FINAL EVALUATION REPORT

Evaluation of the Access to Financial Services Project

Evaluation Design and Implementation Services in Benin

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SUBMITTED TO:
Millennium Challenge Corporation
1099 14th Street, NW Washington, DC 20005
Telephone: (202) 521-3600

SUBMITTED BY:
NORC at the University of Chicago
55 East Monroe Street
30th Floor
Chicago, IL 60603
Telephone: (312) 759-4000
Fax: (312) 759-4004

NORC at the UNIVERSITY of CHICAGO

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Acronyms

ALAFIA:	Association Professionnelle Des Systèmes Financières Décentralisés Du Bénin
ALIDE:	L'Association de Lutte Pour La Promotion Des Initiatives De Développement
ANSSFD:	Agence National pour la Surveillance de Systèmes Financières Décentralisées (National Agency for Monitoring Decentralized Financial Systems) (formerly CSSFD)
BCEAO:	Banque Centrale des Etats de l'Afrique de l'Ouest
CAMTES :	Caisse Mutuelle l'Espoir Tontine Epargne Crédit
CEI:	Centre d'Echange d'Information
CEI–RCIF :	Crédit Bureau
CFAD:	Centre Pour la Formation et l'Appui aux Développements à la Base
CIDS:	Comité Interne de Dépouillement et de Synthèse des projets soumis à la Facilité
CMMB :	Caisse du Mouvement Mutualiste Béninois
CNM :	Comité National de Microfinance
COWEC :	Coopérative Wesleyenne d'Epargne et de Crédit
CSSFD:	Cellule de Surveillance des Structures Financières Décentralisées (now ANSSFD)
FECECAM :	Faîtière des Caisses d'Epargne et de Crédit Agricole Mutuel du Bénin
FINADEV:	Financial Development (arm of the Financial Bank)
FNM/NMF:	Fond National de Microfinance
IAMD :	Institut Africain d'Application des Méthodes de Développement
IDEA:	Institute for Development in Economics and Administration
ISTIS :	Institut de Sondage et Traitement Statistique
MCPP:	Micro-Crédit aux Plus Pauvres
MDB :	Mutuelle pour le Développement à la Base
MFI :	Microfinance Institution
MODEC :	Mutuel d'Oueme pour le Développement d'Epargne et Crédit
MSME:	Medium, Small, and Micro Enterprises
PADME:	Projet d'appui au Développement de Micro-Entreprises
PAPME :	Promotion et l'Appui aux Petites et Moyennes Entreprises
PAR:	Portfolio-At-Risk
PASMIF:	Projet d'Appui au Secteur de Microfinance
PEBCO:	Promotion de l'Epargne Crédit à Base Communautaire
PSF:	Panel de Sélection de la Facilité
RENACA:	Réseau National des Caisses Villageoises Autogérées
RGE:	Recensement Générale des Entreprises
SFD :	Système Financier Décentralisé
UCF :	Unité de Coordination de la Formulation du second Compact et de suivi des Réformes
UNDP :	United Nations Development Programme
UNCDF:	United Nations Capital Development Fund
WAMU	West African Monetary Union

1. Executive Summary

The Access to Financial Services Project was one of the projects of the MCA Benin that was implemented between 2006 and 2011. The meta-goal of the program was to enhance economic growth and thereby reduce poverty, common to all MCC projects in the compact. The goal of the project was to increase access to capital by SMEs. The specific objectives for achieving the goal were two-fold. The first set of objectives aimed at to increasing access to capital through: (i) enhancing the capacity of microfinance institutions to provide improved financial services to their clients by reducing information costs through computerization, interconnectivity, audit, and information exchange through a credit bureau, (ii) strengthening the regulatory and supervisory environment of microfinance in Benin by supporting the agency responsible for supervision of microfinance. The second set of objectives directly targeted a number of private and social enterprises and their associations/unions in the agricultural sector in view of improving their production capacity, sales, upgrade their assets, improve their credit-worthiness, increase their access to capital, and raise their profitability. The direct MFI and enterprise support activities were implemented through a Challenge Facility involving grants from the project and counterpart contributions from the beneficiaries. The project also included substantial support to the Association of Microfinance Organizations in Benin (ALAFIA) and the Ministry of Microfinance, but those are outside the scope of this evaluation.

The purpose of this report is to provide an evaluation of the Access to Financial Services Project by focusing on the Challenge Facility, the national microfinance supervisory agency (then the Cellule de Surveillance des Structures Financières Décentralisées (CSSFD) and now known as Agence Nationale de Surveillance des Systèmes Financiers Décentralisés (ANSSFD)), and the credit bureau (known as Centre d' Échange d'Information (CEI) or Information Exchange Center). The evaluation, five years after the project close-down, is based on the findings from perception surveys and available financial data from MFIs, the MFI supervisory agency (ANSSFD), the credit bureau CEI, and the private and social enterprises and their associations and unions that received grants from the project. In accordance with the questions posed by MCC (see Annex I), the information has been used to provide an informed assessment of the project implementation process, the factors in the local context helping or impeding implementation, and the impact on financial performance of the grantees including their future viability. It is hoped that the conclusions of the evaluation would offer lessons for future MCC development programs in Africa.

Implementation

An important change in the implementation strategy was that the project adopted an in-house approach for implementing the Challenge Facility instead of the planned hiring of an external agency, after two failed procurements. This shift happened late in the project implementation period because of the high costs of hiring a third party for implementing the Challenge Facility. This left the project a short period of time for the actual implementation of the Challenge Facility. The consequent time and disbursement pressure meant that the project was implemented over a two-year period instead of the original five-year period than had been originally envisaged. Much of the procurement work ballooned towards the end of the project, leading to cost, quality and delivery issues.

The perception surveys of the implementation process revealed that for both MFIs and enterprises the procurement process faced many challenges related to required procedures, the quality and price of the equipment purchased, the weak application of quality guarantees that should usually accompany the delivery of such equipment, and limited after-sales service by the suppliers. There were also complaints regarding poor qualification of suppliers, and the insufficient communication between the implementers and the grantees during the procurement process, such as not confirming the technical specifications, resulting in equipment that could not be used, and not responding to grantee letters telling MCA that the equipment was not appropriate.

In terms of procurement, the MFIs fared better than the MSMEs. More than four fifths of MFIs (81%) found the equipment procured to be of high quality, compared to only 51% of MSME grantees, while 72% of MFIs – and only 30% of MSMEs – said the equipment was delivered on time. About 70% of the MFIs confirmed that they were consulted during the procurement process while only 30% of the MSMEs gave a similar response. For similar efforts in the future, it is clear that a re- examination of the procurement process is needed in order to make it more flexible, user friendly and less bureaucratic. This requires a feedback mechanism for ensuring that the voice of the beneficiaries is heard in order to sure that the equipment meets their needs and that there is after-sales support and training. The beneficiaries were engaged in very different fields of activities, each of which require significant expertise and experience. Close involvement of the beneficiaries can improve the likelihood that procurement process is harmonized with needs and capabilities of the beneficiaries.

In terms of the local context, the main concerns were related to the ability of the beneficiaries to mobilize counterpart funds, to provide sufficient working capital for operations, to have access to affordable energy and communication costs. In the majority of cases, the respondent did not indicate any major issues although there were cases involving the provision of equipment that require electricity in areas without electricity or with insufficient electricity and there were complaints of the high cost of communication preventing real time connectivity of MFI branches with their headquarter. In terms of cost sharing, the fact that the Facility accepted existing land and building as counterpart contributions facilitated the counterpart funding by the grantees.

Performance Evaluation

MFIs

Perception surveys revealed improvements for MFIs especially in market development and productive capacity, and more than three-fourths confirmed that they use all the equipment, sometimes with substantial modifications by the beneficiaries themselves. A smaller percentage (13 respondents in 32 or 41%) responded positively in terms of real time connectivity but this covers only four institutions out of nine that received and used interconnectivity equipment. The principal problem with interconnectivity appeared to be the high cost of telecommunication in Benin. Only four institutions out of 23 improved their access to commercial finance. Amongst the factors playing a positive role in this regard was the regular financial audit financed by the project that benefitted 11 MFIs. MFI access to commercial finance is influenced by many factor including financial performance ratios which were influenced by the project and management /governance factors that were not influenced by the project. Moreover, the majority of MFIs expressed a positive and supportive judgement regarding the role of ANSSFD in strengthening the MFIs in Benin.

Based on their financial data, MFIs were assessed in terms of a composite index using a weighted average of five key ratios with individual benchmarks. These ratios measure capitalization, portfolio quality, efficiency, liquidity, and leverage. The ratios were selected to reflect the overall financial performance of the MFIs divided into three categories of NGO/associations, cooperatives, and private companies. The weighted average score, based on the five key performance ratios compared to their benchmarks, show that on average the Associations and NGOs performed better as compared to either the cooperatives or the private company. The top two MFI performers, namely CFAD Benin and PADME, are both NGO/associations and have maintained a top rating since 2010 before and after receiving the grant and their overall rating performance remained the same although admittedly they did benefit significantly from the grant and from external supervision which enabled them to maintain their top performance.

Altogether eight MFIs showed no change in score before and after the grant, and a total of seven MFIs had a deteriorating score compared to pre- grant situation. Only three MFIs showed an improvement of the score as compared to pre- grant situation. There is a significant correlation (98% significance) between the MFI score and other key indicators such as assets, loans, savings, the number of branches, and the rate of growth of assets. In other words, institutions with good performance have had the fastest growth which is a consistent finding.

Based on the perception surveys, it appears that the grants, especially the training, equipment, and the external supervision (below) have played a major role in allowing many MFIs to maintain or expand their operations and maintain or improve performance in spite of the often unfavorable management/governance factors, external shocks, or an unfavorable policy environment the discussion of which is beyond the scope of this evaluation. In other words, although the composite score only improved in three cases, the grants are likely to have been a major factor in either maintaining performance or preventing a degradation of performance for the majority of the MFIs more than being a positive force in improving performance. It should be recalled that the MFIs in Benin lost a total of USD 152 million between 2009 and 2010 due to the fraudulent pyramid schemes that ravaged the sector (interviews with ANSSFD official). The impact of the grants on MFIs was to provide a significant improvement in their information processing capacity and in their supervisory environment enabling them to resume growth after 2011. There is a consensus in Benin that the National Fund for Microfinance which has been injecting funds into the MFI sector was built on the foundations laid by the MCC project. In terms of ANSSFD supervision, most MFIs (78.1%) acknowledged that supervision had contributed to improving their financial data, their loan portfolio, and their compliance with performance benchmarks. MFIs agreed that ANSSFD has imposed an internal discipline in terms of collection, compilation, and submission of data. A total of 53% of MFIs received financial penalties from ANSSFD. MFIs stated that 46.5% had received and paid financial penalties for being late in sending in their financial data. The results highlight the satisfactory performance of ANSSFD in its oversight and advisory functions and this is one of the key outcomes sought by this project.

Strengthening the supervisory arrangement for the MFIs must be considered as one of the major strategic achievements of the Access to Financial Services Project in Benin. In terms of the overall coherence, the project has contributed to the goal of improving financial services through its support to the MFIs and the regulatory and supervision (enabling environment) of microfinance. Nevertheless, improvements in financial services and increase in deposits and loans does not necessarily imply an improved access to capital by MSMEs. The evaluation did not ascertain if the increased loan portfolio meant an increase in percentage or volume of loans to the MSME sector.

Lending to the MSMEs depends on many other factors in addition to the efficiency of the MFIs. The assumption that improvement in access to financial services must necessarily lead to increased access to capital by MSMEs could not therefore be verified. The CEI or the Information Exchange Centre (credit bureau) had a short life of less than one year. It started only towards the end of the project, again because of the procurement issues. It was established as a for-profit company with ALAFIA and several other MFIs as the principal shareholder. The main issue with CEI was the high cost of renewing the software license. The cost by far exceeded the possible revenue from MFIs for consulting the center. There were also other issues regarding the compatibility of the software used by the CEI and those available at the MFIs. The center was closed after about 10 months of operation. The interviews with MFIs revealed that the center performed a useful role although there were complaints about the limited information that was available at the center. The two major MFOIs in Benin namely FECECAM and PAPME did not take an active part as members and did not share information with the center.

MSMEs

The financial analysis of the grantee MSMEs reveals a split between the enterprises continuing to operate with various degree of profitability (about 50% of the enterprises) and those that have either closed or are heavily dependent on further subsidies for continued operations. Among the grantees were five private enterprises, 23 associations, and 14 cooperatives. Of the five private enterprises, four are doing relatively well and one intends to start operations in late 2016 (GATID). Most enterprises that were supported lacked and still lack basic management tools such as a double entry accounting system, operational manuals and procedures, market research expertise, quality control and customer data base management. No significant effort was made to address these soft skills for strengthening enterprise capacity. This is particularly evident in the association between failed or failing enterprises and those who could not provide any financial data for this evaluation.

Overall, despite the improvements for a small subset of the grantees, it is difficult to see the strategic significance of such micro intervention focused mainly on fixed assets that benefitted only a handful of enterprises in different sectors. Nor were there any attempts at clustering or on supporting enterprises along a specific value chain to maximize impact.

Access to Capital

The goal of the project, namely improving access to capital for MSME, still remains a major challenge. Although about 41% of MFIs improved their access to commercial finance, MFI access to capital did not necessarily translate to MSME access to capital. The evaluation did not assess the types of borrowers of the S1 and S2 MFIs that benefitted from the grants and it cannot conclude that the growth in the loan portfolio of the MFIs resulted in an increase in access to capital by MSMES. If the S3 grantees can be considered selected examples of MSMEs, we note that even with external funding, only a handful of them improved their access to commercial loans. Other studies of microfinance in Benin and other West African countries have shown the large percentage of consumer loans to employees or civil servants in the portfolio of MFIs. One conclusion in this regard is that improving financial services is not synonymous with improving access to capital by MSMEs which requires additional conditions to be satisfied such as reducing the risks associated with lending to MSMEs and interest rates that are affordable by such enterprises.

It should further be noted that MSMEs' "lack of access to *formal* capital," i.e., access through formal financial institutions, does not imply lack of access to capital. Many MSMEs start off using their own personal and family funds and continue operating through raising other private and informal funds. A project design that focuses only on access to formal finance may therefore not be taking into account the rich local dynamics of MSME funding that need to be understood and built upon positively before the project could make a significant impact on improving the financing situation of MSMEs.

Lessons Learnt

There are a number of lessons that can be drawn from this evaluation, classified under four headings of: (i) The Coherence of Goal and Objectives (ii) Approach to Implementation, (iii) Understanding the Local Context, and (iv) Economic Sustainability.

<u>Coherence of goals and objectives</u> - The principal question here is whether or not the well - defined objectives of the project were sufficient to reach the goal of increasing access to capital for agricultural MSMEs. In other words, could the goal be achieved with these objectives? The project indeed reached most of its objectives of improving the performance of MFIs and increasing the capitalization of a number of enterprises and their associations. The survey of the MFIs revealed a continuous increase in their portfolios including savings and loans. Based on this data alone, however, the evaluation could not affirm or reject the hypothesis that there was an improvement in access to capital by MSME's. The analysis did not and could not include the verification of the use of funds by thousands of MFI borrowers, and in particular MSMEs. Such a survey was beyond the available budget for this evaluation, and was not included in the scope.

Improved access to financial services was achieved in terms of rise in the volume of savings, better access to cash via ATMs and greater number of loans. However, many of the loans are personal loans to salaried people and this is not necessarily an increase in business loans to MSMEs. [1]

Accepting the additional hypothesis that access to capital is a function of the risk environment in which MSMEs operate, it is safe to conclude that the project did not substantially reduce the risks for agricultural MSMEs that are caused by natural, economic, and policy factors. The MFI's own access to capital via commercial bank was improved only in a limited number of cases and again this had a lot to do with risk factors facing MFIs. One major area of MFI risk is the risk associated with poor governance that was not targeted by the project.

Often evaluations are more focused on assessing the achievement of objectives rather than the achievement of the goal. The coherence between goal and objectives is a major issue that is not often sufficiently analyzed in project design leading to assumed causal associations without a step by step analysis of direct and indirect consequences of objectives in terms of achieving the project goal. Agri-businesses are very diverse and operate in various value chains. Through market selection and focus on the different stages of specific value chains such as pineapple growing, fish farming or palm oil processing, the project could have exerted a greater influence on the risk environment and on the MSME operators.

<u>Approach to Implementation</u> - Many of the procurement activities ballooned towards the end of the project leading to cost, quality and delivery issues. The rigidity of the original design was one of the

[1] The limited data base of the enterprises interviewed for this revealed that for the majority of the enterprises access to capital did not improve during the same period, but it is important to note that these MSMEs were interviewed for a different purpose, and this small group of MSME grantees cannot in any way be assumed to represent borrowers of MFIs in Benin.

causes of this late change in the approach to implementation of the Challenge Facility which had a number of undesirable procurement consequences. One lesson here is that project implementation blueprint should not be very rigidly defined and it should enable the project to find the best implementation arrangements after start-up and early-on during project implementation. Some of the equipment directly procured by the project implementation unit were highly technical and consultation with beneficiaries in the procurement process could have avoided acquiring the wrong equipment at a very high price. The beneficiaries were engaged in very different fields of activities each of which requiring significant expertise and experience. The procurement procedure itself seemed to have become the driving determinant of the implementation process instead of serving the objective of assisting the enterprises. Lesson 2 is to make procurement conditions less rigid and more consultative, allowing much greater beneficiary voice and feedback.

The Local Context - The first page of Benin Country Brief Compact Closeout states that “land insecurity, lack of access to capital, and inefficient judicial system” hinder sustainable economic growth and poverty reduction in Benin and the Compact was designed to address such lacks and absences. In the same document little is described regarding the state of the existing land holding relationships, the existing formal and informal systems of access to capital, and how justice is carried out. This comparison encapsulates a common practice in project formulation by donors which is based on *negation* where an external ideal is used regardless of the relevance or the extent of the applicability of the ideal to the local social and economic relationships. This general critique is relevant because the project did not adequately prepare the ground in terms of understanding what there was before the project and how the project can build on the potential as opposed to introducing an external blue print. The questions of what are the potential of the major value chains, markets, suppliers, support services, and the community connections before initiating its investments were not addressed. The call for applications was issued to MSMEs at large with only very general criteria required, implying that the result would be scattershot of effects on just a few MSMEs around the country. The businesses and the MFIs were viewed as an amorphous mass that needed improved technologies mostly in the shape of hardware and equipment. The packages supplied to MFIs for example were surprisingly very uniform which confirms the hypothesis that the pre-existing needs were not adequately assessed.

Many MSMEs start-ups use personal and family funds and continue operating through raising private and informal capital. They are also involved in the “tontine” which are informal savings and credit clubs managed by a “tontinier” who receives a commission. Many of the MFIs in Benin are basically tontine aggregators and the concept of “lack of access” did not adequately capture the local dynamics of MSME funding through the tontines. These local dynamics could have been built upon positively to enhance the impact and relevance of the project for increasing access to capital by MSMEs. Another lesson is the need to start from an understanding of the existing financial flows and mechanisms including the informal flows before proposing institutional interventions or supporting product development.

