternity. Most employees complete this protection with a subscription to a private insurance for complementary benefits.

1.3 Social and socio-cultural context

The country has 5.6 million inhabitants, 60% of whom live in rural areas. The growth rate of the urban population is 7.4%, well above that of the general population. The population density is 47 inhabitants per square kilometer. The three coastal departments, Mono, Atlantique and Oueme, group almost three quarters of the country's population; the density there reaches 120 inhabitants per square kilometer.

Two elements contribute to making the majority of the population's access to formal banks difficult:

- Three quarters of the population are illiterate;
- 70% of the population works in agriculture or in the informal sector. Informal activities enable the majority of urban households to survive (two thirds of Cotonou's households survive on informal revenues) and rural households to access non-agricultural goods (71% of rural households' revenues are generated by informal activities).

1.4 Classification of the macroeconomic, financial and socio-cultural context

Following the 17 year Marxist/Leninist economy ending in 1989, Benin is now committed to a path towards liberalization. The economy is still in transition, with state-owned enterprises still controlling the manufacturing of the main agricultural products, but a privatization process well under way. The economy is stagnant, with a growth of the informal sector parallel to liberalization and deflation of state employees.

The financial sector is quite liberal, with only one state-owned savings bank and one aspect of regulation preventing the market to be the only decider of the products offered: a ceiling on lending interest rates set by the Central Bank.

The society remains very traditional, especially in rural areas. Democracy was established in 1990, after the first national conference in Africa following the end of the 17-year dictatorship of General Matthieu Kerekou.

2 INSTITUTIONAL ANALYSIS

2.1 General characteristics of the financial institution

The FECECAM network can be traced back to 1976 when an institutional agricultural credit system was set up in the form of local banks and regional credit unions (*Caisses Locales de Crédit Agricole Mutuel/Caisses Régionales de Crédit Agricole Mutuel*) (CLCAM/CRCAM), headed and coordinated by a state bank, the *Caisse Nationale de Crédit Agricole* (CNCA) (National Agricultural Credit Bank). Following the liquidation of the CNCA in 1987, the network was rehabilitated and reorganized in 1989 with the assistance of several donors who were interested in a credit union system with a nationwide outreach and which enjoyed the confidence of the small farmers.

Having progressed enormously since 1993, the network now reaches 211,000 members as of 30 September 1997, i.e. 9.3% of the country's active population, served through a network of 110 retail outlets spread out all over the country. The network also offers savings facilities to non-member clients.

The network was launched in rural areas and remains predominantly rural. However, urban areas, where the network began working in 1992, now account for a significant part of the network's activities: The 12 urban and peri-urban banks (17% of banks in September 1997) group 23% of members, 35% of savings, 24% of loans and 29% of loan losses.

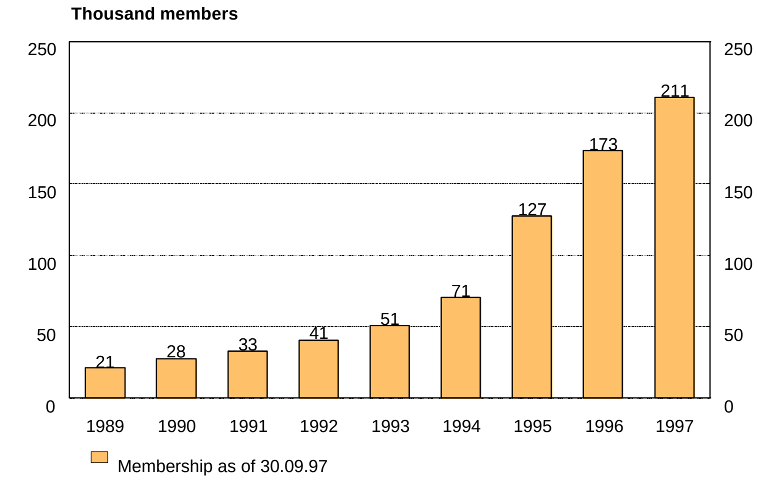
Although not complete, statistics on female members clearly indicate a large increase, particularly due to a specific new product - the microloan for women. This product was launched in 1993 and makes it easier for women to access the bank and loans:

- It is based on joint liability groups;
- Loans are accessible to women who only possess one share and have no individual savings - a much lighter requirement than that for regular loans with five shares and savings up to 20% of the loan amount;
- Smaller loan amounts are available;
- Six-month term, repayable in one quota at the end of the loan cycle, at the same rate of interest as ordinary short-term loans (12-18%, depending on the bank).

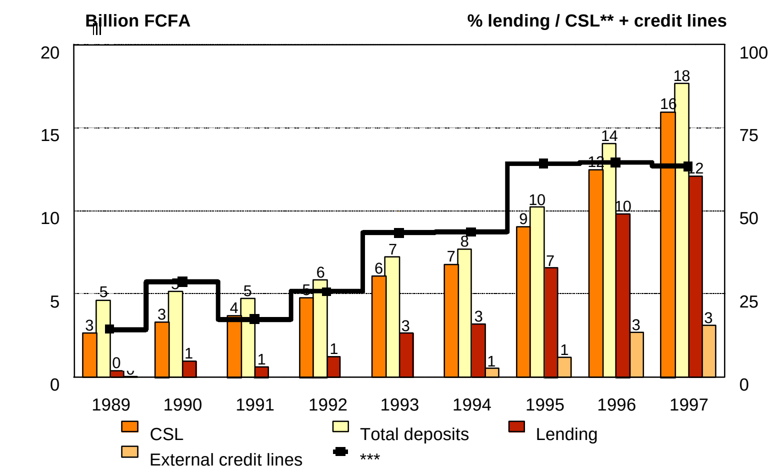
Although this product is probably not very profitable for the banks, it works as a loss leader and has made it possible to attract a number of women members: It seems that in the period before the network was rehabilitated, women made up only 5-7% of membership. This share rose to 20% at the end of 1993 and was around 40% at the end of 1996. On the other hand, women only made up 12% of elected members in December 1995 and 7-12% of the workforce.

The FECECAM network has grown at a very rapid pace, particularly since 1993; the main challenge facing it is to master this growth.

Graph 1: Growth in number of members



Graph 2: Trends in operations in set francs 1997



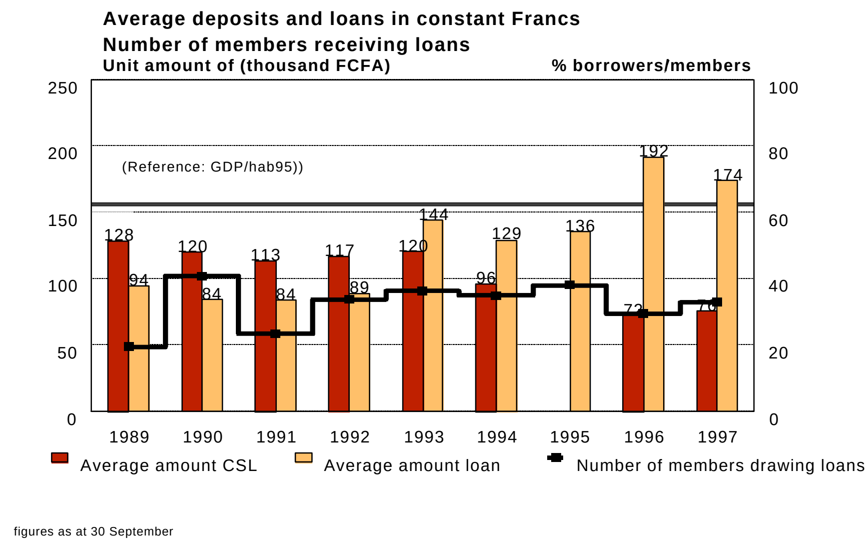
figures as at 30 September

** Savings book accounts

Parallel to the growth in operations, the savings/loan transformation rate is also constantly growing, although it declined in 1997 due to the fact that the network applied more rigid credit policies in order to halt the rise in arrears at the pertinent unions. Despite this higher loan/savings rate and recourse to earmarked external lines of credits, the network is currently far from being able to cover its members' demand for instant credits.

The average amount of savings passbook accounts seems to be declining in constant Francs (-40% since 1989), but this is offset by the increased number of idle accounts; in current Francs, it has remained stagnant since 1994 (+10% since 1989; -1% since 1994). No statistics are available on how deposits are distributed per amount, but the network service estimates that most savings passbook accounts have a balance of around FCFA50,000 and many of them are at less than FCFA20,000.

Graph 3: FECECAM - Coverage



At the same time the average loan amount has almost doubled in constant Francs. It is slightly higher than the GDP per capita, putting it at the level usually considered appropriate for the clientele of a DFS. Loan classifications by size are only available for 1995 and show that half of the credits granted are less than US$100 and the credits above US$1,000 represent 20% of loans disbursed.

Table 1: Loan classification by size

Amount (FCFA,000)	Number (in %)	Loans disbursed (in %)
>500	7%	20%
50–500	44%	69%
<50	49%	11%

The number of members receiving credit seems to have remained relatively stable since 1992 at around one third. In view of the increased number of idle accounts this, in fact, reflects an increase in the number of borrowers compared to the number of active members.

The accounts for fiscal year 1996 show that the FECECAM network covers its direct financial and operating costs, i.e. 90% of the costs accounted for, but does not cover either its depreciation on fixed assets nor its non-accounts costs. The operating margin before subsidies has increased compared to 1995, because of the growing lending activities, the increase in the loan/savings rate and the concurrent drop in the costs of the apex structure. At the CLCAM level only, however, the operating income is deteriorating (before rebilling of the UR charges) from 7% to 4% of lending. This can be explained by the drop in the credit interest rate and the high rise in loan loss provisions and depreciation, despite an increase in direct costs which remains lower than that of the volume of affairs.

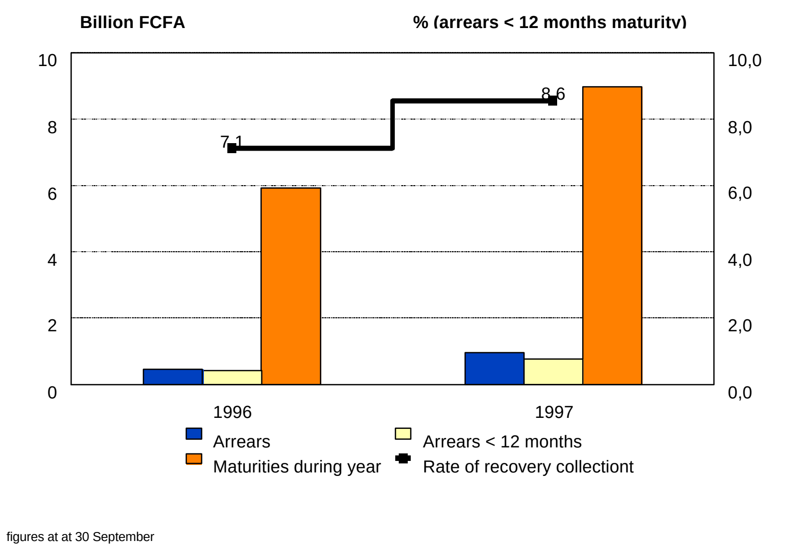
Table 2: Consolidated results of the FECECAM network (in million FCFA)

Financial income	1,969
Financial costs	-382
= Net financial margin	**1,587**
Loan loss provisions and loan losses	-238
Direct administrative costs	-1,349
Depreciation	-213
= Operating margin before subsidies	**-213**
- Imputed costs* (effect of inflation, subsidies in kind, concessionary credits)	-82
= Consolidated economic results	**-295**

* Only inflation is taken into account here.