The enterprises received different packages of mainly equipment whereas a major pre-existing needs was to strengthen business accounting and management knowledge in terms of understanding the business environment, strategy development and marketing. In fact, in the original design of the project this category of grants (ultimately known as the “S3 Grants”) was intended to support business development services and others building MSME capacity, rather than direct grants to

MSME themselves.[2] It was only because of the small number of applicants in this category that the criteria of selection were modified to allow more enterprises to apply directly. Most enterprises that were supported lacked and still lack basic management tools such as a double entry accounting system, operational manuals and systems, market research expertise, quality control and customer data base management systems. No significant effort was made to address these soft management skills for strengthening the enterprise capacity. This is particularly evident of the association between closed or poorly performing enterprises and those who could not provide any financial data whatsoever. In other cases, there was an oversight overlooking when electric equipment were supplied in areas without access to electricity and with no assessment of operating costs for using a generator.

Lesson 3 is that for any future MSME support projects, the project should assess the value chain including capabilities in terms of basic accounting and internal management as well as relationships with buyers and suppliers, local infrastructure especially access to electricity, and the type of competitors and substitute products (especially imported products) are considered before embarking on MSME support.

Economic Sustainability - The project contributed to the revival and growth of the MFI sector in Benin especially after the 2010 pyramid scheme crisis. The project's support, however, did not influence a major dimension of MFI viability which is their governance structure. The degradation of performance of many of the MFIs before and after the support is admittedly due to poor governance and weak accountability of the board and management in spite of presence of external supervision which is primarily focused on prudential aspects and the quality of the loan portfolio. The common governance weaknesses affecting the MFIs include excessive concentration of responsibilities in one person (Manager or President), vague definition of roles and responsibilities of board members who often do not receive the required corporate governance training, dependence of management on the board or vice versa, and weak control organs such as an audit or supervisory committees who report to the President instead of reporting directly to the board of directors or to the members in cooperatives. The availability of public funds and grants through the National Microfinance Fund has further exacerbated the governance problem in many of the MFIs in Benin.

Lesson 4 is that future MFI support must have the dimension of strengthening MFI governance systems through training and strengthening of internal controls and not just providing hardware or financial supervision.

The project did not address some key issues regarding the viability of the support to the S3 enterprises. Although some enterprises have survived and have become profitable, others have closed down or are struggling.

The criteria of enterprise selection largely favored unions and associations or NGOs at the expense of privately owned enterprises. Only 5 out of 42 enterprises supported were privately owned enterprises while the rest were NGOs, associations of producers or cooperative unions. In fact, 4 out of 5 privately owned enterprises benefitted relatively well from the project and are still in operation. A number of cooperative unions that were supported had internal governance issues as mentioned above and the project did not fully benefit the members. Many of the enterprises supported were already donor dependent and have remained so. Some of the NGOs that received grants were living

[2] See *Millennium Challenge Compact between the USA Acting through the Millennium Challenge Corporation and The Government of the Republic of Benin*, February 2006, Annex 1, Schedule 2-7.

on donor handout and were an unlikely candidate for a sustainable enterprise. There were few genuinely BDS providers in spite of the declared criteria of supporting the BDS providers. Another lesson is that Challenge Facility should be designed with first, the strategic economic impact in mind and second, with greater due diligence of the enterprises and their viability. This involves supporting lead firms that are value chain drivers, key processing industries that can substantially increase the market for producers, and industries with a distinct local competitive advantage. Social enterprises such as cooperatives, associations, and NGOs need additional due diligence including the dimensions of governance and long term viability.

2. Background on Microfinance and the Compact

The microfinance sector in Benin is relatively large and significant. Since the 1990s, the MFIs aimed to fill the gap left behind by the retreat of state-owned development bank and by the commercial banking system. According to a survey carried out by INSAE under the MCC project, in 2011 altogether there were 721 MFIs of which 56 are now licensed.[3] As of 31 December 2011, the licensed institutions had one million borrowers (20% of the population between 15 and 64 years old) with a total volume of active loans amounting to FCFA 80 billion (US$ 160 million). About ¾ of the accounts and members are only in two institutions namely FECECAM which is the largest followed by PADME. There are also a significant number of unauthorized institutions that are estimated to add an additional 20% to the overall MFI loan portfolio and an additional 80% to the number of borrowers. These numbers reveal the economic and the political significance of microfinance in Benin where almost one out of three adults is a client of a formal or an informal MFI. The large number of informal and unsupervised institutions clearly poses a risk to the sector as a whole.

ANSSFD reported that as of 31 Dec 2015, 44 licensed and operating MFIs had 33 authorized branches and 600 service points. The number of their clients increased from 1,474,038 on 31 December 2010 to 1,612,592 on 30 September 2015, translating into an increase of 9.4% (BCEAO, 2016). As shown in the table 1 below, during the same period (2010 to 2015), MFI savings deposits increased from FCFA 54.5 billion (US$ 109 million) to 93.7 billion FCFA (US$ 156 million) or 72% in FCFA and 30% in dollar terms while outstanding loans rose from FCFA 73.3 billion (US$ 146.6 million) to FCFA 98.1 billion (US$ 163.5 million) or 34% in CFA terms and 11.5% in dollar terms. In term of portfolio quality, loan delinquency between 2010 and 2015 dropped from 6.5% to 5.9% which is higher than the required industry standard of maximum 3%[4].

[3] Out of the 56 licensed MFIs, 44 are active and 12 have ceased or are ceasing operations

[4] The conversion to the dollar is based on historical exchange rates averages for the year. The average FCFA to the dollar was FCFA 500 to the dollar in 2010 and FCFA 600 to the dollar in 2015. Using the historical exchange rate gives a more accurate dollar equivalence.

Source: http://www.xe.com/currencycharts/?from=USD&to=XOF&view=10Y

Table 1. Clients, savings, loans and loan delinquency for MFIs

	2010	2015	Change
# clients	1,474,038	1,612,592	9,4%
Savings	US $ 109 million	US $ 156 million	30%
Loans	US $ 146.6 million	US $ 163.5 million	11.5%
Loan delinquency	6.5%	5.9%	- 0.6 %

Data source: INSAE survey 2011 and ANSSFD database 2015.

The MFIs, in particular their savings mobilization activities, is regulated in order to protect the depositors and ensure the safety of funds. A member of the West African Monetary Union (WAMU), Benin has the obligation to harmonize its regulations on decentralized finance with those of other member states under BCEAO rules. As a result, the Microfinance Supervision Unit was created in 2003. In addition, under the MCC project, the Credit Bureau (CEI) was established to further the effort for decentralizing the financial system. In 2015, CSSFD was transformed into an autonomous national agency and became National Agency for Monitoring Decentralized Financial Systems (ANSSFD). The agency is responsible for accepting and processing the license applications, regular supervision of the MFIs, enforcement of the BCEAO prudential regulations, and maintaining an up-to-date data base. The MCC project played a major role in strengthening the old CSSFD and laying the foundation for the creation of ANSSFD in 2015.

With the new BCEAO law in 2012, all MFIs are required to have a license and are supervised by ANSSFD, which receives technical support from the BCEAO. The emergence of ANSSFD and CEI aim to strengthen regulation and supervision in view of reducing financial risks, thus creating an enabling environment for a strong microfinance sector. In February of 2006, the Millennium Challenge Corporation (MCC) signed a five-year, $307 million Compact with the Government of Benin. The five-year Compact entered into force in October, 2006 and ended in October, 2011. The goal of the compact was to accelerate economic growth and reduce poverty by removing constraints to investments and increasing private sector activity through the implementation of several projects. One of the compact components was the Access to Financial Services Project, designed to facilitate the deepening of the financial sector by supporting improvements in the enabling environment, strengthening a number of microfinance institutions to improve financial inclusion and outreach, and enhance the ability of micro, small and medium enterprises (MSMEs) to access financial services through improved capitalization and creditworthiness. The improvements in the enabling environment were intended to improve MFI supervision and decrease portfolio at risk and support the policy making via limited support to the Committee for Microfinance at the Ministry of Microfinance. The direct support to MFIs and MSMEs was implemented through a $10.7 million Challenge Grant Facility amongst three categories of grantees known as S1, S2, and S3.

The MCC Access to Financial Services project had two distinct and interrelated activities. One component was "Improvements in the Financial Environment", which aimed at improving the microfinance policy environment, strengthening supervision, setting up the credit bureau and providing a substantial amount of training to strengthen the MFI sector as a whole. This component accounted for 35% of the project resources.

The other component consisted of grants provided through the Challenge Facility to MFIs (known as S1 or 2 grants) and micro, small, and medium enterprises (S3 grants). This component benefitted from 65% of project resources.

A. The Enabling Environment

Credit Bureau (CEI-RCIF)

The Compact financed the creation of a credit bureau, the *Centre d'Echange d'Information* (CEI), in order to reduce the credit risk of MFIs. The bureau was created as an independent private limited liability company, under Alafia, which is the Association for Microfinance Banks in Benin. The CEI was only able to begin operations in April 2012 many months after the end of the Compact, and closed its doors eight months later in December 2012. More details can be found in the case study in Annex III of this report.

Cellule de Surveillance des Structures Financières Décentralisées (CSSFD, renamed ANSSFD[5])

ANSSFD, operating under the Ministry of Finance, has the mandate to license and supervise microfinance institutions. According to the recent audit of the microfinance sector, the primary source of funding and capacity building for ANSSFD between 2008 and 2011 had been MCA Benin which supported ANSSFD in order to strengthen its licensing and supervisory capacity. According to ANSSFD staff, MCA Benin's support during 2009 and 2010 was instrumental in shortening the licensing waitlist and increasing the number of onsite supervision visits from 20 to 80 per year, leading to the implementation of improvements in the oversight of MFI portfolios. Under the microfinance institutions law which became effective on 21 March 2012, ANSSFD obtained expanded powers to impose monetary fines for late or inaccurate reporting and even close-down some institutions (not a common occurrence). ANSSFD has indicated that there has been a considerable improvement in the Portfolio-at-Risk (PAR) of over 90 days (i.e., loan repayments overdue for 90 days or more) of the licensed MFIs. ANSSFD also received support from PASMIF (a Canadian-funded microfinance support project) during the 2010 – 2015 period. This support financed specific onsite supervision visits especially for FECECAM and was not a general contribution to ANSSFD operating budget.

ANSSFD conducts two types of supervision: an initial offsite review (desk review of data submitted to ANSSFD) followed, if required, by an onsite visit (physical visit to the MFI to check information and interview key staff). Both onsite and offsite supervision cover only authorized/licensed institutions only (a total of 47 institutions). Their primary focus has been to supervise the headquarters of the larger MFIs at least once every two years. Usually, when offsite supervision reveals that PAR (portfolio at risk) is above 5%, a specific mission is conducted to assess the MFI.

During 2011, the ANSSFD undertook onsite supervision of all the 10 largest institutions in Benin, holders of approximately 80% of all MFI loans in Benin with each having in excess of FCFA 2 billion in assets. They have also officially mandated that institutions that have branches must supervise their own branches.

By all accounts, MCA Benin's support was instrumental in launching the on-site supervision unit and strengthening its operations. Since the termination of MCA Benin's funding at compact close-out, the unit has faced difficulties meeting operating costs as well as problems with staff turnover. The unit houses an important database for licensed institutions under its supervision which is now available to the public since the new microfinance law requires that all financial information of

[5] Throughout this report we refer to the agency by its current acronym, ANSSFD.

MFIs are made public. Non-licensed institutions (approximately 741 MFIs) are not supervised by ANSSFD.

National Committee for Microfinance

MCA Benin provided support to the National Committee for Microfinance whose job is primarily the promotion of microfinance in Benin. MCA's support consisted of a large 4X4 vehicle, a generator and some office equipment. The committee carried out a number of studies in collaboration with UNCDF (United Nations Capital Development Fund). These studies were: (i) an evaluation of the national policy on microfinance, (ii) fiscal issues in microfinance (financed by PASMIF), and (iii) building microfinance networks and promoting mergers for the smaller MFIs. These studies were commissioned after the Minister of Microfinance rejected an earlier study of that sector, a study that was carried out in 2011 by UNDP, as it was deemed (unjustifiably - based on informal conversations with PASMIF and ANSSFD) too critical and insufficiently documented.

B. Challenge Grant Facility (Groups S1, S2, and S3)

In total, the Challenge Facility co-financed 65 grants to three types of institutions or enterprise, in two rounds.

- S1 Grants to large MFIs / Bank Institutions for Innovation, Information Technology and Connectivity
- S2 Grants to medium and small MFIs for capacity building and branch expansion
- S3 Grants to private or social enterprises for improved capitalization and credit worthiness of MSMEs

Table 2. Challenge Facility Grants, by Type and Generation

Type of Grant	Generation 1	Generation 2	Total
S1 – Innovation, IT, and Connectivity	6	3	**9**
S2 – Capacity Building & Branch Expansion	9	5	**14**
S3 – Improved Assets and Creditworthiness of MSMEs	25	17	**42**
Total	**40**	**25**	**65**

Data source: MCA M&E project database.

The Challenge Facility experienced initial delays in procurement which significantly delayed the program's rollout to the grantees. However, by the end of the Compact in 2011, all goods and services had been procured and delivered. Annex II provides a full list of MFI and MSME grantees.

S1 Grants – Innovation, Information Technology and Connectivity

The S1 Grants target financial institutions seeking to expand the scope and scale of their services through improved connectivity and innovative technologies that reduce operating costs and risks, and improve economies of scale. First, through technology and mobile connections, these grants hoped to improve the connectivity and integration between headquarters and branches located in under-served rural areas. Second, these S1 Grants introduced innovative technologies that are conducive to economies of scale, reduce transaction costs and risks such as electronic payment terminals, and improve information management. For example, biometric devices are being used by a number of institutions and the PC Pocket has been used for assisting loan officers for downloading customer information as well as carrying out basic cash flow analysis for clients.

MCC granted 9 grants to the following S1 organizations: RENACA, CFAD, ALIDé, PADME, Orabank formerly known as BRS, FECECAM, CCEC, PAPME, and CCIF.

These grants included mainly information technology such as biometrics devices, Pocket PC, office equipment, computers, software, servers, 15 ATM machines, and 100 payment terminals.

Eligibility and selection criteria for S1 grants included:

- Be a financial institution and or a network of financial institutions
- Be legally authorized (licensed) in accordance with applicable legislation
- Be directly in charge of implementation - not acting as an intermediary
- Have a proven ability in the development of financial and non-financial services
- Have confirmation of resources for cost sharing
- Have qualified staff to manage the project
- Aim at services to MSMEs especially in rural areas.

S2 Grants – Capacity building and branch expansion

The S2 Grants aimed at strengthening the capacity of microfinance institutions (MFIs) through provision of equipment and technical assistance such as services for improving internal controls, audit services, preparation of a manual of operations and procedures

At least 10% of resources under the S2 grants were to be used to finance the following business areas:

- Promoting transparency and good governance in MFIs (external audits, ratings, and improving internal controls)
- Improving loan appraisal capacity of MFIs especially including medium and long term loans
- Training and other capacity building mechanisms to enhance the ability of MFIs to access capital and more stable long term resources
- Support for regulatory compliance
- Evaluation of operational capabilities and management efficiency of the MFIs

Institutional Strengthening was limited to microfinance institutions for increasing the likelihood of receiving commercial financed from a commercial bank over the short, medium and long-term. This involved "bank-downscaling" on the part of commercial banks involving the development of adapted financial products for the MFIs.

Eligibility and selection criteria for S2 grantees were:

- Be a licensed microfinance institutions
- Be a commercial bank for projects that could improve the availability of commercial credit to MFIs
- Have capacity for project implementation - not just as an intermediary
- Have a track record in the proposed activity

- Have confirmed funds for cost-sharing
- Aim at project that can directly benefit rural MSMEs

Selection Results: MCC granted 14 S2 grants to the following organizations:

The S2 grantees are: DWM, Consortium IAMD, CMMB, Consortium MC-MDB-ALIDé, UNACREP Finadev, CPEC, ZEMIDAGA Finance, PEBCO, Finadev, ACFB, CERIDAA ONG, Caisse Codes, APHEDD-BAVEC, and MODEC-CAMTES.

The S2 Grants include: development or updating the procedures manual for administrative and financial, operations; acquisition of computer hardware and equipment adapted to the needs of the MFIs; motorcycles for loan officers; and training.

S3 Grants – improved capitalization and credit worthiness of MSMEs

A total of 42 MSMEs were given equipment grants for productivity improvements and market expansion. Many of these MSMES have experienced substantial increases in output and production. The goal was to increase the MSME's access to MFI or commercial finance for investments and working capital. The grantees included:

- Rural organizations, associations, and cooperatives involved in production, processing, or marketing seeking to improve their production, productivity, and creditworthiness of their MSME members through training and equipment
- Support to BDS service providers involving in training and technology for MSMEs to improve product and service quality and access to finance.

Eligibility and selection criteria for S3 grants included:

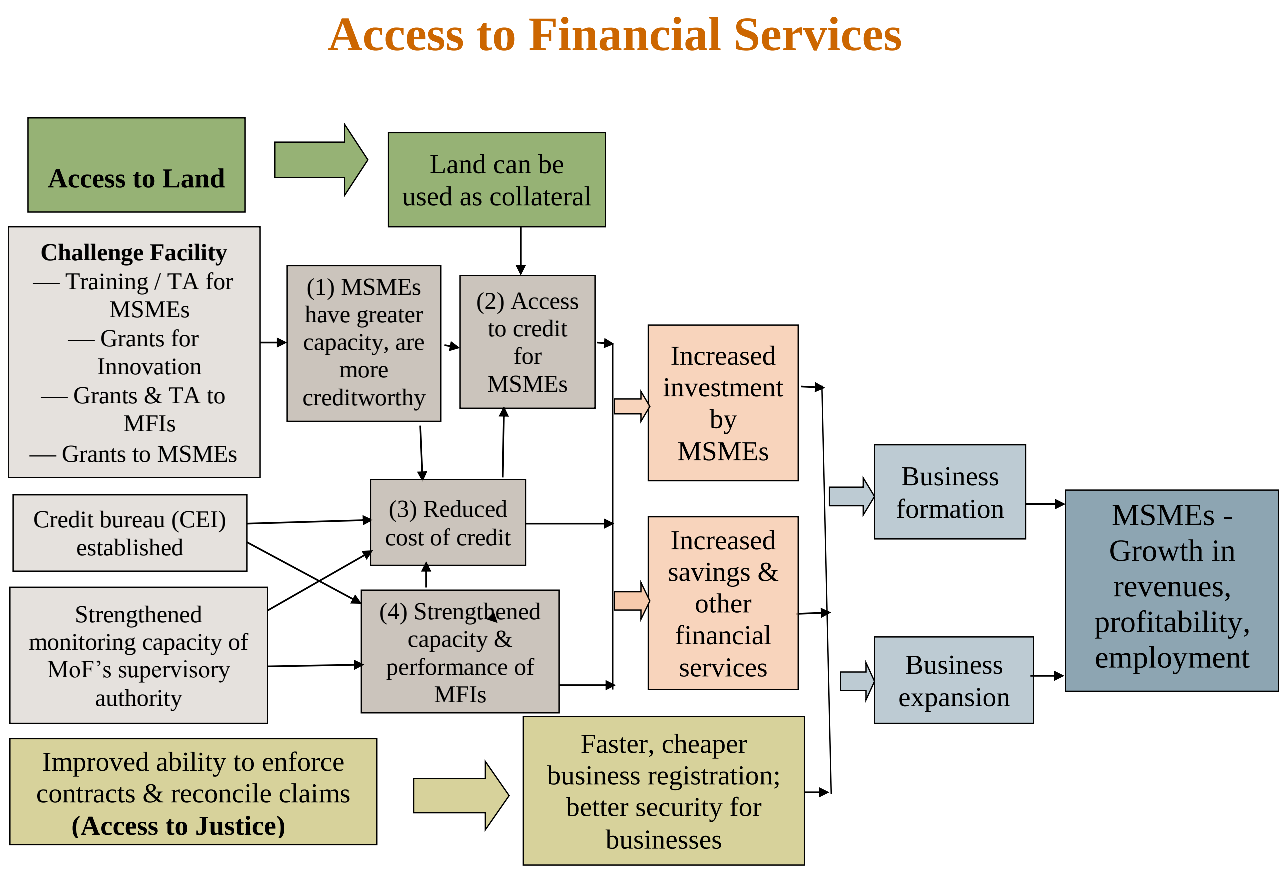
- Being a network, a rural cooperative organization, or a technical service provider (BDS) which is legally established in Benin
- Be directly responsible for the preparation and management of the Project and not acting as an intermediary
- Propose a project whose results will be beneficial to rural MSMEs
- Have a proven ability in supporting non-financial enterprises
- Confirmed funds for cost-sharing

Selection results: MCC granted 42 S3 grants to MSMEs.

These grants included: acquisition of modern production and processing equipment, irrigation equipment for vegetable production; training of members; creating partnership between enterprises; diversification of outlets of the manufactured products; establishment of customer and suppliers database.

Program Logic

The initial logic of the Access to Financial Services program is illustrated in the causal model below. It depicts how the program fits into the overall logic of the compact, including its relationship to the Access to Land and Access to Justice (at the top and bottom). The project design emphasized the project's contribution to MSME creditworthiness for access to credit and robust financial services, with the aim of strengthening business growth. The model below traces the expected effects of the project proceeding from the MCA activities at the left through several levels of intermediate outcomes to the end outcomes on the right. This evaluation is focusing primarily on the first level of intermediate outcomes, that is, those depicted in the darker gray color below (and numbered for convenience), such as strengthened capacity of MFIs and MSMEs, and improved access to credit.



There were a number of changes during project implementation and to some extent in the logic of the project. These are explored in greater detail below. The implementation in grants to MSMEs (S3 Grants) changed the most explicitly. Initially, the grants were to go primarily to MFIs, with one set of grants destined for rural networks or other organizations working directly with MSMEs to improve their creditworthiness through training or other support. Because of a shortage of applicants, those grant opportunities were opened more broadly to MSMEs directly to help increase their productivity. As can be seen in the logic model, that change would have the greatest implications for the boxes numbered (1) and (2), which address the possible link between MSME capacity and access to credit.

3. Evaluation Methodology and Data Collection

This evaluation largely focuses on the Financial Innovation and Expansion Challenge Facility sub-activity (Challenge Grant Facility) and the Financial Enabling Environment Activity (The Enabling Environment), especially the work done to strengthen the ANSSFD and to establish the CEI, as agreed with MCC. The statement of work lays out a number of evaluation questions that can be roughly divided into two different categories, those that look primarily at implementation of the project, and those that focus on performance. Following a review of documents and of the project's implementation history, and in consultation with MCC, the Evaluation Questions have been reformulated as shown below. This section lays out the Evaluation Team's approach to answering each of those questions.

A. Implementation Evaluation

The implementation evaluation covered the Challenge Facility, ANSSFD, and CEI activities and addressed the following questions:

1. Were higher level goals, the lower level objectives, the strategy to achieve the objectives, and the specific activities clearly defined and consistent with one another?
2. Did the goals, objectives, strategy and the activities designed initially change over time?
3. Was the project well understood by the local actors? If not, why not?
4. What were the reasons and the logic for any changes that were introduced during project implementation and the consequences of those changes?
5. Did the local context where the Compact was implemented favor or hinder the Compact activities? What were the main local constraints that influenced project implementation?
6. Was the Compact's organizational setup effective for achieving its objectives?
7. How sustainable were the improvements introduced under the Compact?
8. What lessons can be learned from the Compact for the implementation of future projects in other developing countries?

B. Performance Evaluation – S1 and S2 Grantees of the Challenge Faculty

The evaluation hypothesis is that the computerization of operations, connectivity, PC Pocket, biometric reading devices, branch expansion, training, audit, etc. provided through MCA interventions all contribute to improvements in the target institutions' outreach and a superior financial performance.

The key issue here is whether or not MFIs have become more efficient financial intermediaries as a result of the MCA intervention. Here we can measure efficiency in terms of the following:

1. Are transactions costs lowered?
2. Do transactions take less time?
3. Does loan portfolio quality increase?
4. Do deposits and lending activity increase?
5. Do operating costs decrease and profits increase?

Our approach will consist of two activities, an assessment of financial efficiency of the MFIs and qualitative analysis of interviews to explore the effects of the MCC grants.

Financial Efficiency

The pre- and post-treatment financial efficiency of the MFIs was examined through review of financial data, and specifically the assessment of six indicators:

- Outreach[6]
- Capital Adequacy
- Asset Quality
- Management Efficiency
- Earnings
- Liquidity

The above indicators will be used to measure performance over time (2009 – 2015) to determine the performance of the institutions after receiving the Challenge Facility grants. The exercise will use benchmarking to assess the improvement or deterioration of soundness and performance over time plus the implementation evaluation approach, described above, to assess how well the projects were implemented, what worked, and what did not work, and the reasons for the observed performance providing insights on MFI grantee performance.

Of all 23 S1 and S2 institutions, only 18 institutions had their financial information at ANSSFD. These were:

- Public Company: FINADEV SA
- Cooperatives including authorized branches: APHEDD-BAVEC, CAISSE CODES, RENACA, CMMB, CPEC, FECECAM, MDB, UNACREP, CAMTES, MUTUALITE CHRETIENNE, and MODEC
- NGO/Association including their authorized branches: CFAD, PADME, DWM, ACFB, ALIDE, PEBCo – BETHESDA.

The institutions that have not provided quantitative financial data were:

- PAPME (under bankruptcy administration)
- Zemidaga Finance (not an MFI – wrongly classified)
- CCEC (under financial difficulties)
- CCIF Natitingou (data available only up to 2009)
- IAMD (data available only under 2009)

For the benchmarking component, the evaluation will assess absolute change in the soundness of the MFIs over the period of the grant. The MFI soundness rating is a standard performance measurement[7]. Each set of the indicators listed above – with the exception of the outreach indicator – is scored on a five point scale as shown below:

[6] Note that outreach, unlike the other five indicators, will be used to evaluate social impact rather than financial soundness

[7] For information about the liquidity and capitalization ratios, please see the following BCEAO document:

Table 3. MFI Soundness Scoring System

MFI Soundness Score	Rating
1	80-100 (Sound)
2	66-79 (Satisfactory)
3	50-65 (Marginal)
4	40-49 (Unsound)
5	Below 40 (Insolvent)

The industry standard for weighting each factor is as shown below:

Table 4. MFI Soundness Factors and Weighting

Factor	Weight (%)
Capital	30
Asset quality	30
Efficiency / Management	20
Earnings	10
Liquidity	10
Total	**100**

The weight applied to each factor represents the importance attached to the factor in terms of impact on the overall soundness of the institution. Moreover, the rating is a purely financial assessment and does not take into account social performance and outreach indicators. Other indicators such as average loan size, outreach, geographic distribution (rural / urban), gender distribution of clients, and other developmental and social performance indicators may also be considered to assess social impact. The evaluation has conducted the benchmarking analysis and implementation evaluation for all grantees.

MFI Perception of Contribution of the Grants

The presence of other contributors and donors, especially in the S1, providing support to the same institutions as the Challenge Facility, adds one more level of complexity to determining each effort's respective contribution to change. In theory, it is necessary to construct a causal model that represents the relationship of outcomes of interest to inputs and use data to estimate the impact based on this model. The evaluator should assess total impact for all programs and apportion the total impact to the various programs in proportion to their contribution. However, this approach was deemed too complex, given that other projects have provided assistance that varies and/or is difficult to quantify. In this case the determination of attribution was not pursued. Instead, the evaluation used an overall performance assessment model combined with qualitative interviews to

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http://www.cei-rcif.com/download-public/instruction_bceao/Instruction-010-08-2010-relative-aux-regles-prudentielles-applicables-aux-SFD.pdf

Ratings for portfolio quality, management efficiency and earnings, are based on "good practice" guidelines for microfinance. For some suggested norms see: http://www.microsave.net/files/pdf/Financial_Management_and_Ratio_Analysis_Toolkit.pdf assess the degree to which the grants contributed to positive outcomes. In addition to the financial analysis described above, the evaluation conducted qualitative interviews with MFI managers to isolate the possible effects of MCC funding and to determine to what extent improvements in key variables such as transaction cost, transaction time, loan processing efficiency, loan portfolio reporting, and profitability are the due to the effects of the program.

C. Performance Evaluation – Enabling Environment

ANSSFD

The following are the principal questions that guided the evaluation work regarding ANSSFD:

1. To what extent has ANSSFD contributed to improved overall MFI loan portfolio quality and financial performance?

2. To what extent has ANSSFD played a direct role in providing early warning against adverse developments in any MFI?

3. To what extent has ANSSFD supervision contributed to capacity building in MFIs in the sense of capability for supervision preparedness?

It will be evident that these questions do not include a consideration of the many unlicensed MFIs in Benin; nor were these a focus of the MCA project. This may be a reflection of the fact that the economic policy environment in Benin regards the informal sector unfavorably despite its crucial role in the economy. Nevertheless, addressing the entire microfinance sector would have required a much larger project, and since it was not a focus of the project, it is not addressed in this evaluation.

The evaluation carried out extensive interviews with the director of ANSSFD, the head of supervision, and the head of the IT department. Moreover, specific questionnaires were designed to understand the role and impact of ANSFFD as perceived by the MFI managers.

Credit Bureau (CEI)

Given the short tenure of CEI and the lack of results, a detailed evaluation of CEI was not conducted. Instead, the evaluation team has prepared a brief case study of the CEI activity to inform MCC about the major events that occurred during the period of performance. This shows what happened and how it might be done differently in the future to reach a more fruitful outcome. See Annex III: Case Study CEI.

D. Performance Evaluation – S3 Grantees of the Challenge Facility

The research question concerning S3 grantees – similar to those for the MSMEs who are end beneficiaries of S1 and S2 grants – was: Did S3 enterprises experience an increase in productivity, cash flow, and profitability as a result of the Challenge Facility support?

The evaluation evaluated the grantee's business performance in terms of key financial ratios over time with complementing qualitative information on how the grant supported those improvements.

Keeping in mind the practical limitations of available evaluation methods, the evaluation team undertook a pre-post analysis of the performance of the grantees of various categories. We conducted a financial audit of all S3 enterprises to assess performance before and after the grants were received. The research questions concerning S3 grantees are intended to assess whether they experienced an increase in business performance indicators such as sales, cash flow, profit and improved asset utilization as a result of the Challenge Facility support. These indicators assessed improvements or deteriorations over time and compared the ratios amongst the evaluated enterprises. The ratios used were:

1. Liquidity Ratios: ability to meet all its financial obligations:

Current ratio: current assets/current liabilities
Acid test: (current assets – inventories)/ current liabilities

2. Efficiency ratios: Making the most of business assets

Inventory turnover ratio: Sales/Inventories
Fixed assets turnover ratio: Sales / Total assets

3. Leverage ratio: How the business uses debt

Debt ratio: Total debt/total assets

4. Profitability Ratios: The ability of the business to generate sales, to pay for expenses and to meet shareholder expectations in terms of growth and dividends)

Gross margin = gross profit (EBITDA)/Sales
Return on assets: The ability of the business to use its investment capital to fuel sales and generate a profit –

ROA: Net income[8]*/Total assets*

Data reviewed for each MSME includes their balance sheet, income statement, and where available, cash flow statement in addition to responses to a short qualitative questionnaire. When the financial statements were not readily available, a short financial audit was carried out to reconstruct, the basic financials considering the sales and costs data. During the perception survey, the beneficiaries were asked questions directly regarding their perceptions of the effect of the interventions: whether they affected outcomes such as increases in sales, expansion of markets, improvement in product quality, reduction of unit costs; and about their views of the implementation process that resulted in these outcomes.

Data Collection[9]

NORC began recruitment for the data collection team in October 2015 in Benin, seeking accountants, agro-economists, and financial services specialists. The candidates were interviewed by NORC in December 2015, and the selected candidate were invited to attend the first round of training. The accountants and agro-economists were formed into three groups to collect the

[8] Due to problems related to measuring fixed asset values, it was difficult to measure net income which include net depreciation. Therefore ratios to do with net income have not been emphasized.

[9] Refer to Annex VI for the final list of MFIs and MSMEs.

quantitative and qualitative data from MSMEs. The financial services specialists in two groups collected the qualitative data from the MFIs.[10]

The agro-economists and the accountants were grouped in three teams, each responsible for 14 MSMEs, as shown in the table below. These three teams were supervised by NORC's Field Coordinator, who provided guidance and supervision during data collection. The allocation of MSMEs to the three teams took into consideration the geographic location of the enterprises. In order to increase the efficiency of the data collection and reduce travel time, each team was responsible for a geographic zone. The teams traveled on weekends to their assigned geographic zones to interview and collect the data from the target enterprises.

The financial services specialists were supervised by a local financial services specialist who provided the needed due diligence, guidance, and supervision and provided a comprehensive field report and data analysis report.

Data collection was launched during the first week of February 2016 and stretched through the first week of April 2016 due to the first round of elections in Benin at the end of March 2016. NORC's local coordinator in Benin together with NORC local financial services expert prepared the meetings and the interviews for the data collection team before they went on the field. Many organizations had changed administration and location so the new addresses had to be found and the new contact information had to be gathered. The data collection teams went to the field equipped with data collection guides (attached), an updated list of MFIs and MSMEs contact information and people in charge, in addition to letter drafted by NORC facilitating the field work and explaining the purpose of the evaluation.

Several steps were taken to encourage candid responses, the interviews were carried out by independent researchers that they had not met before in the context of the Compact. Respondents were informed that the responses would be entirely confidential, and that disaggregated responses would not be shared with MCA or MCC. Training of interviewers emphasized the importance of confidentiality and clarification on the evaluator's independent role.

Financial data for the 23 supervised MFIs assisted by MCC was collected from ANSSFD and not collected from the field. NORC was able to retrieve hard copies of the financial reports and those were photocopied and the data were subsequently entered into an Excel format.

Altogether, 42 grantee MSMEs and 23 grantee MFIs were covered, and all but one of them (the MSME Goussounon Barika[11]) were interviewed. All of the MFIs provided financial and non-financial data. Half of the MSMEs provided full financial data; another 11 MSMEs were able to provide partial financial data, that is, for just some of the years between 2009 and 2015. For 10 of the MSMEs, financial data was not available.

[10] The data collection effort was overseen by Field Coordinator Serge Wongla. The data collection team included Abdul Baaki Bankole, Daniel Ada, David Giraud Akele, Francois Azinbligbo, Gladys Codja, Josiane Johnson, Josias Tekle, Kevin Agbasso, Rodrigue Quenum and Pascal Dannon, who also served as financial sector specialist. An additional member, Aurelien Tambamou, participated in the training and pilot test, but later left the team due to previous commitments, and due to an earlier assignment for Alafia.

[11] The data collection team was not able to schedule an appointment with the MSME after several trials. The president of the MSME was sick and the main person capable of answering the questionnaire and providing the data was no longer in Benin.

Table 5. Data Completion Statistics

Type of Institutions	Sample Size	Availability of Data				
		Non-Financial Data		Financial Data		
		All data collected	No information collected	Complete Data from 2009 to 2015	Partial data covering 2 or 4 years	No financial data
MSMEs	42	41	1	21	11	10
MFIs	32[12]	30		23		

See Annex IV for the data collection instruments. For more details on data collection, please refer to the Field Report on Data Collection (NORC, April 2016).

Limitations

The evaluation team acknowledges several limitations inherent to the design of this evaluation.

A number of MSMEs were not able to provide financial data; and for those that good, pre-project data was of substantially poorer quality than more recent data. For most enterprises, their accounts were reconstructed based on income and expenses source documents over the period.

Due to budget constraints it was not possible to obtain data from MFI customers or from a broader sample MSMEs more generally. These would have provided very useful data for a number of questions.

It is possible that some grantees may have believed that more positive answers might lead to additional support from MCA/MCC in the future, thus creating bias in responses. A number of steps were taken to forestall this possibility, including the use of independent researchers and many reminders of confidentiality, and the evaluation team believes any bias is likely to be very small.

There are many factors or variables beyond the MCA project that may contribute to the results described in this report. Therefore, the reader should be careful not to infer causation from correlation.

The above limitations, however, did not prevent the evaluation team from gathering the information and data needed to produce findings, conclusions and recommendations (however tentative) for this particular performance evaluation.

[12] 32 MFIs include 23 grantees and their related branches.

4. Findings: Implementation Evaluation

A. The Enabling Environment

This section of the report evaluates the implementation of the activities focused on the ANSSFD and the CEI. The results were drawn from key informant interviews with key informants at the ANSSFD and the Unite de Coordination de la Formulation du Second Compact et de Suivi des Reformes (UCF)[13], as well as data from the surveys undertaken with MFIs. Data collection instruments are included in Annex IV.

ANSSFD

Over the course of 5 years, the ANSSFD received US$1.5 million in support including the computer and server equipment, office furniture, and 2 vehicles. In addition, in order to expand the number of ANSSFD's onsite supervision activities, it received FCFA 150 million to cover operating costs that included administrative fees, a financial procedures manual, and staff training.

As a result, ANSSFD has played an instrumental role in licensing MFIs and extending the oversight of MFI portfolio. As shown in table 6, the ANSSFD with MCA support has positive impact on the licensing of MFIs. Of 32 MFIs, 29 reported having been licensed by the time of the interview. Of the three non-licensed institutions, ZEMIDAGA Finance is a consulting firm, and hence not qualified as an MFI; APHEDD-BAVEC is an informal MFI that is in the process of being licensed; and ORABANK, previously known as BRS, is a commercial bank. Moreover,

10 MFIs out of the 32 including branches (31% of MFIs) indicated that the project has assisted them to obtain their license.