The number and volume of arrears in the payments due during the past two years has been estimated, to assess the recent trend in loan recovery. Out of all payments due during the year 30 September 1996 to 30 September 1997, 8.6% had not been repaid in terms of volume and 13.9% in terms of the number of loans. The pertinent figures for 1995/1996 were 7.1% and 8.3% respectively.

Graph 4: Arrears



The progressive increase in arrears reflects the difficulty in managing the rapid growth of the network. The mobilization of a large number of elected representatives at all levels to tackle this problem demonstrates the dynamic force of the network and the degree to which it has taken root. The elected representatives and staff have indeed sized up the problem and launched numerous activities to collect loans in arrears, including workshops to mobilize the network on this problem, a national fortnight on loan arrears with visits by elected members from other regions, local means of pressure (broadcast on the radio, at the market, place at religious services), stricter requirements for loan approval, and a policy to increase proximity to the clients.

2.2 Governance structure and organization

2.2.1 Governance structure

The principle of credit unions is that the capital of local banks (CLCAM) is held by client members whose liability is limited to the money they have invested in shares; the value of the shares cannot be increased and members thus cannot make a profit by selling their shares. The CLCAM hold the capital of the regional union (URCLCAM), which in turn holds that of the federation (FECECAM). The FECECAM network does not remunerate shares until it is financially self-sufficient itself.

Board members are elected by all members at local bank (CLCAM) level; each CLCAM Board then elects two representatives to be part of the regional level General Meeting where the Regional Board is elected. One member of each Regional Board is then elected to the National Board.

As is often the case in credit union networks, the elected representatives come from the upper social classes of FECECAM's membership, in terms of affluence and education: many of them are educated farmers with a better farming equipment than the average farmer; others are retired civil servants. Women represent only 12% of board members although they account for around 40% of membership. The statute of elected representative is sought after because it brings a number of advantages:

- It conveys prestige and power because of the role elected representatives play in granting loans and of the growing reputation of the network throughout the country;
- While it requires dedication and availability, the position of elected representative can also be profitable insofar as it is voluntary work with financial compensation;
- It offers opportunities for training, travelling, establishing contacts and exchanging opinions, which intensifies the distance between elected representatives and regular members.

The FECECAM network covers the entire territory of Benin. It consists of:

- The Fédération des Caisses d'Épargne et de Crédit Agricole Mutuel (FECECAM) (Federation of Agricultural Savings and Credit Unions) established in 1993;
- Seven Unions Régionales des Caisses Locales de Crédit Agricole Mutuel (URCLCAM) (Regional Unions of Local Agricultural Credit Unions);
- 82 Caisses Locales de Crédit Agricole Mutuel (CLCAM) (Local Agricultural Credit Unions);
- 28 Caisses Villageoises d'Épargne et de Crédit (CVECA) (Self-reliant Village Savings and Credit Banks); these recently-established village units (the oldest was founded in 1994) are pre-CLCAMs which aim to become a local union as soon as their operations are extensive enough to cover the corresponding costs.

2.2.2 Organizational set-up

Each structure of the network at every level has a General Meeting that makes all important decisions, a Board in charge of implementing the strategy as defined by the GM, a number of salaried workers, and a Supervisory Board that supervises the Board's and employees' work. At local bank level, the number of staff is small (one to six); at regional level they are between eight and ten; the Federation's technical secretariat employs 33 staff.

The technical services of the network are organized in four departments and two specific offices; their role is to give support to the local banks:

Departments:

- Audit/inspection;
- Human resources/training;
- Network, including three offices: follow-up of credit operations, commercial actions, operational research;
- Finance/accounting.

Offices:

- Computer systems;
- Administration.

The decision-making process in FECECAM is decentralized and completely controlled by the elected Boards. Executive officers have a very limited scope for initiative.

2.2.3 Analysis of lessons learned in governance structure

The rehabilitation of the network has strengthened its union character and promoted a real takeover by the elected representatives of the members. The way in which the FECECAM network is governed is both one of its chief ingredients for success, but also one of its present weak points.

The fact that elected members' representatives really take charge in the network at all levels is one of the main factors of confidence that has allowed the network to develop very strongly. It also allows the real mobilization of society to respond to the problems facing the network, demonstrated at the present time by the fact that at all levels elected members are tackling the problem of arrears which has recently appeared in the network.

In the present context, the complementarity of roles between elected members and bank staff, which is one of the pillars for a healthy functioning unionist network, is not always easy to operate in practice: Staff experience difficulties in carrying out their technical responsibilities fully vis-à-vis elected members who become very involved in the management of the network, substituting for employees in certain functions rather than controlling staff activities. This is the case in certain CLs and particularly at the federal level. This makes the decision-making process inherent to union systems even more difficult. Certain elected members have put forward a solution that the network should use more professional services particularly to examine loan applications, so that less input would be required from elected members.

As in many credit union networks, the elected representatives are usually personalities representing the upper echelons of society and who therefore tend to "pull up" the products and services offered by the network (raising loan ceilings, etc.).

2.3 Demand-oriented savings products and technology

2.3.1 Characteristics of demand-oriented savings products and savings technologies

Until recently, the FECECAM network did not need to diversify its savings products in order to grow; the products it offers are therefore very classical, savings passbooks accounts accounting for the bulk of savings collection:

- Savings pass book accounts: This is by far the main savings product in the network, representing 90% of savings collected. Savings can be accessed immediately. Interest of 3% p.a. is paid on the minimum quarterly balance. The minimum deposit of FCFA5,000 is reduced to FCFA2,000 in the CVEC. Blocked savings permitting access to a credit (at least 20% of the credit amount – up to 35% depending on the union – and blocked until the loan is repaid) are deposited in a savings account.
- Current accounts: These are no-interest bearing accounts mainly for legal entities (NGOs and companies) who are interested in keeping their cash secure and available in locations not served by another bank. These accounts entail bank charges ranging from FCFA5,000-7,500 per year. They have the advantage of providing access to payment services (ingoing or outgoing) onto accounts of other local unions or at times other banks.
- Term deposits: Hardly used (about FCFA20 million, i.e. 0.1% of total savings), this product has never been really "sold" through the network.

2.3.2 Design of demand-oriented savings products

In order to generate resources to satisfy the very high credit demands of new members and the demand for medium-term loans requiring long-term resources, the FECECAM network has studied new deposit products. Market studies have been led by the operational research office of the network department with students. New products have thus been defined.

Two products will probably be launched very soon:

- Patriot term deposit (Dépot àterme patriote): This product mainly targets urban customers wanting to contribute to the development of their region of origin or of a region with which they have ties, either as individuals or as groups, and to institutional clients or NGOs. The savings attracted will be earmarked for the targeted CLCAM and allow it to develop its credit activities. Terms of 6, 12 and 24 months are scheduled, with a minimum sum of FCFA50,000 and a maximum of FCFA1 million. Interests between 3.25-5% p.a. are envisaged, depending on the amount and term of the deposit. Savings can be withdrawn either at the CLCAM issuing the term deposit, or at the CLCAM benefiting from it. The savings can also be withdrawn by an authorized person at the end of the period. Depositors facing unexpected difficulties can transform these term deposits into savings book accounts.
- Investment savings plan: This product combines an agreed regular prior savings with loan and leasing, so that it is easier for members to access productive capital goods and limits the risk of arrears for the network. It is particularly adapted to members with regular income such as traders and women in urban areas. It will also be accessible to members who make an initial saving deposit of at least 5% of the value of the capital goods concerned upon applying for a credit, and making regular payments in line with a schedule agreed jointly with the CL during the savings phase. At the end of this phase the property is put at the disposal of the client, who enters into the reimbursement phase with identical payments. 3% interest rates on savings and 15% interest rates on loans are scheduled. Collateral for the credit will be: The knowledge of the client gained during the savings phase, a sales-type lease, in which the goods remain the property of the CLCAM until they are fully paid, and the establishment of a credit club providing a joint security or other material guarantees.

Other projects are scheduled for the longer term: house savings plan, project savings plan, pension savings plan, education savings plan, and apprenticeship savings plan.

2.3.3 Procedures to introduce demand-oriented savings products

The new products that have been defined will be tested in one or two local banks in every region. Surveys will then be made to draw conclusions before generalization of promising products.

In order to promote savings, the network has used different types of action, using commercial methods. At the beginning of the rehabilitation phase the network placed great importance on communication. The CLCAM managers spent two days a week on promotion activities with elected member representatives explaining how the banks work and presenting its products, membership modalities etc. Other communication activities are continuing, although they are less intensive now that the network has become well known and generates its own growth:

- Visits by a delegation of managers from other CLCAM to locations with only a few members, providing an opportunity to hold a large reception and to inform people about the bank;
- Presence and manifestation of support during events affecting the daily life of the members (marriage, deaths, baptisms, where elected representatives or managers represent the CLCAM, bringing a token gift to support the family and presenting the bank officially on this occasion);
- Rural radio broadcasts, recorded in well attended public sessions at which members tell their story;
- Lotteries on the occasion of "savings mobilization fortnights" when any saver depositing at least FCFA5,000 for a minimum term of three months receives a raffle ticket; the raffle is drawn in public and a party is thrown at the same time;
- Sketches by young villagers on the benefits of saving at CLCAM (for example, a child inadvertently sets fire to a straw box belonging to the father, who bewails because he kept his savings in; a villager who hid his money in a hole and cannot find it anymore, etc.);
- Ceremonies to inaugurate CLCAM, during which such sketches are presented;
- Announcements by public criers or griots (for example announcing the interest rate on savings, the dates of meetings of the credit committee, etc.);
- Sponsoring concerts by folklore groups who compose songs about the CLCAM, or song competitions;
- CLCAM T-shirts;
- Sponsoring football matches;
- Working with village organizations or NGOs who could serve as multipliers in diffusing information on the CLCAM;
- Other scheduled activities: negotiation for obtaining new bank notes with the BCEAO.

2.3.4 Analysis of lessons learned in designing and handling of demand-oriented savings products and technologies

It is generally agreed that the chief motivation for members to save is the access savings provide to loans. Trends in savings seem to be slower than the growth of the network in terms of number of members. Users also play a significant role in raising savings for the network.

The holders of savings accounts in the FECECAM network can be roughly broken down into three categories:

- Members whose aim is to access credit: Most members, and particularly most new members, fall into this category.
- Members and users aiming to deposit savings or access banking services: These represent a significant percentage of savings. The users are non-member savers who do not have access to loans. These are on the one hand organizations (NGOs, school parents associations, health centers etc.) who need local banking services and, on the other hand, people not interested in loans or not eligible for membership (since the rehabilitation of the network, civil servants and salaried workers are not eligible for membership, the aim being to promote confidence between members by not integrating people with a higher level of education and susceptible to take over positions of power or influence the decisions on loan applications). For this category of depositors, the main factors governing the decision to invest deposits in the FECECAM are the confidence in the network and its proximity (there is no significant banking competition by CLCAM in most areas).
- Idle accounts: Over the course of time all financial institutions gather a growing number of idle accounts.