Table 6. MFI Licensing

Questions	Yes	%	No	%
Are you an accredited institution or do you have your authorization ("*agrément*")?	29	91%	3	9%
Did the support from the MCA help you get your authorization?	10	31%	22	59%

Data source: MFIs responding to survey.

The ANSSFD has also demonstrated significant improvement in its supervisory capacity. The agency was able to carry out 102 Supervision Mission in 2012; the number of inspections of microfinance institutions increased from an annual average of 27 to 66 between 2008 and 2012. MCA also supported 40 audits conducted in 10 MFIs over the course of 4 years. These audits aimed to help the MFI to develop partnerships and raise resources from commercial banks in order to meet

[13] Specifically, KIIs were undertaken with ANSSFD's Mr. Abou Issiaka (Co-Director of ANSSFD), Madame Juste Kiki (responsible for studies in the statistics department), and Mr. Gregory Zinsou (Director of the Access to Financial Services) at Unite de Coordination de la Formulation du Second Compact et de Suivi des Reformes (UCF).

the credit demands of the MSMEs. ANSSFD also disseminated the audit results on MCA-Benin website as part of the agreement with the MFIs to demonstrate commitment to good governance and transparency.

Beyond operational improvement, the ANSFSD has improved its enforcement function imposing and enforcing financial penalties on poorly compliant institutions. Within the period of the Compact, the rate of enforcement of the penalties rose from 0% in 2006 to 100% against a target of 70%. ANSSFD issued warning letters to all MFIs that did not comply with regulations.

Earlier, this was not their practice.

B. The Challenge Facility

In this section, we examines how the goals and objectives of the project changed over time, the effectiveness of organizational set up and management, as well as the sustainability of the project after the Compact.

Challenge Facility Structure

The management structure and organizational arrangements for the Challenge Facility changed over time, and it appears that may have reduced the ability of the grant facility to meet its objectives.

Although the Challenge Facility had initially been envisioned as a stand-alone unit, after some delays – and two failed procurements – MCA decided to establish an in-house implementation unit to process the grant applications and manage the grants instead of hiring an external party. The in-house implementation unit initially included a group of five professionals which then grew to eight by the end of 2008. Once established, operations began hurriedly to make up for lost time and meet targets. Both Component 1 and Component 2 were under a single overall director who was assisted for Component 1 by an in-house team of eight professionals further assisted by several retained consultants for the processing of the proposals under the Challenge Facility. As an indicator of the volume of work, the director of the financial services project has stated that altogether for the implementation of the project a total of 600 contracts were signed (including unfinished contracts) and implemented by the implementation unit for Component 1 over the course of the project.

It should be noted that project implementation suffered significant delays in the following areas: (i) delays in the delivery of the studies by private companies under contract; (ii) delays in the organizational audit of the microfinance sector; (iii) and the inability of certain suppliers to deliver the contractually agreed goods and services which led to finding alternative ad hoc arrangements for delivery.

A major lesson that has been confirmed by Gregory Zinsou, director of the project, is that the selection of the enterprise applicants for the challenge facility required much more due diligence than anticipated, including more in-depth financial and management analysis and verification. In fact, the unit relied heavily on external consultants to assess the feasibility and reliability of the applications, which resulted in superficial and limited due diligence including the low quality of assessment for each application. The implementation unit did not have enough time or capacity to carry out adequate monitoring given the number and diversity of proposals. There was superficial analysis as to the legal status, whether or not the enterprises really existed or had just been created in order to benefit from the grants, and other opportunistic signals were not sufficiently examined before approval. Very limited due diligence was carried out for the individual MFIs. For example, a majority of S3 applicants were semi-formal MSMEs without adequate accounts and management systems. This became particularly evident during the audit of the S3s. Implementation problems included the provision of equipment that was not suitable for the grantee's level of operations or for the location in which the operations were located. For example, equipment running on electricity was approved for an area where there was no electricity and the electric generator was included to provide power or processing equipment without assessing the availability of the raw material or the operating costs.

The Director of the implementation unit has acknowledged that they should have done more review of the consultant diagnoses before support was provided.

Grants to MFIs

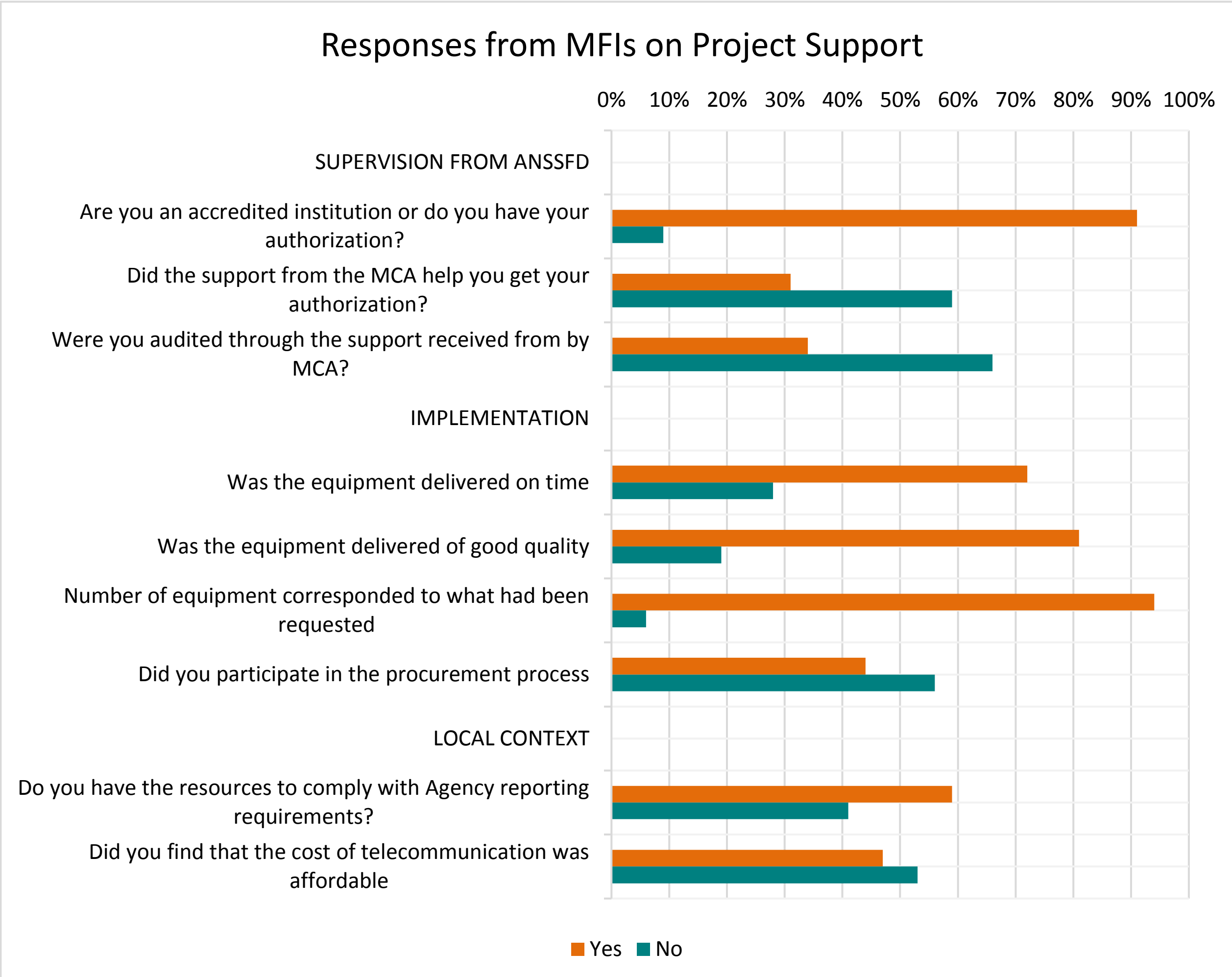
Both MFIs and MSMEs were asked a series of questions about the implementation of the grants program and their experience. For the MFIs they fall into three groups as follows. Legal Status and ANSSFD **.** The three questions in this section provide an assessment of the legal status (authorized or not) of the MFI, the role of the project in facilitating the licensing of the MFIs, and if they benefitted from the audit. The background questions are additional support for the implementation quality of the project.

Grant Implementation. The questions in this section aimed at assessing how the support was provided with a special focus on the procurement process in terms of timeliness, quality of the goods, fit with client need, and client participation.

Context for Assistance. The questions in this section assess to what extent the project implementation considered the local context in terms of enabling or disabling implementation and reducing the potential benefits from the grant. Local context indicators are the ability of the MFI to comply with ANSSFD reporting requirement which is usually staff intensive and costly, and to have access to telecommunication and electricity

Graph 1 summarizes the findings on the perceptions of grantee MFIs regarding implementation.

Graph 1. S1 and S2 Implementation Evaluation Results



High Cost of Telecommunication for Interconnectivity

Although the S1 MFI grantees received connectivity equipment to better connect with the branches and headquarters, they could not maintain the connectivity due to the high telecommunication costs.[14] Survey data reveals that only the largest MFIs managed to maintain the connectivity, and consequently most MFI could not implement the new technology equipment and technology support. The operational costs were generally an omitted factor in the original assessment of the connectivity technology.

Grant Process and Procurement

There were a number of problems in the administration of grants by the Challenge Facility.

Delay in Obtaining the Grant - A total of 10 out of the 32 MFIs, confirmed major delays between notification of the grant by MCA and the actual delivery of the equipment. In some case the delay exceeded 2 years. The average delay was 1 year. A third of the institutions (28%) complained about

[14] Although electricity is often an issue as well, most MFIs use generators

late deliveries. The delay in delivering the equipment was compounded by other procurement issues including the type of equipment, quality issues, and poor fit with the needs of the MFI.

Equipment support – the majority of the S1/S2 grantees reported positive experience with the equipment delivery, and quality, with 94% reporting that the equipment corresponded to what they had requested. In addition, 72% and 81% reported that the equipment were delivered on time and in good quality respectively. On the other hand, more than 50% of the grantees said that they did not participate in the procurement process.

Consultation on Procurement with the Beneficiaries - A total of 18 institutions or 56.3% confirmed that they had been consulted and they were able to discuss with the suppliers about their requirements. This collaboration in some cases continued after the end of the project and has continued ever since. On the other hand, 10 institutions or 31.3% responded that they had not been adequately consulted during the procurement process and they had no contact with the suppliers prior to delivery. The lack of contact and consultation was associated in some with delivery of inappropriate or dysfunctional equipment.

Audit and Procedures Manual – A total of 11 institutions (44%) were financially audited at least once or over two or three years on an annual basis. Moreover, 31.3% of MFIs confirmed that they had been supported for developing their operational procedures manual. The MFIs receiving the audit were not always the same as those receiving support for their manual.

Support and Sustainability

Project support – According to the survey 25% of S1/S2 grantees benefitted solely from equipment support (computers, printers, generators, motorcycles, solar panels), nine institutions, or 38%, received support for interconnectivity, while three of the larger S1 institutions received a total of 100 ATM machines (BRS, ALIDE, FECECAM) and support for building the ATM kiosks, and 37.5% received equipment and institutional support (principally contribution towards building a new branch).

Equipment Utilization – A total of 25 institutions out of 32 or 78% confirmed that all the equipment that were delivered have been fully used. The main issue has been around the use of connectivity equipment where more than 50% of the MFIs who received the equipment could not use them[15]. The use of interconnectivity was hampered because of the high cost of operations and some software compatibility issues as was mentioned above. Data collection from branches in most cases has remained manual involving a trip to each branch at the end of the month. It should be noted that, apart from connectivity equipment, all the other equipment provided by the project has played an important role in strengthening the operations of the MFIs.

Sustainability – Depreciation is a standard accounting practice to ensure that the cost of using the equipment is deducted and put aside to enable repair and renewal of the equipment. A total of 22 institutions or 68.8% confirmed that they include depreciation in their accounts. A total of 8 institutions or 22% do not depreciate their equipment. The remaining 2 institutions could not respond to this question. In terms of renewal, 19 institutions or 59.4% confirmed that they have renewed the equipment that they received from the project. On the other hand 11 institutions or

[15] Inter-connectivity equipment was not evenly distributed since only 9 out of 23 MFIs received the equipment. Of those 9 only 4 are using this equipment because of operating costs. The "more than 50%" refers to 5 out of the 9 MFIs receiving the interconnectivity equipment and not to all the MFIs.

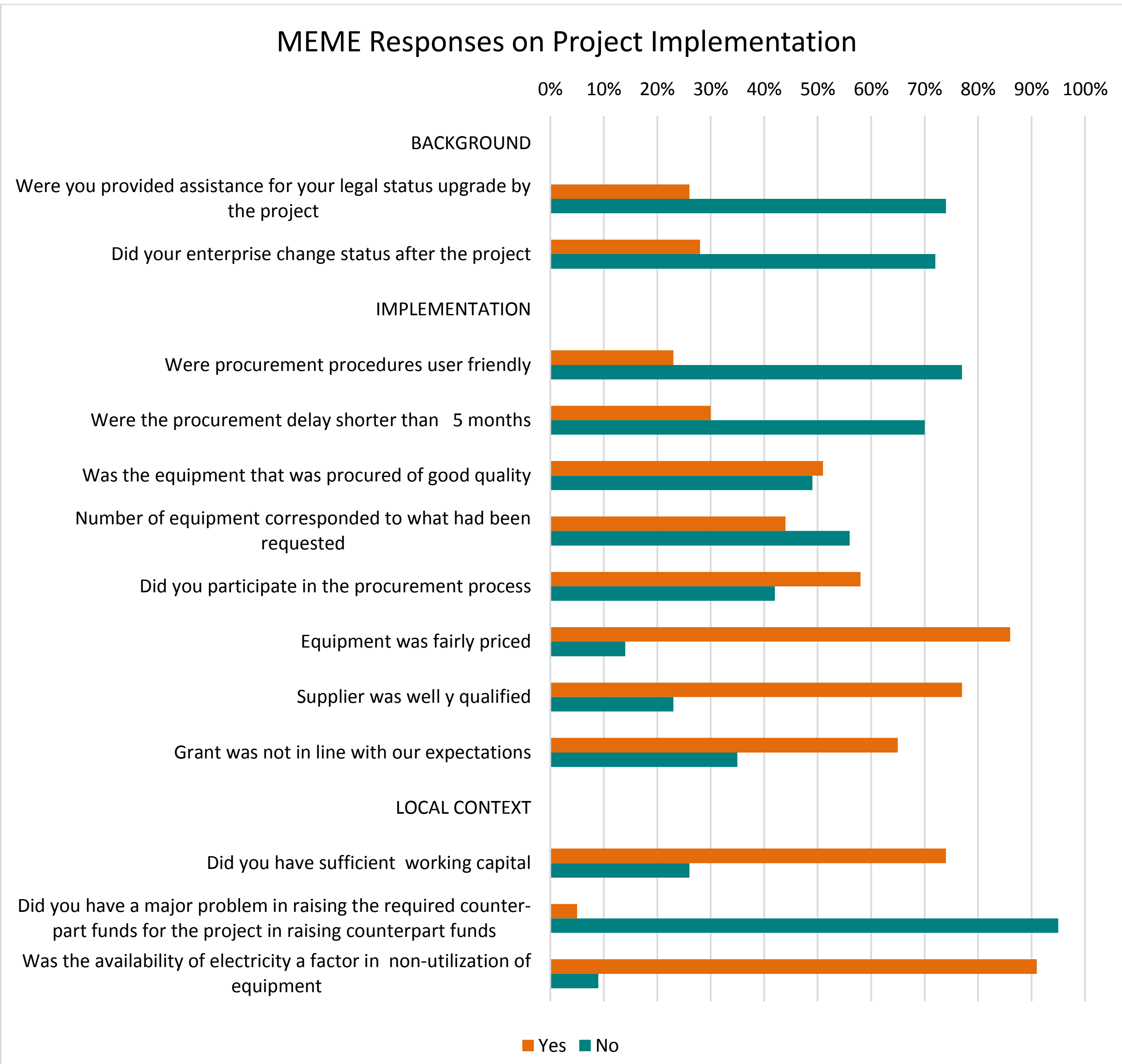
34.4% have pointed out that the equipment is already depreciated but there are no funds for their renewal.

Grants to MSMEs

Turning now to the S3 grants provided to MSMEs, this section looks at the allocation of grants by type of activity, perception of the grantees regarding implementation and whether or not the local context was favorable to implementation.

Graph 2 summarizes the key findings regarding MSME perceptions.

Graph 2. S3 Qualitative Results (43 enterprises)



Legal Status

The background questions assesses whether or not the project played a positive role for improving the legal status of the enterprises and positive answer is interpreted as being a positive factor in implementation. In this sense about ¼ of the enterprises were assisted by the project.

Implementation of Grants

The questions around implementation were largely concentrated around the timeliness and efficiency of procurement, the quality of equipment, and the overall procurement experience by the beneficiaries. The majority expressed dissatisfaction with the procedures and the delay. The fact that MCA itself carried out the full procurement process without grantee involvement created a sense of lack of ownership of the process by the recipients as acknowledged by 42% of the enterprises. A total of 26 enterprises or 56% stated that the equipment did not correspond to what had been requested. Due diligence is required prior to placing the order, however error happens when the wrong equipment is delivered due to a mistake made after the order was placed; often not diagnosed because the beneficiaries have not been involved in correcting the error. On the positive side, the majority acknowledged that the grants were in line with their expectations (65%), that the supplier was qualified (77%), and that they did participate in the procurement process (58%)[16]. An important element to be noted in terms of procurement, the different types of MSMEs (fisheries, metal cutting, oil extraction) require different attention and knowledge; and MCA procurement team often lacked such expertise.

The following are some examples of the problems with procurement.

- The equipment purchased was not what was asked for (e.g. a diesel engine was requested when an electric engine was delivered)
- The equipment was not the technical specification that had been asked for because MCA did not have the required technical expertise in a number of cases involving highly specialized equipment (e.g. COBEMAG metal cutting machine).
- The suppliers were not qualified and were acting as intermediary.
- Second hand equipment was delivered as the new ones were considered as too expensive by the supplier.
- The 20% guarantee designed to ensure that the equipment delivered is according to specifications and free of faults was not always enforced.
- There was no feedback mechanism to ensure that the voice of the beneficiaries are heard.
- Many of the suppliers did not offer after-sales service for replacing faulty or unsuitable parts.

The problems with procurement were exacerbated by poor communication with grantees throughout the process. Examples cited include not contacting the beneficiaries for confirmation of the brand, type, and type of engine; not acting on letters informing MCA that the equipment delivered did not correspond to what was asked for; and not asking beneficiaries whether they were satisfied with the equipment delivered before releasing the guarantee. Closer engagement with the grantees might have prevented a number of the problems listed earlier.

[16] The figure 42% of the cases when the beneficiary was not involved in procurement came from the survey of enterprises. As the respondents were the MSMEs, the survey count not seek to determine the reason why they were not involved.