The new savings products the network has defined seem promising because they have clearly been defined with a demand-driven approach. Products that link savings and credits, in particular, react to the observation that access to credit is the main motivation behind members' savings. The product makes it possible to better secure later loans because it allows a better insight into the financial capacity of borrowers; the link with a leasing mechanism is well adapted to equipment loans. The question remaining is what impact these innovative savings products will have on the volume of savings.

2.4 Management capabilities

2.4.1 General management capabilities

At all levels, recruitment is based on a pre-selection test carried out by the human resource department, the final selection being made by the CA concerned. This system which defines the roles well, has worked satisfactorily for a certain time; however, at the local level, there is a growing tendency to recruit temporary staff directly and then give them a permanent contract without taking their professional capabilities sufficiently into account.

One problem facing FECECAM is that, being the most well-known DFS and the oldest in Benin, its staff enjoy an excellent visiting-card and are sought after by the myriad of microfinance programs presently being set up; these are frequently financed by donor funds, not required to self-finance their activities, and able to offer salaries far higher than those at FECECAM. FECECAM has become the training ground for the entire sector and has to bear the corresponding costs. Difficulties in balancing relationships between the elected members' representatives and the staff have also caused certain staff members to leave at the level of the Federation.

Training in the FECECAM network covers:

- Personnel training in ordinary training sessions held by the networks internal resource persons, two internal seminars per year held by external consultants, and attendance by senior staff members at external seminars and training courses at national and international levels;
- Training for elected members' representatives, reorganized in 1996 as regional training programs in order to take into account the different levels and problems encountered on site. The training is run by regional training committees composed of member trainers with a certain level who, in turn, attend two training courses per year and then train their peers;

- Training of members, particularly during the annual general meetings when a specific subject is covered, and by awareness campaigns run by elected members and staff.

Training is one of the heavy burdens of the network as it covers 340 staff members and more than 1,500 elected members' representatives with very different education levels.

2.4.2 Special management capabilities: Risk management

FECECAM has set up management rules for the CLCAM in order to ensure the security of the entire network:

- Credit ceiling at FCFA1 million: This ceiling makes it possible to diversify the risk and ensure that certain members do not get very large credits. The ceiling rose from FCFA200,000 until 1991 to FCFA500,000 in 1993 and FCFA1 million since 1994, i.e. it has multiplied by 2.7 in real terms since 1989. The ceiling was scheduled to be doubled in 1997; this was not executed, however, because of the difficulties in loan recovery experienced in the network.
- Diversifying operations: The network aims to diversify its operations by allowing access for new groups of clientele (urban, women) and by carrying out a regional diversification of clients (the heart of the cotton zone, which represented more than half of the members in 1992, only accounts for one quarter at the present time). Cotton, the main market crop, nevertheless absorbs one third of the FECECAM loans (and the majority of banking assistance). Problems exist in re-organizing the cotton production and transformation sector which affect the financial health of the operators and are a source of concern for the entire financial sector.
- Limiting the operations authorized for a CL according to its management capacities: The maximum level of financial operations, largely lending, authorized by a CL is 70% of the savings book accounts of the previous quarter. If it has more than 5% of loans in arrears, the co-efficient is lowered to 60%. The General Assembly in November 1997 set the savings/loans transformation rate at 50% and the credit ceiling at FCFA500,000 per loan for CLs whose arrears are higher than 5% for more than six months.

  Network rehabilitation commenced with a very cautious policy, limiting the savings/loans transformation rate to 30%. Following the high demand for credits and the increased power of the elected representatives following the establishment of the Federation, the policy of transforming savings was relaxed and the savings/loans transformation rate was raised to 50% in 1993 and to its present level in 1994.

  Well-managed CLCAMs can, in addition to onlending their collected savings, apply for internal refinancing lines from their UR and can then increase their transformation rate to 85%.
- CLCAM support fund. The support fund set up in 1993 is fed by part of the interest obtained on the credits (10% up to 1995 and 5% since 1996). It serves to guarantee liquidity for banks in difficulty:

  If a CL is in deficit for one year, it draws up a rehabilitation plan which it presents to the Federation, which in turn monitors the implementation of the plan.

  If its operations run at a loss for a second year, the CL is put under the guardianship of another CL.

  Should it still not improve, it could be closed.

  In all events, the fund reconstitutes the deposits if necessary, and is reimbursed later by the bank. In December 1996, five CLs had deficit operations, three of them were new CLs and the other two, whose difficulties were due to arrears problems, have submitted a rehabilitation plan.

- Management of arrears: In order to avoid delays in repayments the network first applied the "100% rule," according to which a local bank cannot grant new credits until the former credits have been repaid in full. This rule was relaxed at the end of 1992 and gives a double threshold: A CL can disburse credits as soon as its on-time payment rate reaches 90% of outstanding loans, but only to villages that have a 100% reimbursement rate. This was to recognize the fact that the scope of intervention of local banks was far wider than the local bonds of solidarity and social pressure.
- Loan guarantees: Every borrower has to have a blocked savings amount of 20% in order to access credit, except in special cases of microloans for women and certain loans granted on external refinancing. The 1997 General Assembly raised this rate to 40% for loans exceeding FCFA200,000 to traders and small industries (the category of borrowers with the highest level of arrears).

  Furthermore, every borrower has to subscribe to a certain number of shares in order to access credits. Depending on the region and the bank involved, the number of shares may or may not relate to the amount of credit, and, with the exception of microloans for women, range from 3-10 FCFA1,000 shares to access loans; trends at the present time are to specify a certain number of shares in proportion to the amount of credit requested.