Local Context

The principal concern regarding the local context as being favorable or unfavorable were three questions related to the ability of the enterprises to: (i) mobilize counterpart funds for cost- sharing with MCC,(ii) to have sufficient working or operating capital to run the business and pay its bills, and (iii) have access to electricity for running the business. In general, the local context was favorable as the majority (95%) did not express any significant issue with raising counterpart funds for cost-sharing, or for working capital to operate their businesses and pay their bills (74%), and have adequate access to electricity. The majority therefore (94%) did not face such issues).

However, in some of the S3 grants, the equipment provided required electricity in areas where there was no electricity and the grant did not include a generator which in any case would have been too expensive in terms of operating costs to make the activity viable.

Support and Sustainability

Generally the emphasis of the grant was on providing production, processing and office equipment without accompanying training or monitoring or backup services for equipment utilization. Although the approach to calling on enterprises to express their demand was sound, MCC appears to have specific orientation towards hardware and equipment and much less on developing soft skills for enterprise management. For example none of the 19 enterprises who are considered as poor performers or inactive had proper accounts or records. Record keeping did not seem to be a requirement for the initial award of the grant or as a follow-up measure. It is this aspect, perhaps more than the quality of equipment, which usually plays a bigger role in determining sustainability of enterprises. This is an important lesson for future Challenge Grant facilities for enterprises. Developing the required soft skills for enterprise management must precede the grant of hardware. Regarding equipment utilization, the issue is closely connected to the procurement process. When the beneficiaries were involved in the process, usually the equipment purchase corresponded to their needs. It should be noted that procurement was done directly by the MCA office with little or no involvement of the beneficiary in 42% of the enterprises. This percentage matches closely the quality issues and the utilization rates.

Objectives and Distribution of Grants by Activity

Table 7 below shows that crop production was the sector receiving the most resources from S3 Grants, followed by Processing and livestock.

Table 7. S3 Grants by type of activity

Type of activity	Total	% of Grant resources
Crop production (Cashews, pineapple, vegetables)	17	60
Processing (milling, fruit juice, packaging)	12	18
Livestock	4	12
Services (extension, training, accommodation and restauration)	3	5
Fish farming	3	4.7
Honey production	2	2
Handicrafts	1	0.3
Total	**42**	**100**

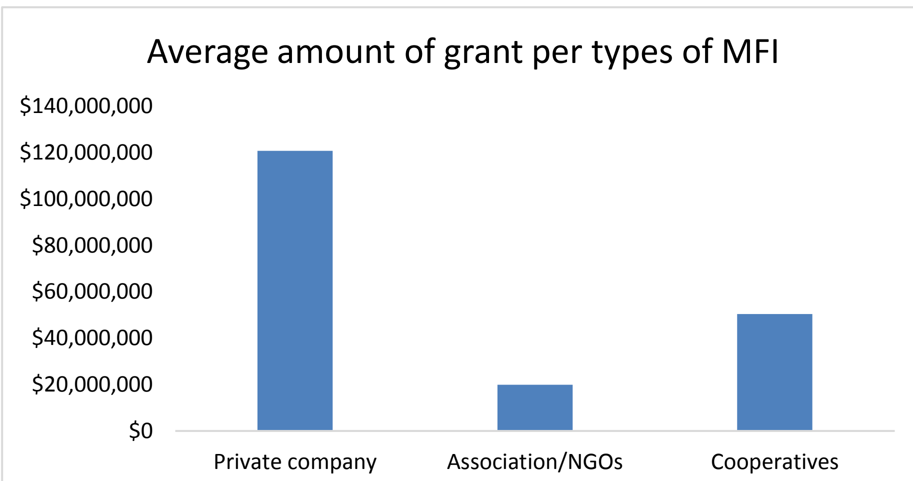
Data source: MSMEs surveys.

Table 8 below shows the distribution of the enterprises in terms of their legal status. The majority of the enterprises were social enterprises and not private enterprises. A total of 23 out of 42 or 55% were of NGO/Association type and (14 out of 42 or 33%),were cooperatives or unions of cooperatives and only 5 private enterprises or companies (12%) .This bias was influenced by the selection criteria emphasizing networks and associations or BDS support structures targeting broader impact. In terms of resource allocation the highest share was allocated to cooperatives and their unions (40%) followed by the private companies/one individual) (40%), and NGO/Associations who received 26% of the resources. Private companies with fewer numbers (5%) had relatively much larger grants (34%). Cooperatives received 22% of resources.

Table 8. Legal Status of Grantee Enterprises

Legal Status	No of enterprises	% of grants received	Amount of Grant
Private companies	5	34%	603,920,291
Associations/NGO	23	26%	459,232,070
Cooperatives/cooperative unions	14	40%	706,424,526
Total	**42**	**1%**	**1,769,576,887**

Graph 3. Average amount of grant per type of MFI



While table 8 shows that Associations receive the most number of grants and the cooperative as a whole received the largest share of grants, the private companies received the largest average amount of funds per grant, as shown in graph 3. The rate of success amongst the private enterprises is highest (4 out of 5) compared to the other two types. The correlation between success and legal status for Associations versus coops is less clear-cut.

For the list of the grants for the different types of enterprises in and grants received and a classification between those still in operation and those not yet being a going concern in financial terminology, please refer to Annex II.

It should be noted that 53% of grants went to enterprises that are still ongoing today while the rest is either not in active operations or are facing serious financial issues with ten enterprises with no financial data to show the evolution of the enterprise or how the funds have been utilized (Table 9).

Some of the NGOs are no longer operating. During the survey it was noted that none of the enterprises had received training in strategy development, accounting, financial management, and marketing and weaknesses in these skills were mentioned by many of the enterprises. This suggests that providing production or office equipment should go hand in hand with developing soft management skills and expertise in understanding numbers and markets.

Table 9. Active and Inactive MSMEs and Grant Amounts

MSME Name	Grant Amount (FCFA)	MSME Name	Grant Amount (FCFA)
Active		**Inactive or poorly performing (i)**	
Consortium de 05 Groupements Coopératives	29,480,748	CAGPA	3,133,400
CTAE/ COOP SOYO	14,396,250	CANIB	25,359,500
FEDD	10,062,425	Fine Tinne Munye (FTM)	3,963,162
GARARNI ONG	2,675,951	SASSIMEC	145,270,459
IRA	79,905,970	SOUROU BAYAYE	20,593,737
OGIVE	26,709,600	UCPA Dassa	5,400,000
UCPA Savalou	29,387,440	URP-Mono Couffo	50,852,510
UNAPEMAB	221,774,959	ABeC	56,028,460
Union Communale des Coopératives de Producteurs d'Anarcade (UCCPA)	13,047,169	ANEP	16,811,375
URCPA	6,070,655	ArtiSavon	42,033,032
AJED/ CETA/A-O	31,015,200	Barika Goussounon	72,562,773
AMACAC	42,091,800	CADRE	5,548,518
ARPA	24,520,000	GATID	202,966,989
COBEMAG	68,800,000	OPASA/DONATIN	32,897,800
CPABS	40,868,875	REMAD	101,933,550
GERME	12,086,500	UGM MIDJEKPO	48,623,500
GROUPEMENT HOUENOUKPO	13,606,895	URCooPMa - AD	11,185,800
ONG INITIATIVE POUR LE PROGRES	21,249,900	**Total (FCFA)**	845,164,565
Pisciculteur de Za Kekere	23,298,245	**Total (%)**	47%
UCP Aguégué	22,089,522		
UDAGPAZ	98,364,607		
Union Régionale des Producteurs de l'Ouémé-Plateau	10,603,100		
URCPA A-D	46,802,351		

URPA ZC	49,900,410
Total (FCFA)	938,808,572
Total (%)	53%

(i) Poorly performing MSMEs include any MSMEs with negative sales or gross profits from 2010-2015. Inactive MSMEs include any MSMEs which do not have sales or gross profits data.

5. Findings: Performance Evaluation

A. The Enabling Environment: ANSSFD

As part of the performance evaluation, 32 MFIs were surveyed on their perceptions of the quality and effect of the supervision carried out by ANSSFD. Ideally, a good supervision system is more oriented towards a positive problem-solving orientation and coaching of the MFIs rather than being just a policing agency ready to issue fines. An ideal supervision system must also establish prior compliance capacity before expecting adequate compliance. MFIs were interviewed regarding several issues, including the supervision visits, the recommendations made, penalties and enforcement, and the effect of the ANSSFD's oversight function. MFI respondents were also given the option to make observations about each topic. When asked whether they were satisfied with ANSSFD supervision, 63% of MFI respondents responded positively

Supervision Feedback

Most of the MFIs (78.1%) acknowledge that they receive written comments after supervision. The observations are often related to the reliability of statistics.

Three-fourths of MFIs consider ANSSFD recommendations to be useful. Most state that these recommendations enabled them to improve the reliability of their financial data. One MFI stated that: "The recommendations are very useful because it has imposed an internal discipline in terms of collection, compilation, and submission of data." Most MFIs (87.5%) say that they have benefited from supervision. A total of 37.5% of the MFIs stated the supportive role of the Agency in terms of offering practical recommendations and working with the MFI to ensure that the institution understands the recommendation and can implement it. About 65.7% recognize that the recommendations reach them after one month as per statutory requirement.

Enforcement

Disciplinary sanctions may take the following forms: warning, reprimand, suspension or prohibition of all or part of the operations, suspension or dismissal of senior managers, and the withdrawal of license. A total of 53.1% of MFIs were sanctioned by ANSSFD. In case of repetition, it is punishable by imprisonment of two to five years and / or a fine of 10 to 15 million CFA francs.

Financial penalties are related to failure to provide timely data to the Agency. The penalties are CFAF 1,000 (up to 15 days), 2000 CFA (up to 30 days), and 5000 francs beyond. In case of repetition, it is punishable by two to five years imprisonment or a fine of FCFA 10-15 million. MFIs replied that 46.5% had received and paid financial penalties for being late in sending in their financial data.

Of the 32 MFIs (23 institutions and 9 branches), 19 confirmed that they had adequate resources for compliance with data preparation requirements while 14 or 32% reported inadequate resources for this task especially because of limited computer equipment or limited qualified human resources.

Overall Assessment

In view of the perception survey, the above results highlight the satisfactory performance of ANSSFD in its oversight and advisory functions and this is one of the key outcomes sought by this project. Strengthening the supervisory arrangement for the MFIs must be considered as one of the major achievements of the MCA Access to Financial Services Project in Benin.

Table 10. Number of ANSSFD Supervision Visits per Year, 2009 - 2015

	2009	2010	2011	2012	2013	2014	2015	Average # of MFIs in each Category (2010-2015)	Comparison of Distribution	
									2009	2010-2015
0	15	16	13	13	10	9	11	12.0	52%	42%
1	11	7	12	12	9	12	12	10.7	38%	37%
2	3	4	2	4	8	5	1	4.0	10%	14%
3	0	1	1	0	0	2	3	1.2	0%	4%
4	0	0	1	0	1	0	0	0.3	0%	1%
4 or more	0	0	0	0	1	1	2	0.57	0%	2%

Source of visit figures: ANSSFD 2016. The distribution column calculated by Evaluation Team.

Table 10 shows the number of ANSSFD visits to the MFIs interviewed over the period.[17] Over the 2010 – 2015 period, an average of 38% of the MFIs did not receive any visits while 33% received one visit and 13% had two visits by the agency. These three categories represent 90% of the cases. The period saw a relative increase of the number of institutions having more frequent visits (up to 9 visits) compared to the situation in 2009. This was especially for the closely supervised or administered institutions. The important point here is not the actual visit but the requirement of all supervised institutions to send their data for monitoring to ANSSFD and the knowledge that ANSSFD could visit. The increased powers of ANSSFD is a major improvement for ensuring better compliance of the supervised MFIs.

Moreover, the increased power of supervision of ANSSFD means that it is able to put an MFI under direct supervision/administration for as long as necessary For example, if we take the MFIs that are under temporary administration or close monitoring, such as PAPME, PADME, CECEC, CEFAD and CODES CAISSE CODES the process can take many months without the MFI going necessarily back to normal status. Therefore, it is not possible to have a definite answer on how many MFIs go back to a normal status because normal status is a gradual process and sometimes it can take several years especially if the portfolio is improved gradually or governance issues take time to resolve.

B. The Challenge Facility: S1 and S2 Grants to MFIs

In this section, we examine whether the MCA interventions enabled the MFIs to expand their outreach and improve their financial performance.

To better understand the evolution of deposits, loans, and portfolio quality for the S1, S2, and S3 institutions, the MFIs have been aggregated in terms of their legal status (Private Company, Cooperative, NGO/Association) as described above.

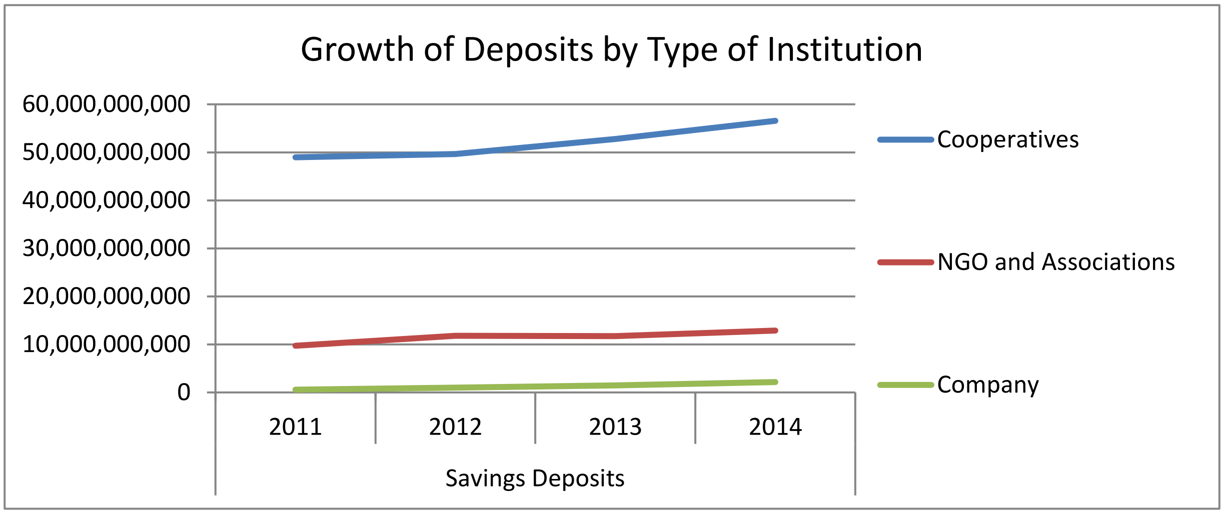
Financial Performance

[17] An increase in the number of visits may seem to be negative because the institution is in difficulty, requiring more onsite visits, but it is also positive as it shows supervision is working.

Growth of Deposits

Graph 4 below shows the evolution of deposits by types of institutions for the period covered by the evaluation.

Graph 4. Growth of Deposits by Type of Institution



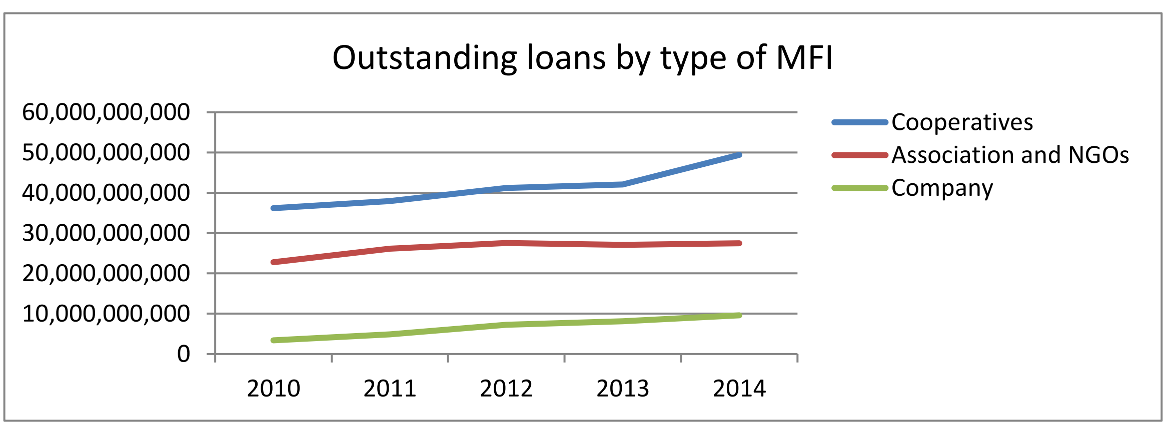
Data source: ANSSFD database

From 2011 to 2014, all the MFIs had growing deposit base and the growing deposits of the cooperatives was most pronounced. The NGO/associations experienced an increase over the period although between 2012 and 2013, there was some stagnation (ANSSFD, 2016). The single company in the list also had a growing deposit base. On the whole, there is a positive association between the activities of the project that ended in 2011 and the positive trends in savings mobilization.

Outstanding Loans

Graph 5 below shows the evolution of credit issued by the S1 and S2 MFIs during the period:

Graph 5. Outstanding loans by type of MFI

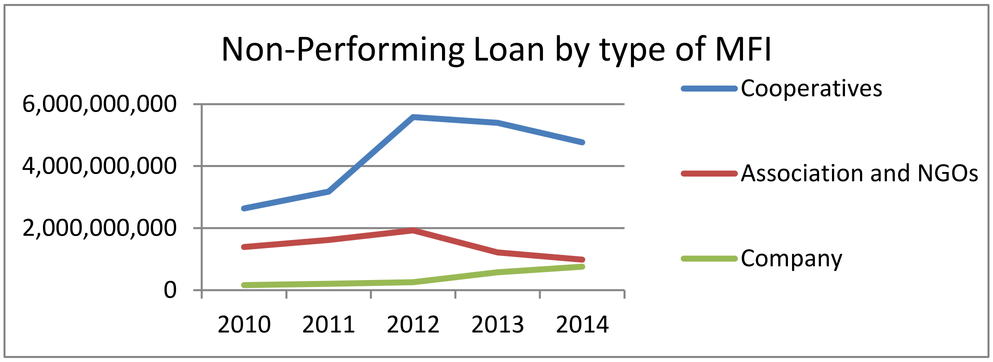


Outstanding loans during the for three types of MFIs shows a gradual increase for the MFIs with a faster increase for the cooperatives and the company as compared to the association/NGOs and the company. The growth of loans is therefore positively associated with the activities brought about by the project.