  A real guarantee is required for loans exceeding FCFA50,000. This does not have a legal value and is mainly used to dissuade borrowers. A moral guarantee is also required, often together with a partial financial guarantee of the security and blocked savings amounting to 5-10% of the loan.
- Limits of cash on hand. Cash on hand is limited, depending on the volume of activity of each CLCAM and CVEC.
- Insurance. The transportation of maximum funds and cash from each CL is insured.
- Strengthening of reserves by allocating the entire profits.
- Internal control procedures.
- No maturity transformation: Use of short-term resources to grant medium to long-term credits is not authorized by the PARMEC Act.

2.4.3 Special management capabilities: Liquidity management

Savings account for two thirds of FECECAM's liabilities, and bank and donor loans for one fourth. 90% of the savings are passbook accounts, representing a very large number of small accounts. There is a certain fluctuation of savings during the year linked to the cotton-production cycle, but this is decreasing with the growing proportion of urban banks in the network.

The technical services of the federation define authorized cash-on-hand for each bank according to its volume of affairs. The cash assets of the CLCAM in excess of the authorized cash-on-hand are invested at the regional union, which in turn reinvests them at the Federation, as term deposits or ordinary deposits (rate for CL deposits at UR: 4% and 5%; rate of UR investments at the Federation: 4% and 5.25%). The Federation and the Unions can provide internal credit lines to the CLCAM whose credit needs exceed the authorized credit volume on the resources they generate and who have a proven capacity for good management.

The Federation, therefore, manages the excess liquidity of the entire network, supervising that the liquidity ratio of the PARMEC Act is fully respected. It invests it in the banking system, taking care to diversify its partners in order to spread the risk, although nevertheless taking into account the conditions it obtains.

2.4.4 Analysis of lessons learned in management capabilities, especially risk and liquidity management

A broad network like FECECAM collecting a very significant amount of savings needs competent financial services at central level to help define the rules applicable for risk and liquidity management. It is not possible for the members' elected representatives to acquire the technical capacities to define the rules themselves, and this necessity for a strong technical base will continue to become stronger in the future with the growth of the network. For the sustainability of the institution, it is crucial that the elected representatives understand and accept this necessity of taking into account technical financial considerations that they cannot fully master.

FECECAM's experience has led it to introduce new mechanisms to control the risk on loans as the activity of the network changes. The difficulties with loan recovery presently being faced by the network demonstrate the limits of loans whose security is essentially based on social pressure: As banks become larger in size, as they reach urban areas and as the size of individual loans grows, these mechanisms no longer function as well. This has led the network to:

- Commence a policy of limiting the size of the CLCAM and strengthening the role of communal committees closer than the CL to the villages covered by a bank;
- Introduce small-scale solidarity guarantee mechanisms (groups of 5-10 people) and professional solidarity mechanisms in urban areas by applying rules of blocking loans;
- Strengthening the demand for real guarantees and prior savings for loans exceeding FCFA200,000.

2.5 Regulatory and supervisory framework

2.5.1 External regulation and supervision mechanisms

FECECAM will have to comply with the law governing savings and credit cooperatives adopted by the Central Bank of West African States - the PARMEC Law. This Act does not set any minimum standards with respect to equity. It authorizes institutions registered under it to do all savings and credit operations. These institutions are not allowed to have other activities amounting to over 5% of their turnover. It has defined a specific chart of accounts for microfinance institutions and requires them to have an annual external audit and to report quarterly on their activities to the Ministry of Finance along a simplified reporting format including solvency and liquidity indicators.

At present, FECECAM is registered at the Direction de *l'Action Coopérative* (Cooperative Activity Directorate) as a savings and credit cooperative. As the PARMEC Act was only adopted by the Benin parliament in July 1997, and the ad hoc unit at the Ministry of Finance is not yet operational, the transfer of responsibility from the Ministry of Agriculture to the Ministry of Finance is not yet in effect. External supervision by the Ministry of Finance is not yet operational either.

2.5.2 Internal regulation and supervision mechanisms

FECECAM's internal controls are based on the five complementary levels of control:

- The supervisory boards carry out the first cash control at the local level.
- The zone accountants, who work for several CLCAM, are responsible for the regular, real and exhaustive recording of clerical work.

- The chief accountant who is responsible for the zone accountants, ensures that the accounting work is carried out in line with the procedures, the charts of accounts and the accounting schedules for the financial year.
- The Mission d'Audit Interne Régionale (MAIR) missions (Regionalized Internal Audit), the strong link in the chain of internal controls, guarantees the uniformity of accounts and that the accounting standards and principles are respected in the network through a mix consisting of an inspector (head of mission), the regional internal control officer and a chief accountant from a different region than the one being audited.
- The external audit missions control the statements and provide an assessment of the reliability of the accounts and the accounting procedures used.

The inspection work has recently been decentralized in order to maximize proximity and to facilitate the costs of inspection being taken on by the CL, who are more inclined to accept paying the salary of people they know and recognize as attached to their region, than that of staff from the central structures.

2.5.3 Analysis of lessons learned in external and internal regulation and supervision mechanisms

The internal audit department is clearly a key to the reliability of the network. Its staff is very dedicated, spends a lot of time on the field and has uncovered a number of problem situations which have then been resolved, sometimes leading to the layoff of unscrupulous staff.

External audit has also played an important role in improving the internal procedures in use at FECECAM and in motivating the accounting staff to doing quality work.

Supervision by the Ministry of Finance under the PARMEC Act, when it will be effective, can also play a role in making sure risk management is well mastered in microfinance institutions.

2.6 Cost analysis of savings mobilization

2.6.1 Scope and quality of accounting and cost analysis

Reliance of the network on subsidies is declining but has not been eliminated. The importance of grants as a source of revenue is declining: the ratio of grants to outstanding loans dropped from 56.5% in 1993 to 17% in 1995. Subsidies are still required at the Regional Union and Technical Secretariat levels but minimally at the CLCAM level. The subsidy dependence index fell from 250.2% in 1993 to 70.4% in 1995. In other words, if the CLCAM had adopted a rate of 30.7% instead of 18%, the network could have operated without subsidy; in 1996, this break-even rate has dropped to 20%.

The FECECAM network has no cost-accounting system. Apart from financial charges, it does not specifically monitor the costs of mobilizing and managing savings.

2.6.2 Methodologies to keep operation and transaction costs low for the financial institution

Maximum simplification in documents is aimed at in order to limit the costs of savings transactions. For credits, simplifying procedures in this way has made it possible to reduce both the number of documents and the time spent by staff on recording operations by three fourth.

The average effective rate of return on savings books accounts of 2.2% p.a. is lower than inflation. Thus, the value of the savers' money is not maintained in the face of inflation and the costs for FECECAM are kept low.

2.6.3 Methodologies to keep transaction costs low for savers

The main transaction costs for depositors are transport costs, which vary greatly depending on the depositors and the distance from their CLCAM. Some members live 25-30 km away from their CLCAM and the journey over roads in poor conditions can be long and costly (up to FCFA1,000). FECECAM has not set up any temporary offices because they are too risky in terms of transporting funds. To limit the clients' transaction costs, expand savings and make it easier to control loans, the network has undertaken an active decentralization policy: It opened a large number of CL in 1997, partly by splitting up large CLs or transforming CVECs. It has started to open up local banks covering a far smaller territory and allowing the elected members' representatives to master the activities. The question has been raised of whether it is necessary to enlarge the second and third degree structures in order to better monitor a growing number of primary structures.

The rule requiring that borrowers block a proportion of the loan they require in savings in order to access a loan induces a high cost for members who want to circumvent this rule and get indebted with moneylenders in order to obtain credit. The elected members' representatives consider that the prior savings requirement is a major instrument in limiting the risk on loans as it gives an insight into the management capacities of potential borrowers and allows loans to be broken down into amounts they are used to manage. Recourse to moneylenders is a dangerous negative side effect, which has to be restricted, particularly by requiring that the savings remain on the member's account for a specific period before the credit is disbursed. The elected members' representatives are the people who can obtain information on the extent to which members have recourse to usury, as they are integrated into the social environment; greater proximity of CLs facilitates this task for them.

2.6.4 Analysis of lessons learned in the reduction of operating and transaction costs of the financial institution and the savers

The main means by which FECECAM reduces transaction costs for its clients is the decentralization of its network. This decentralization induces operating costs and is thus limited and linked to the development of the network's activities.

3 CONCLUSIONS

Confidence is the key factor allowing the network's activities to grow, and is based on:

- The size the network has reached and its reputation;
- The regularly held general assemblies, guaranteeing transparent management;
- Open elections of network officers, held every year for five years in order to clearly show members that the power to decide who will be their managers really lies in their hands;
- The knowledge of the elected members;
- An efficient inspection and supervision are a constraint to potential abuses on the part of the staff and the elected members' representatives;
- Physical security: safes and guards;
- Training for elected members so that they really master the major aspects of network management;
- The appearance of the buildings: Especially in the rural areas in Benin, a building is necessary to be taken seriously. This incited the CLCAM to launch a building program (although this caused frequent slippage, particularly if the buildings were too expensive), mainly because the members and their elected representatives were concerned about providing a handsome building for their bank.

On the other hand, the main constraints to developing the network are:

- Fraud and embezzlement;
- Periods of liquidity shortages hindering clients from withdrawing their savings immediately;
- The bankruptcy of a bank or its fusion with another bank.

In order to increase its proximity and to reach the less-favored sectors of society, the FECECAM network seeks to develop a policy of complementarity with more decentralized DFS or with institutions who support borrowers in managing their economic activities. FECECAM is indeed well aware that it cannot decentralize further than the communal level for reasons of costs and that there are specific clienteles that it cannot serve either because of their low level of financial stability or education or of the necessity of specific monitoring and analysis of loan applications, which would entail specific intermediation costs. In order to increase its proximity and reach these clienteles, FECECAM is therefore attempting to develop cooperation with sound but more decentralized or specialized networks (interventions at village level, with women, with business start-ups etc.) that can serve as a relay. One difficulty in this context is the variety of existing DFS, as it is often difficult to evaluate their soundness and some try to benefit from FECECAM's reputation and seek association with the CLCAM in order to launch activities and attract donor funds without considering economic viability.

4 ANNEXES

4.1 Annex 1: Macroeconomic, financial and social data

	1992	1993	1994	1995	1996
Macroeconomic data:					
GDP (million US$)	2,076	2,041	1,585	2,114	2,218
GDP/capita	424	408	305	392	396
Sectoral distribution of GDP					
• Agriculture/GDP	37	36	35	34	38
• Commercial sector/GDP	17	17	19	21	20
• Industry/GDP	13	13	14	14	13
• Services/GDP	33	34	33	31	29
Financial data:					
Ann. inflation rate (consumer price) (%)	2.4	1.0	38.5	14.5	4.9
Exchange rate to US$	275	295	535	490	524
M2/GDP or M3/GDP (%)	31	28	30	24	24
Total deposits in bank sector	513	576	389	465	
Gross savings rate (% GDP)	25	28	25	22	
Gross investment rate (% GDP)	14	15	16	18	17
Av. nom. deposit rate (commercial banks)					
• Savings accounts (%)	n.a.	n.a.	n.a.	n.a.	3
• Time deposits (specify maturities) (%)	n.a.	n.a.	n.a.	n.a.	5
Av. nom. lending rate (commercial banks) (%)	n.a.	n.a.	n.a.	n.a.	18
Social data:					
Population (million)	4.9	5.0	5.2	5.4	5.6
- Rural population	3.2	3.2	3.3	3.3	3.4
- Urban population	1.7	1.8	1.9	2.1	2.2
Population/km²	42.2	43.1	44.8	46.6	48.3