Non-Performing Loans

The evolution of non-performing loans for the three types of MFIs are shown below for the period:

Graph 6. Non-Performing Loan by type of MFI



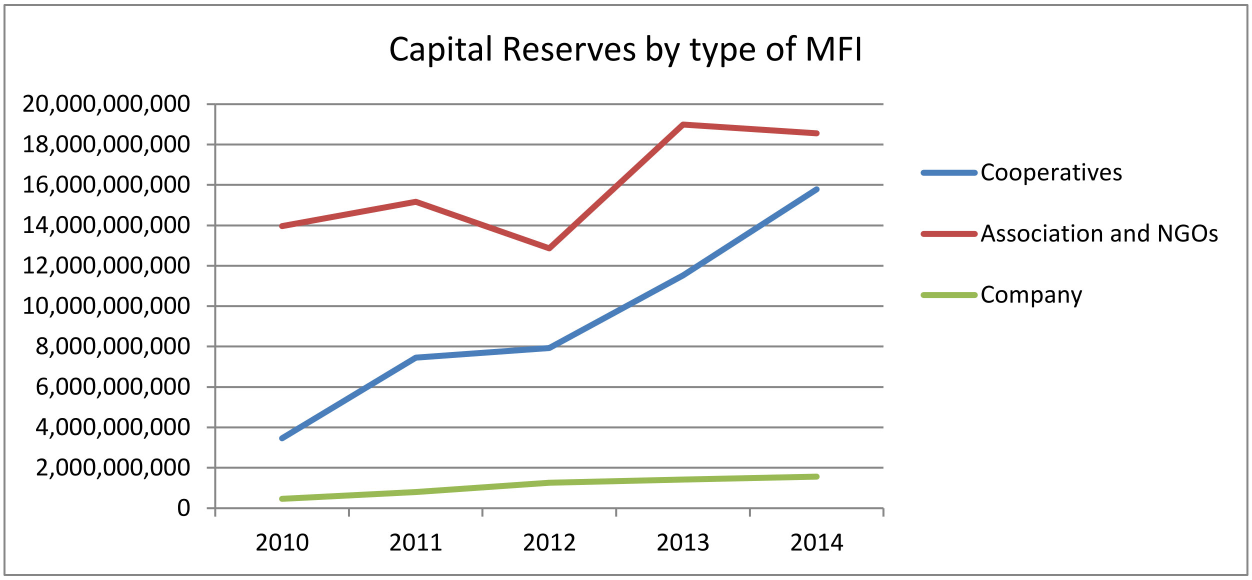
Data source: ANSSFD database

Generally both the cooperatives and the NGO/associations had an increase in their non- performing loans during 2011 and 2012 and an improvement in 2013 and 2014 while their non- performing loans improved for 2013 and 2014. The company had an increasing degradation of its loan portfolio. Regarding this indicator, it appears that the project could not immediately influence the quality of the loan portfolio although there was an improvement in the loan portfolio over the medium term which was subsequent to the grant. The improvement in the loan portfolio was closely monitored by ANSFFD which played a noticeable role in assisting the bank in improving its loan portfolio

Capital and Reserves

Graph 7 below shows the evolution of capital and reserves for the three types of institutions:

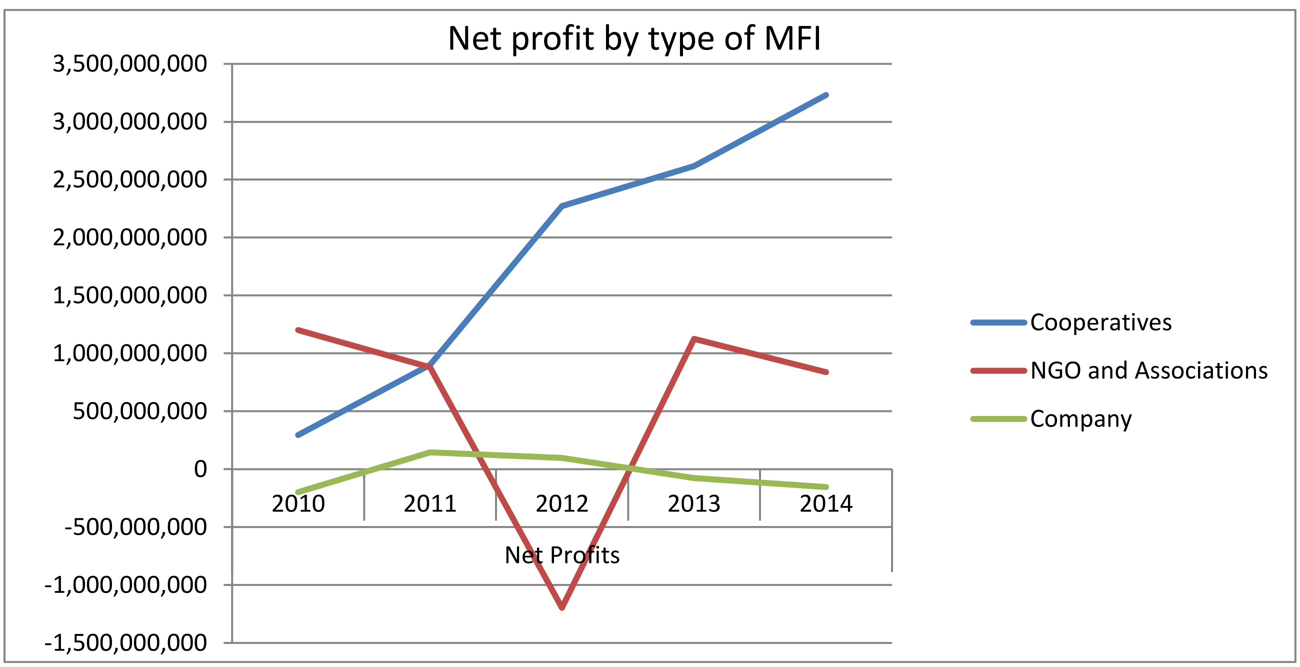
Graph 7. Capital Reserves by type of MFI



<u>Net Profits</u>

Graph 8 below shows the evolution of net profits. From 2011 to 2014, cooperatives recorded a steady rise in their net results. The NGO/Associations had a difficult year in 2012 and then recovered. The company showed a positive increase in net profits and then losses during 2013 and 2014.

Graph 8. Net profit by type of MFI



Data source: ANSSFD database

Financial Performance Ratios for MFIs

In this section the following key performance ratios of S1 and S2 MFIs are presented and discussed in terms of the three main classifications presented earlier namely the MFIs that have a cooperative status, those with an NGO/Association status, the one MFI that has a private company status. These ratios are:

- Capitalization (Capital/Total Assets) norm = > 15%
- Portfolio Quality (Portfolio At Risk over 30 days / Total Loans) norm = 3% <
- Management Efficiency (Operating costs / Loan portfolio) = 35% <
- Earnings or Return on Assets (Net Profits/Total Assets) = > 5%
- Liquidity (Cash/ST liabilities) => 100% for MFI that mobilize deposits

Table 11. Key Performance Ratios of S1 and S2 MFIs

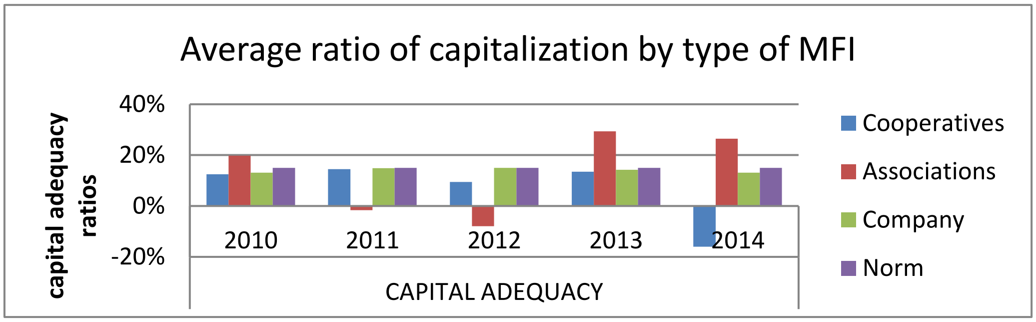
Measure	Standard[18]
Capitalization (Capital/Total Assets)	15%
Portfolio Quality (Portfolio At Risk over 30 days/ Total Loans)	3%
Management Efficiency (Operating Costs/ Loan Portfolio)	35%
Earnings or Return on Assets (Net Profits/Total Assets)	5%
Liquidity (Cash/ST Liabilities)	100% for MFIs that mobilize deposits

Capitalization Ratio

An MFI's capital is a risk cushion against bad loans in order to protect the depositors. In banking, it is usually assumed that under normal risk conditions, MFIs paid up capital should not be less than 15% of the total loan portfolio so that in case of write-offs of bad loans, it is capital of the MFI or the shareholder equity which is lost and not public deposits. The measure of capitalization is therefore a prudential ratio and measures the safety of the institution. The project is expected to have influenced the capitalization of the MFIs through improved supervision and application of the BCEAO norms as per table Graph 9 below shows the evolution of the average ratio of capitalization which measures the ability of the MFIs to cover bad debts from their own capital for the three types of MFIs over the period.

[18] These are the standards to be maintained by MFIs as prescribed by BCEAO.

Graph 9. Average ratio of capitalization by type of MFI



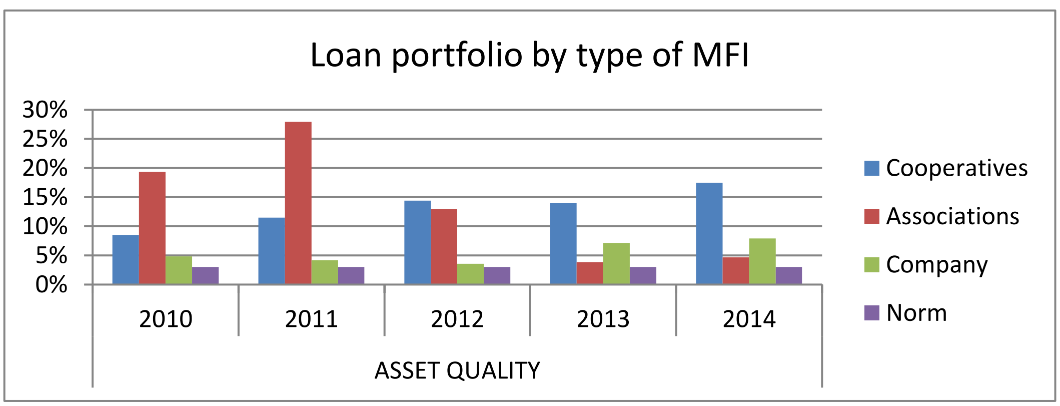
Data source: ANSSFD database

Over the period 2010-2014, the Cooperatives generally fell below the capitalization standard of 15% while NGO/associations exceeded the regulatory standard in 2013 and 2014. The company, FINADEV SA, has maintained a fairly constant capitalization ratio namely up to 15% in 2011 and 2012 before decreasing to 14% in 2013 and 13% in 2014. On the whole therefore, cooperatives have done poorly and constitute a capital adequacy risk to the sector while companies and the NGO/s Associations appear to have become safer institutions. In terms of impact, it can be said that the impact on safety has not been uniform and still very much depends on the type of institution and the associations/NGOs can be considered as the safest which cooperatives are the least safe. ANSSFD therefore has still a long way to go to ensure the solidity of the MFI sector in Benin.

<u>Asset Quality/Loan Portfolio</u>

This ratio measures the degree of deterioration of the loan portfolio in terms of the percentage of poorly performing loans. It is also a measure of the ability of the institution to issue sound and well appraised loans, monitor loan repayment, and enforce the repayment clauses in case of delinquency. Graph 10 below shows the evolution of the loan portfolio over the period for the three types of institutions:

Graph 10. Loan portfolio by type of MFI



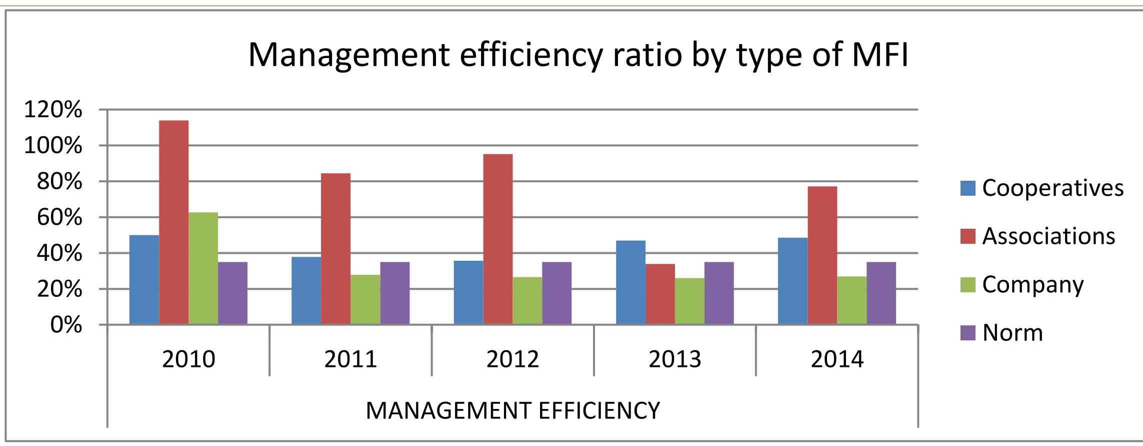
Data source: ANSSFD database

Generally, the principal risks of financial institutions come from a deterioration of assets. The standard for this ratio is that the value of unpaid loans over 90 days should not represent more than 3% of the total loan portfolio. None of the MFIs could satisfy this norm over the 2010-2014 period. However, the association/NGOs appears to have improved their position in 2013 and 2014 by coming closer to the norm established while cooperatives and the private company have experienced a degradation of their loan portfolio. In terms of impact on loan portfolio, the impact has not enabled the MFIs to reach the acceptable threshold and therefore in terms of portfolio quality the impact has not been satisfactory. Again ANSSFD needs to redouble its efforts to ensure that MFIs can maintain this standard.

Management Efficiency

Graph 11 below shows the evolution of management efficiency ratio of the three types of institutions over the period. The ratio shows the cost of operation as a percentage of the assets**.** The norm of 35% is less rigorous that the norms for the other ratios but it is accepted as an average range. In other words, the ratio measures the cost for an MFI to generate a unit of loans. As the graph shows, the Associations/NGOs managed to meet the standard only in 2013 but they their operating costs relative to loans rose significantly after. The cooperatives had lower operating costs as a percentage of their loans. The private company was the most efficient and met the standard between 2012 and 2014. In terms of impact, the private company and the cooperatives became more efficient while the NGO/associations had a mixed performance.

Graph 11. Management efficiency ratio by type of MFI



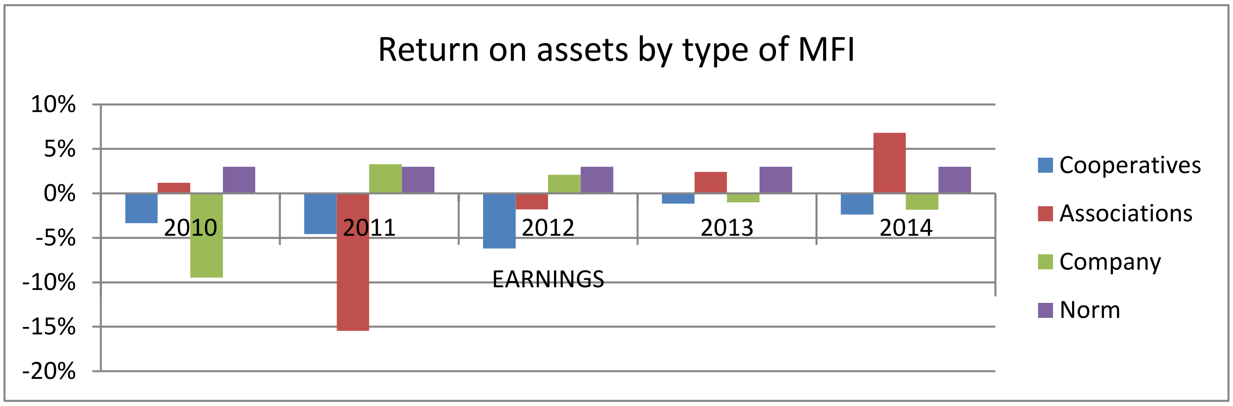
Data source: ANSSFD database

The management efficiency ratio is also a proxy for transaction costs. The data published in the financial reports filed by the SFD to the Agency do not indicate transaction costs as a separate item. So this information is not available in the reports. The impact of the project and on transactions costs as a percentage of loans was therefore not significant.

Return on Assets (ROA)

This ratio measures the ability of MFIs to generate net profits against their assets. This ratio indicates the return on investments and must be higher than zero. **The standard set for this ratio is greater than 3%.** The low return benchmark is because MFIs are generally not supposed to be high profit seeking entities and they should mostly breakeven. In fact most of the MFIs in Benin are either non-profits (NGO or association) or cooperatives which have a social rather than profit making goal although both institutions must generate a surplus to be able to continue operations.

Graph 12. Return on assets by type of MFI



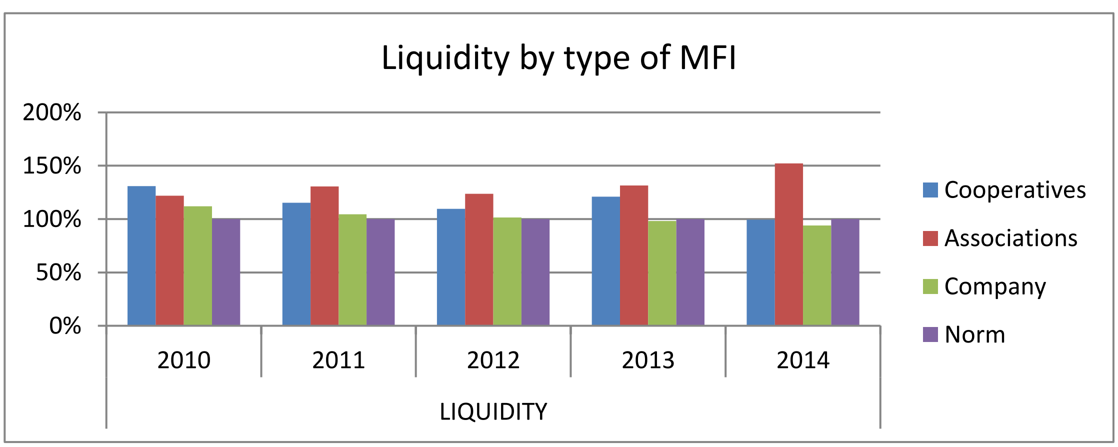
Data source: ANSSFD database

Graph 12 above shows that throughout the period, the cooperatives showed negative returns to assets. The company was profitable in 2011 but its returns turned negative subsequently, while the association/NGOs moved from negative returns to positive returns in 2014. In terms of impact on financial returns, the associations/NGOs showed the best impact while the cooperatives only reduced their losses but did not move to the positive territory.

Liquidity

The liquidity standard measures the institution's ability to meet its short term (less 3 months) liabilities (payables). The MFI principal liabilities are the savings or sight deposits that can be withdrawn at any time. The standard for this ratio varies from one category of SFD to another. Cooperatives and MFIs that collect deposits, **the standard to be met is set at 100% minimum**. For other MFIs that do not collect savings, the standard is 60% minimum. Graph 13 below shows that over the period, the cooperatives and Associations / NGOs and the private company met the standard.

Graph 13. Liquidity by type of MFI



Data source: ANSSFD database

Financial Soundness

Table 12 shows the results of the composite index that has been calculated as a measure of overall financial soundness.

Table 12. MFI Soundness Score

MIF	Soundness Score (2010)	Rating	Ranking	Soundness Score (2011-2014)	Rating	Ranking	Change
Cooperatives							
RENACA	81%	Sound	1	60%	Marginal	3	Deterioration
CPEC	78%	Satisfactory	2	71%	Satisfactory	2	No change
ADHEDD-ONG	53%	Marginal	3	64%	Marginal	3	No change
CAISSE CODES	55%	Marginal	3	14%	Insolvent	5	Deterioration
MODEC	51%	Marginal	3	47%	Unsound	4	Deterioration
MDB	56%	Marginal	3	46%	Unsound	4	Deterioration
CMMB	48%	Unsound	4	52%	Marginal	3	Improvement
FECECAM	45%	Unsound	4	44%	Unsound	4	No change
UNACREP	41%	Unsound	4	44%	Unsound	4	No change
MUTUALITE CHRETIENNE	8%	Insolvent	5	8%	Insolvent	5	No change
CAMTES	-	-		60%	Marginal	3	Improvement
CCIF NATITNGOU	-	-		-		-	
CCEC	-	-		-		-	
Average Cooperatives	**51%**	**Marginal**		**46%**	**Unsound**	**4**	**-**
NGO/Associations							
CFAD BENIN	81%	Sound	1	83%	Sound	1	No change 0
PADME	83%	Sound	1	87%	Sound	1	No Change 0
DWM	92%	Sound	1	40%	Insolvent	5	Deterioration
ACFB	65%	Satisfactory		61%	Marginal	3	Deterioration
ALIDE	58%	Marginal		60%	Marginal	3	Deterioration
PEBCo-BETHESDA	34%	Insolvent		45%	Unsound	4	No change
PAPME	-	-		-		-	Improvement
IAMD MICROFINANCE	-	-		-		-	
Average NGO/Associations	69%	Satisfactory		63%	Marginal	3	Deterioration
FINADEV (company)	55%	Marginal		45%	Marginal	4	Deterioration

Using the average scores based on the five key performance ratios (as described in the methodology section) yield a mixed picture: altogether there were three MFIs that improved, seven MFIs with no change in score, and nine MFIs whose performance deteriorated; two MFIs did provide adequate data.

The NGOs/Associations have had a superior performance as compared to either the cooperatives or the private company MFIs. The top two MFI performers, namely CFAD Benin and PADME, are both NGO/associations and have maintained a top rating since 2010 before and after receiving the grant and their overall performance was not changed by the grant. Altogether 8 MFIs, equally divided between NGO/associations and cooperatives, did not have a change of score before and after the grant. Moreover, 8 NGOs had a deteriorating score as compared to the before while 3 MFIs show an improvement of the score as compared to before - grant situation. Estimating the correlation between the score and other key performance indicators such as assets, loans, savings, number of branches, a significant correlation (98% significance) is found between the score and the rate of growth of assets. This means that the superior performing MFIs had the higher growth rates which is to be expected.

It should be noted that returning to results of the qualitative interviews presented earlier in Graph 1 what is clear is that the grants, especially the training, equipment, and the supervision (below) have played a major role in helping about 87% of the MFIs expand their operations and improve performance in spite of often unfavorable governance factors the discussion of which is beyond the scope of this evaluation. In other words, although only in three cases the quantitative score has improved and seven has had no change in score, the grant are likely to have been a major factor in either maintaining performance or preventing a degradation of performance for 87% of cases including those with a deteriorating score. It should be recalled that the MFIs in Benin lost a total of USD 152 million in 2009-2010 due to the fraudulent pyramid schemes that ravaged the sector (interviews with ANSSFD official). The impact of the grants on MFIs was to provide a significant improvement in their information processing capacity enabling them to resume growth after 2011. This point is evident both in terms of the significant increase in savings and in the loan portfolio of the sector as shown in Table 13 below is a summary of the key financial indicators of the S1 and S2 institutions. The table shows the average growth rates of savings and loans of S1 and S with average growth rates of 42% for deposits and 38% for loans. The table also shows the significance of S1 and S2 MFIs in the MFI sector in Benin as a whole.

Table 13. Growth of Savings and Loans in S1 and S2 Institutions (FCFA billions)

Item	2010	2011	2012	2013	2014	Growth Rates (2010-2014)
Savings Deposits (S1 and S2 MFIs)	49.7	58.6	61.6	65.1	70.8	42%
% of S1 +S2 MFI savings in the sector	91%	91%	91%	90%	87%	Na
Loans (S1 and S2 MFIs)	62.3	67.8	74 .9	76.2	85 .8	38%
% of S1 +S2 MFI loans in the sector	85%	82%	82%	82%	80%	Na

<u>Outreach</u>

In terms of overall growth of accounts and the number of staff, Table 14 below shows an overall growth of 9% of accounts and 7% of employees for the S1 and S2 MFIs. This growth was especially high in the case of FINADEV with 67% growth of accounts and 48% growth of employees. Cooperatives had 26% growth in accounts and 14% growth of employees. The NGO/Associations had a drop in the number of accounts by 22% and a drop of employees of 4%. On the whole, therefore, we can state that the evidence from the growth of key finance indicators such as number of accounts, loans, and the number of staff being employed in addition to the performance score presented earlier, the evidence is consistent with the hypothesis that the project contributed to improving these services.

Table 14. Growth of S1 and S2 MFIs

Growth 2010-2013		
Type of Institution	**# of Accounts**	**Employees**
Cooperatives		
2010	891,300	1,221
2011	977,792	1,218
2012	1,062,951	1,308
2013	1,121,367	1,394
Growth	***26%***	***14%***
Associations and NGOs		
2010	518,956	1,053
2011	603,017	1,123
2012	543,639	1,408
2013	407,002	1,014
Growth	***-22%***	***-4%***
Company		
2010	5,751	56
2011	4,572	53
2012	11,159	142
2013	9,595	83
Growth	***67%***	***48%***
Total		
2010	1,416,007	2,330
2011	1,585,381	2,394
2012	1,617,749	2,858
2013	1,537,964	2,491
Total Growth	***9%***	***7%***

Branching

Out of 32 MFIs, 13 – or 40% – responded in surveys that between 2009 and 2015, due to financial reasons and inability to cover operating costs or due to the difficulties of supervising the branches, they had experienced branch closures. Branch closure is a negative sign as far as improving outreach is considered.

Overall, based on qualitative interviews, MFIs benefitted significantly from the improvements in the IT infrastructure. A selected number (not as many as expected) also benefitted from interconnectivity. However, this information technology enhancement did not significantly improve MFIs access to commercial bank loans which was a major goal of the project.

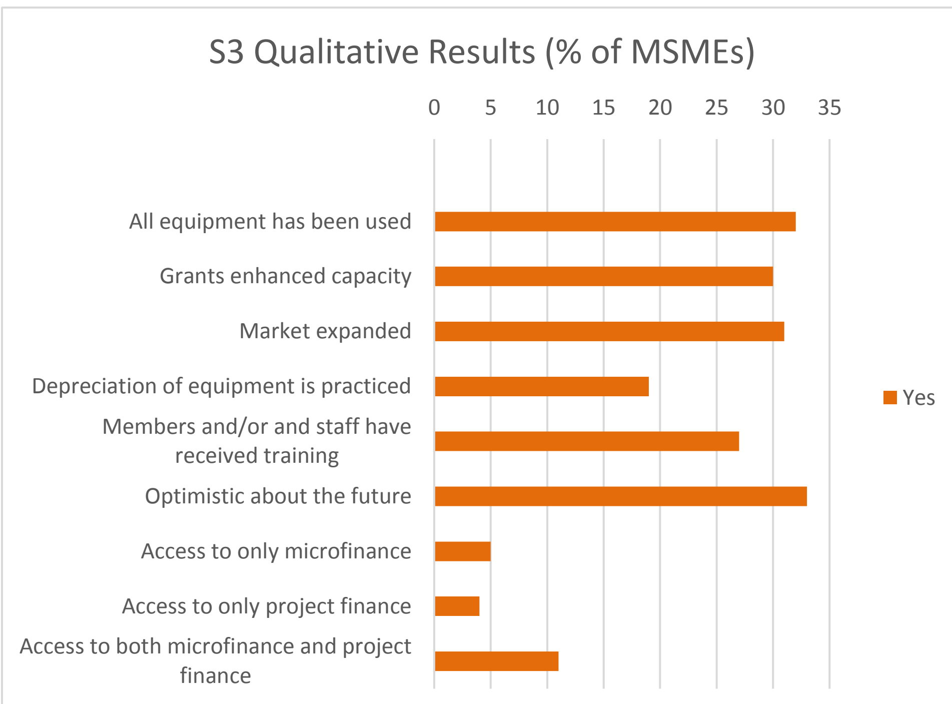
C. The Challenge Facility: S3 Grants to MSMEs

The analysis uses the growth of key performance indicators and ratios during 2010 -2015 period to assess the viability and growth of the S3 enterprises. The majority of enterprises did not have audited accounts and for many enterprises accounts had to be reconstructed based on declarations or partial source documents. Eight enterprises could not provide any data whatsoever[19]. Key indicators and ratios are presented individually to assess the enterprise performance. The gross profits are calculated without subsidies to show the non-subsidized status of the enterprise. In cases of negative gross profits, the losses usually reflect to a large extent the subsidies received since most enterprises do not have access to commercial finance. Many of the enterprises were associations, cooperatives, or cooperative unions (given the selection criteria for the grants), and hence profitability has not been a principal preoccupation for many of them. In addition, the development environment in Benin encourages subsidy dependence given the availability of grants and donations from many sources including the MCA. Some of the enterprises exist to capture subsidies while others are service providers that need external funding to continue operations.

Qualitative Perception Survey

Graph 14 below presents the results of the qualitative perception survey based on key questions that provide an overall assessment of the impact of the grants on the S3 enterprises.

Graph 14. S3 Qualitative Results



[19] These enterprises were: ANEP, ARTI SAVON, CADRE, CUNICULTEURS AVRANKOU, GATID, OPASA DONATIN, URCoopMA, and UCCPA

Perception of the Effects of the Grants

The major questions were if the grant had: (i) increased enterprise production capacity, (ii) had enlarged markets, (iii) had improved capacity utilization, and (iv) had increased employment (Table 18 above).

The majority of enterprises indicated that the grant had increased their production capacity (70%), had enlarged their markets (72%), had improved capacity utilization (74%), had contributed to staff and member training (63%), and had led to optimism regarding the enterprise's future (77%). On the less positive side, the vast majority stating that they did not improve their access to finance. The access to finance difficulties meant that the overall project impact was positive for only 50% of the enterprises. Given that access to capital and finance was one of the explicit goals of the project, it must be concluded that the project underperformed with respect to access to capital. On the other hand, it was perceived as improving the business performance of about 70% of the enterprises.

MSME Financial Results

The quantitative results for S3 enterprises are primarily presented in terms of the income statement namely sales and change in sales over the period before and after the grant, and gross profits, plus the short term indebtedness as indicators of access to capital[20].

Table 15. Growth of Sales and Gross Profits of S3 Enterprises

	MSME Name	Change in Sales 2010-2015	Change in Gross Profits 2010-2015
GOOD: Positive Growth of Sales and Gross Profits	Consortium de 05 Groupements Coopératives	169.55%	57.19%
	CTAE/ COOP SOYO	21.39%	59.93%
	FEDD	302.72%	232.19%
	GARARNI ONG	197.06%	44.27%
	IRA	32.42%	43.88%
	OGIVE	278.94%	701.17%
	UCPA Savalou	172.71%	111.10%
	UNAPEMAB	293.12%	8.01%

[20] As a general point, it should be noted that financial audit or the compilation was designed so as to get full benefit of the information collected on both the income statements and the balance sheet of the enterprises for assessing performance. However, income statements with figures on sales and expenses were generally more available as compared to balance sheet items such as cash and fixed assets value. Therefore, although both the balance sheet and the income statement information are reflected in the individual summaries in the Annex to this report, and apart from short term borrowings presented above which is a balance sheet item, the other figures on balance sheets such as assets and liabilities or balance sheet based ratios such as return to assets or return to equity could not be meaningfully compared because of the poor quality of the data on fixed assets, inconsistent reporting od subsidies, and limited information on cash or bank balances. This is why the report does not have more comparisons of balance sheet items between companies

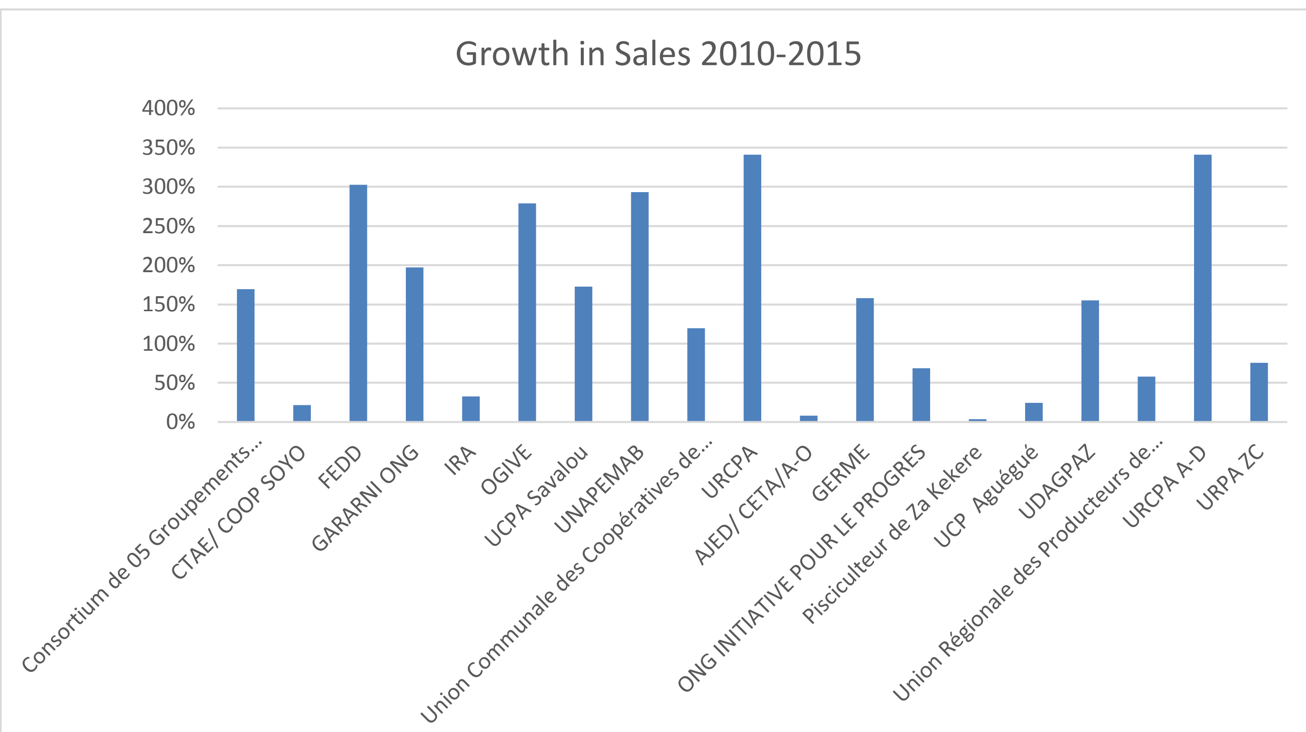
	Union Communale des Coopératives de Producteurs d'Anarcade (UCCPA)	119.56%	154.24%
	URCPA	340.87%	19.15%
MARGINAL: Declining sales and positive profits or rising sales and declining profits	AJED/ CETA/A-O	8.18%	-29.49%
	AMACAC	-0.46%	33.90%
	ARPA	-49.85%	93.60%
	COBEMAG	-58.05%	314.49%
	CPABS	-67.93%	162.85%
	GERME	157.86%	-73.35%
	GROUPEMENT HOUENOUKPO	-80.30%	42.23%
	ONG INITIATIVE POUR LE PROGRES	68.54%	-503.32%
	Pisciculteur de Za Kekere	3.81%	-16.31%
	UCP Aguégué	24.57%	-363.14%
	UDAGPAZ	155.13%	-115.95%
	Union Régionale des Producteurs de l'Ouémé-Plateau	58.11%	-19.51%
	URCPA A-D	340.87%	-26.87%
	URPA ZC	75.44%	-926.97%
POOR: Declining sales and rising profits or rising sales and declining profits	CAGPA	-5.90%	-63.58%
	CANIB	-8.61%	-94.37%
	Fine Tinne Munye (FTM)	-37.72%	-28.80%
	SASSIMEC	-73.81%	-90.99%
	SOUROU BAYAYE	-44.45%	-190.79%
	UCPA Dassa	-30.77%	-121.38%
	URP-Mono Couffo	-33.61%	-164.53%
INACTIVE:	ABeC		
	ANEP		

No sales or profit data available	ArtiSavon		
	Barika Goussounon		
	CADRE		63.44%
	GATID		
	OPASA/DONATIN		
	REMAD		
	UGM MIDJEKPO		
	URCooPMa - AD		

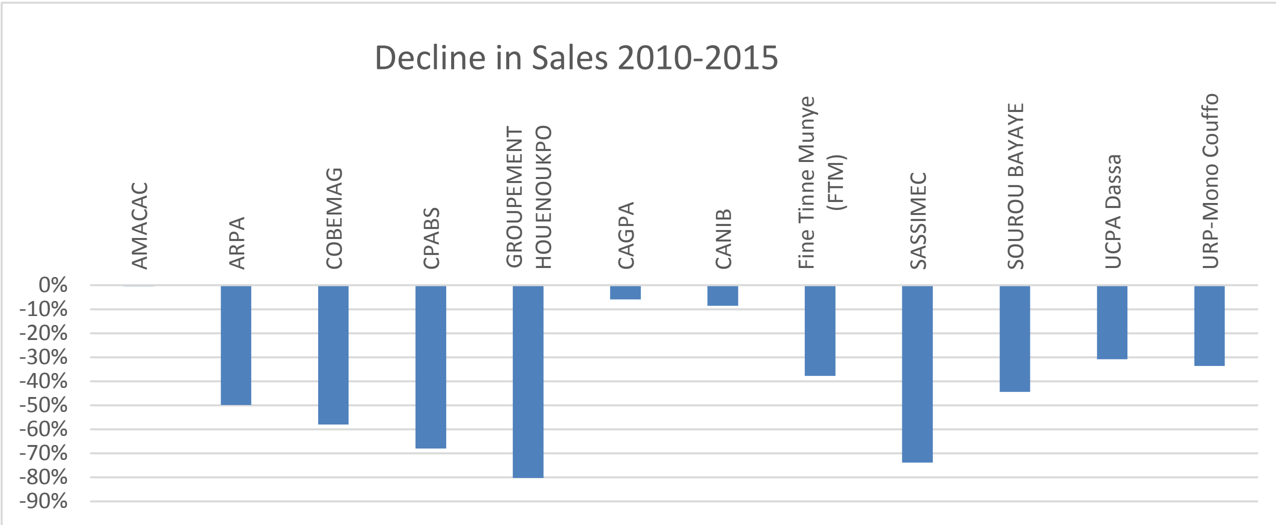
Notes: In terms of sales and gross profits, the S3 enterprises can be divided into four groups namely:
(i) Positive growth of sales and gross profits– 10 enterprises (Good)
(ii) Declining sales and positive profits or rising sales and declining profits– 14 enterprises (Marginal)
(iii) Declining sales and declining profits– 7 enterprises (Poor)