4.2 Annex 2: Institutional data

	Sep 1994	Dec 1995	Dec 1996	Sep 1997
General information:				
No. of branches/agencies	56	61	71	91
No. of employees	232	288	297	
No. of members	71,000	133,000	182,000	210,000
Female members (%)	20		40	
Balance sheet structure:				
Assets (million US$)	15.1	28.0	52.3	

	Sep 1994	Dec 1995	Dec 1996	Sep 1997
• Cash	0.0	0.0	0.8	
• Financial assets	0.0	0.0	23.5	
• Outstanding loans	4.9	14.9	20.6	20.2
• Equity investments	0.0	0.0	0.0	
• Other assets	0.0	0.0	7.4	
Liabilities (million US$)	13.3	23.5	48.1	
• Amounts owed to private customers (deposits)	11.4	18.8	24.8	30.4
• Amounts owed to private financial institutions	0.0	0.0	3.1	
• Amounts owed to Central Bank/state apex institutions	0.0	0.0	5.5	
• Other liabilities	0.0	0.0	14.7	
Capital (million US$)	1.9	4.5	4.2	
Loan portfolio:				
No. of outstanding loans	24,000	48,500	57,700	
• Female clients (%)			45	
• Male clients (%)			55	
Vol. of outstanding loans (million US$)	4.9	14.9	20.6	20.2
• Female clients (%)			37	
• Male clients (%)			63	
No. of loans disbursed during the year		53,000	62,000	
Vol. of loans disbursed during the year (million US$)		11.6		
Av. amount of loans (US$)	193	254	352	293
% of borrowers who have sav. acc./time dep. (%)	100	98	95	
Nominal lending rate (%)	20	18	16	
Savings facilities:				
No. of savings accounts	125,000	191,000	250,000	
• Female clients				
• Male clients				
Vol. of savings accounts (million US$)	11.4	18.7	24.8	30.4
• Female clients				
• Male clients				
No. of time deposits	2	2	2	
• Female clients				
• Male clients				
Vol. of time deposits (million US$)	0.02	0.04	0.04	
• Female clients				
• Male clients				
No. of customers with sav. acc./time deposit	101,000	173,000	223,000	
No. of opened sav. acc./time dep. during the year				

	Sep 1994	Dec 1995	Dec 1996	Sep 1997
No. of closed sav. acc./time dep. during the year				
No. of deposit transactions during the year				
No. of withdrawals during the year				
Av. amount on savings accounts (US$)	144		132	133
% of customers with sav. acc./time dep. who are borrowers	35	39	30	33
Deposit loan ratio (av. ann. value of savings as % of av. ann. outstanding loans)	258	153	123	
Nominal deposit rate (savings acc.) (%)	3	3	3	
Nominal deposit rate (time deposits) (%)	3.5-4.5	3.5-4.5	3.5-4.5	3.5-4.5

4.3 Annex 3: Performance indicators

	1994	1995	1996	1997
Operational efficiency:				
1. Av. ann. value of savings acc./av. ann. no. of staff	0.06	0.06	0.09	
2. Av. ann. no. of savings acc./av. ann. no. of staff	515	608	754	
3. Av. ann. no. of outstanding loans/av. ann. no. of staff	105	139	182	
4. Av. ann. value of outstanding loans/av. ann. no. of staff	0.02	0.04	0.06	
Liquidity:				
5. Av. ann. liquid assets/av. ann. assets (%)			94	
6. Av. ann. liquid assets/short term liabilities (checking + savings acc.) (%)			138	
Risk assets:				
7. Capital adequacy ratio (av. ann. adjusted capital/av. ann. risk weighted assets) (%)	38	30	28	
8. Av. ann. arrears[2]/av. ann. outstanding loans (%)	1	2	6	
9. Av. ann. capital/av. ann. arrears (%)	3846	1364	313	
10. Ann. provisions for loan losses/av. ann. outstanding loans (%)	2	2	2	
11. Default rate (proportion of arrears in the payments due during the year) (%)			7.1	8.6
Quality of financial intermediation:				
12. Net interest margin [interest income – interest expenses]/av. ann. assets] (%)	4.0	7.1	4.6	
13. Other operating income to total assets (other operating income/av. ann. assets) (%)	3.8	2.4	3.1	
14. Spread (net interest margin + other operating income margin) (%)	7.8	9.5	7.7	

[2] As most FECECAM loans are repaid in bulk at due date, arrears comprise all amounts due remaining unpaid.

	1994	1995	1996	1997
15. Administrative costs/av. ann. assets (%)	13.7	12.3	7.6	
16. Provisions for loan losses/av. ann. assets (%)	0.6	0.8	1.2	
17. Net utility margin (spread - [adm. costs + loan provision costs]/ av. ann. assets) (%)	-6.5	-3.6	-1.1	
18. Interest income from lending/av. ann. outstanding loans (%)	22.3	19.3	14.0	
19. Interest expenses/av. ann. outstanding loans (%)	6.3	3.6	4.0	
20. Interest rate spread (26.-27.) (%)	16.0	15.7	10.0	
Profitability:				
21. Return on assets (net income before tax and subsidies/av. ann. assets) (%)	-6.5	-3.6	-1.1	
22. Return on equity (net income before tax/av. ann. capital) (%)	-55	-23	-6.5	