Sales is the main indicator for assessing a business above all else. An enterprise without sales data is basically an inactive enterprise. Graphs 15A and 15B below show percentage change in the growth of sales and gross profits of the S3 enterprises:

Graph 15A. Positive Percentage Growth of Sales (2010-2015)



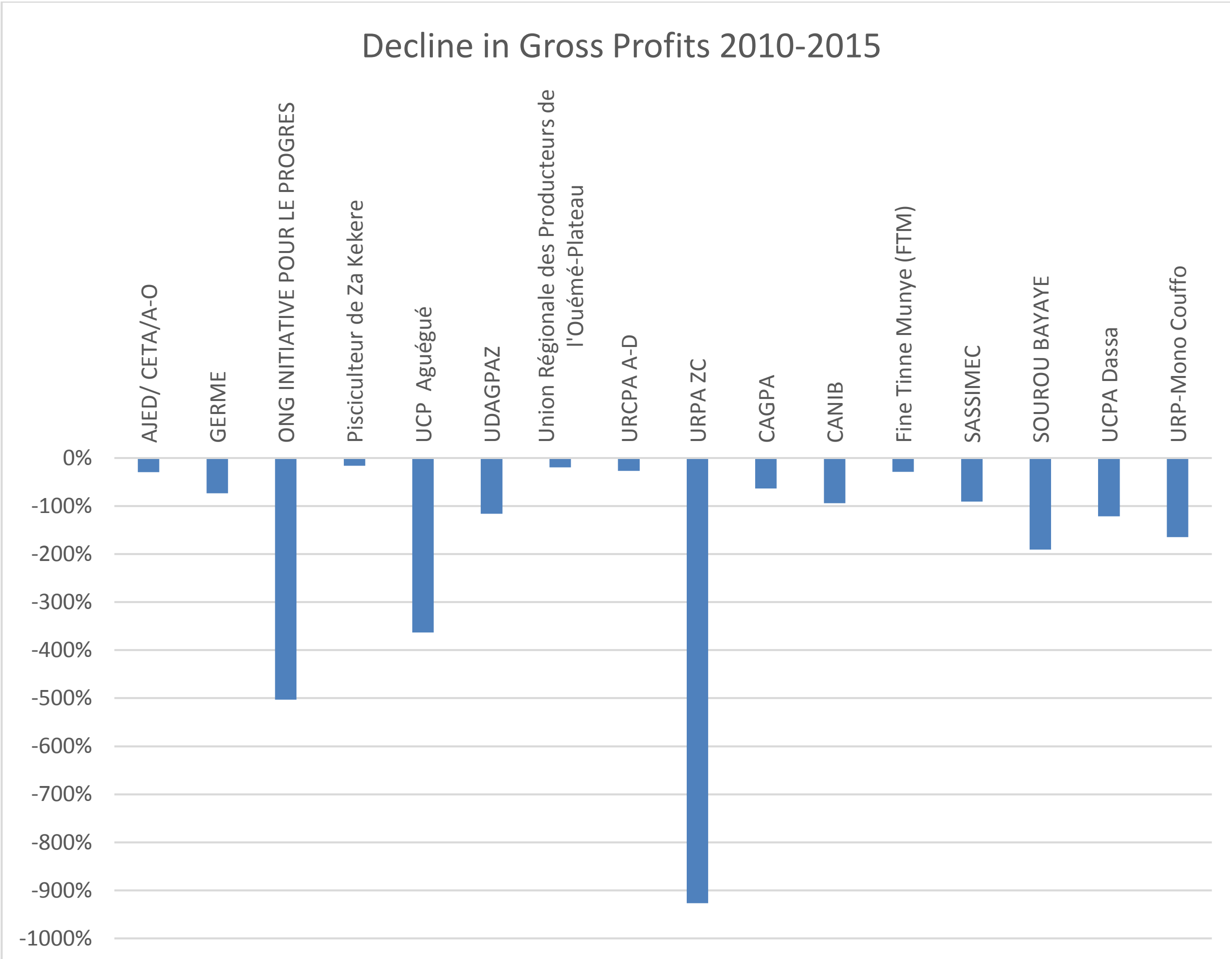
Graph 15B. Negative Percentage Growth of Sales (2010-2015)



It should be added that sales alone are not an indicator of sustainability if sales are financed by subsidized inputs which was the case in some but not the majority of enterprises. In the calculation of gross profits the subsidies were removed. However, this cannot be done with sales which can get boosted by subsidies and then subside.

Graph 16A. Positive Cumulative Gross Profits (2010-2015)

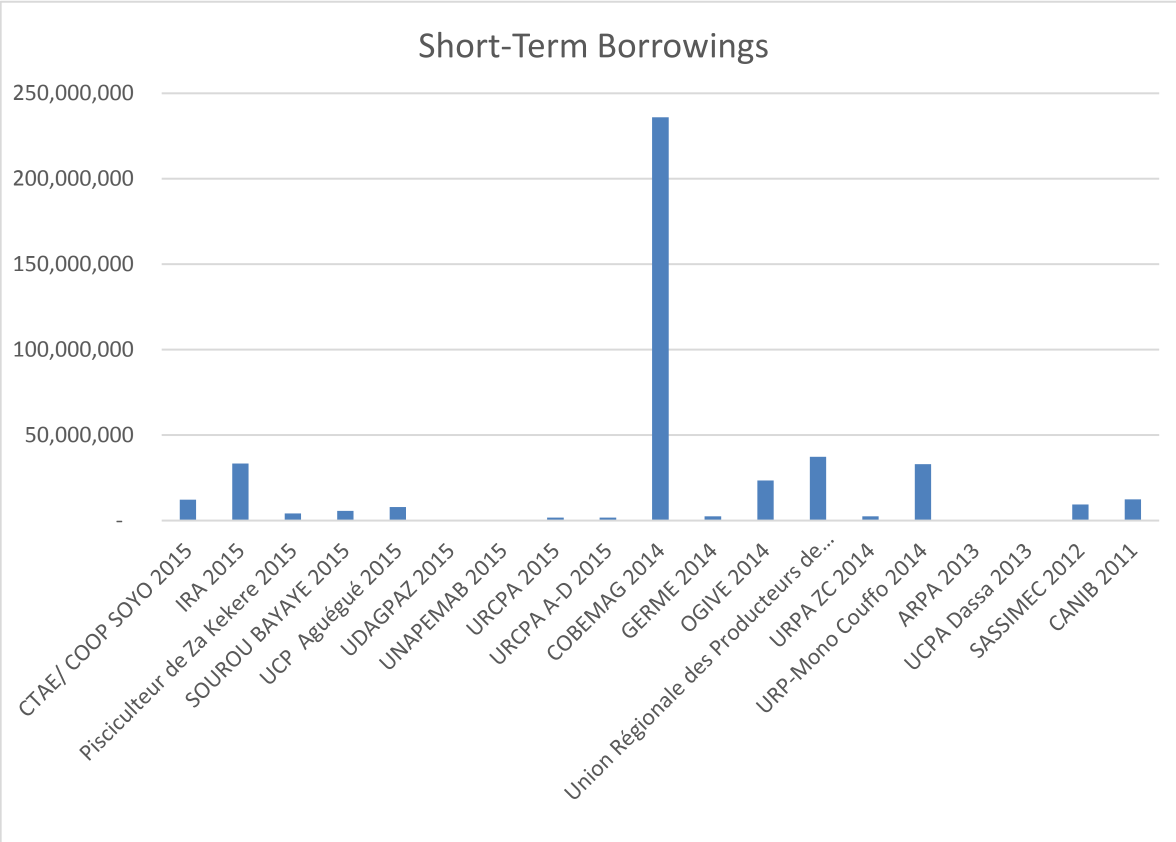
Graph 16B. Negative Cumulative Gross Profits (2010-2015)



Graphs 16A and 16B above show the cumulative gross profits (EBITDA).

The number of enterprises with growing positive gross profits (excluding subsidies) are 16 while those with an overall negative figure are 16 representing a 50/50 split. URP Ouémé Plateau is a large organization bringing together several community level cooperatives and has had rapid growth of sales which is due to expansion of sales of products. This growth however was not directly related to the processing equipment that had been supported by the project but by the sales of rice and other produce. Coop Soyo being one of the more successful enterprises of processing soya into soya oil and soya cake known as "goussi" in Benin with sales of almost 10 tons of soya cake per day. They also produce soap by sing soybean oil.

Graph 17. Short-Term Borrowings



Graph 17 above depicts the S3 enterprises currently with active short term borrowings**.** A total of 19 (44% of all S3 enterprises) have borrowed funds mostly from microfinance organizations (principally Alidé). In other words in about a third of cases, S3 enterprises have improved their access to credit following the reception of the challenge facility grant. This figure is broadly consistent with the figure above in the qualitative table regarding the access to capital by the S3 enterprises.

The quantitative analysis of S3 enterprises has revealed a wide spectrum of enterprises as shown by the above three descriptive graphs. The use of statistical correlation analysis to find any significant correlation between changes in any of the variables did not lead to any significant patterns that could shed light on the performance of these enterprises. For example there was no consistent relationship between the size of the grant or having received a grant and the level of sales or profits nor any association between assets and sales.

Enterprises range from high sales growth (URCPA, FEDD, OGIVE) to those with high cumulative gross profits (COBEMAG, ARPA) and those with high levels of short term debt which shows credit worthiness and ability to borrow commercially (COBEMAG, URP Oueme Plateau, URP Mono Couffo).

Outreach

In terms of outreach, the 42 enterprises that received S3 grants, including their regional outlets and branches, represented a total of 70 locations. These were distributed as shown in Table 15 below. The table shows that the majority of the enterprises were distributed in the Southern prefectures (61.5% or about two thirds) where there is a higher population density, more cash crops and more commercial activities. The Northern and Central Prefectures, where there is likely to be more rural poverty have a much lower population density represented 38.5% or slightly above 1/3 of the enterprise. The prefecture of Zou had the largest number of enterprises and their outlets (16%)[21].

Table 16. Regional Distribution of Enterprises and their Outlets

Geographic	Prefectures	Number of enterprises and outlets	%
South	Atlantique, Couffo, Littoral, Mono, Oueme,	43	61.5
Center	Colline	8	11.4
North	Alibori, Atacora, Borgou and Donga	19	27.1
Total	12	70	100

[21] The Evaluation did not probe into impact on employment generation or income of the smallholders or income of the workers of these enterprises nor the gender distribution of employees. Therefore, it is not possible at this stage to make an assessment of the project's impact on reducing the poverty gap. However, based on rapid growth of key aggregate indicators in S1 and S2 and positive perception of about 2/3 of the enterprises, about the impact of the project, it could safely said that the project did have an important impact on general economic growth.

6. Conclusion

The report has analyzed the goal, objectives and the activities of the Access to Financial Services project that were implemented through support to MFIs, strengthening of the enabling environment, and direct support to enterprises in order to strengthen MSMEs. The MCA-Benin Program was intended to accelerate economic growth and reduce poverty in Benin by helping to remove constraints to investment in key sectors of the Beninese economy. The program aimed at increasing investments and private sector activities by improving key physical and institutional infrastructure.

In terms of the overall coherence, the project has contributed to the goal of improving financial services through its support to the MFIs and the enabling environment of microfinance. This evaluation finds that the activity and support to MFI sector had a strategic impact and made a major contribution to strengthening the MFI sector especially in terms of capacity strengthening and supervision. Nevertheless, improvements in financial services and increase in deposits and loans does not necessarily imply an improved access to capital by MSMEs. The evaluation did not ascertain if the increased loan portfolio meant an increase in percentage or volume of loans to the MSME sector. Lending to the MSMEs depends on many other factors in addition to the efficiency of the MFIs. The assumption that improvement in access to financial services must necessarily lead to increased access to capital by MSMEs could not therefore be verified.

Regarding the support to MSMEs, it can be concluded that although some of the S3 grantees have survived and have become profitable, others are inactive or are struggling. Even if the majority of the S3 enterprises had prospered (which is not the case), it is difficult to see the strategic significance of such micro interventions focused mainly on fixed assets that benefitted only a handful of enterprises in different sectors. There were no attempts at clustering or on supporting enterprises along a specific value chain to maximize impact. In addition, most enterprises that were supported are poorly managed and do not use management tools such as a double entry accounting system, an operational manual, market research, and a customer data base. The project design did not include strengthening the private enterprise accounting and management systems. This became particularly evident during the recent financial assessment.

Moreover, one of the main objectives of the project, namely improving access to capital for MSME, still remains a major challenge. Although about 41% of MFIs improved their access to commercial finance, MFI access to capital did not necessarily translate to MSME access to capital. The evaluation did not assess the types of borrowers of the S1 and S2 MFIs that benefitted from the grants and it cannot conclude that the growth in the loan portfolio of the MFIs resulted in an increase in access to capital by MSMEs. If the S3 grantees can be considered selected examples of MSMEs, we note that even with external funding, only a handful of them improved their access to commercial loans. Other studies of microfinance in Benin and other West African countries have shown the large percentage of consumer loans to employees or civil servants in the portfolio of MFIs.[16] One conclusion in this regard is that improving financial services is not synonymous with improving access to capital by MSMEs which requires additional conditions to be satisfied such as reducing the risks associated with lending to MSMEs and interest rates that are affordable by such enterprises.

Moreover, while the project focused on access to finance through the formal sector (MFIs), many MSMEs start using personal and family funds and continue operating through raising private and informal capital. The negative concept of "lack of access" does not adequately capture the rich local dynamics of MSME funding that need to be understood and built upon positively before the project could make a significant impact on improving the financing situation of MSMEs.

In terms of implementation, the major lessons is that the project must adopt a participatory approach to procurement and not try to replace the role of the beneficiaries. The beneficiaries were engaged in very different fields of activities each of which require significant expertise and experience. The ownership of the procurement process by the beneficiaries is the only guarantee

to ensure that procurement can be efficient and relevant to the needs of the beneficiaries. Ownership here refers to participation and not to give cash grants but establish a feedback mechanism which was absent.

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[16] For an insightful discussion of the competition between consumer loans with business loans to MSMES in MFIs see "The Effects of Consumer Lending and Consumer Loans on Microfinance Institutions", F. Bachmann, Centre for Microfinance, University of Zurich, 2011.

7. Lessons from the Evaluation

There are a number of lessons that can be drawn from this evaluation, which we can classify under four headings: (i) The Coherence of Goal and Objectives (ii) Approach to Implementation, (iii) Understanding the Local Context, and (iv) Economic Sustainability.

Coherence of Goal and Objectives

The fundamental goal of the Access to Financial Services Project was to improve access to capital for MSMEs in the agricultural sector and thereby contribute to economic growth and reduce poverty. This broad goal of improving access to capital was to be reached through upgrading the performance of MFIs through information technology and audit, improved supervision, facilitation of loan collaterals through access to land titles, and direct grants to MSMEs and their associations as a catalytic measure to increase their credit-worthiness and thereby access to capital.

The principal question here is whether or not the well - defined objectives of the project were sufficient to reach the goal of increasing access to capital for agricultural MSMEs. In other words, could the goal be achieved with these objectives? The project indeed reached most of its objectives of improving the performance of MFIs and increasing the capitalization of a number of enterprises and their associations. The survey of the MFIs revealed a continuous increase in their portfolios including savings and loans. Based on this data alone, however, the evaluation could not affirm or reject the hypothesis that there was an improvement in access to capital by MSME's. The analysis did not and could not include the verification of the use of funds by thousands of MFI borrowers. Improved access to financial services was achieved in terms of rise in the volume of savings, better access to cash via ATMs and greater number of loans. However, many of the loans are personal loans to salaried people and this is not necessarily an increase in business loans to MSMEs.

The limited data base of the enterprises interviewed revealed that for the majority of the enterprises access to capital did not improve. Accepting the additional hypothesis that access to capital is a function of the risk environment in which MSMEs operate, it is safe to conclude that the project did not substantially reduce the risks for agricultural MSMEs that are caused by natural, economic, and policy factors. The MFI's own access to capital via commercial banks was improved only in a limited number of cases and again this had a lot to do with risk factors facing MFIs. One major area of MFI risk is the risk associated with poor governance that was not targeted by the project.

The first lesson is that the achievement of the project's objectives does not automatically imply the achievement of the project's overall goal.

Often evaluations are more focused on assessing the achievement of objectives rather than the achievement of the goal. The coherence between goal and objectives is a major issue that is not often sufficiently analyzed in project design leading to assumed causal associations without a step by step analysis of direct and indirect consequences of objectives in terms of achieving the project goal.

One recommendation for bringing the goal and objectives together in a more effective way would have been more focus on supporting specific value chains as opposed to supporting "agribusiness" in general which happened in the project. Agribusinesses are very diverse and operate in various value chains. Through market selection and focus on the different stages of specific value chains such as pineapple growing, fish farming or palm oil processing, the project could have exerted a greater influence on the risk environment and on the MSME operators. The project could have better addressed a number a risk factors facing MSMEs and thereby increase their likelihood of accessing finance.

The second lesson for designing future projects aiming at financial services for agricultural MSMEs is to be more selective on high growth potential value chains while addressing their risk environment.

Approach to Implementation

An important change in the implementation strategy was that the project adopted an in-house approach for implementing the Challenge Facility instead of implementing through the planned hiring of an external agency. This shift happened late in the project implementation period leaving the project a short period of time for implementing the Challenge Facility. The subsequent time and disbursement pressures meant that the project was implemented over a much shorter period than had been originally envisaged. Much of the procurement activities were ballooned towards the end of the project leading to cost, quality and delivery issues. The rigidity of the original design was one of the causes of this late change in the approach to implementation of the Challenge Facility which had a number of undesirable procurement consequences.

A third lesson is that the project implementation blueprint should not be very rigidly defined and it should enable the project to find the best implementation arrangements after start-up and early-on during project implementation.

Procurement problems were probably the most common cause of complaints by the beneficiaries. The qualitative perception surveys of the implementation process revealed that in both sets of surveys (MFIs and enterprises) the procurement process faced many challenges related to the heavy procurement procedures with a lot of red tape, delays, poor quality and high price of the equipment purchased, and the non-application of quality guarantees that usually accompany such equipment. There were complaints regarding the lack of participation of the grantees in the procurement process and the poor qualification of the suppliers. Some of the equipment directly procured by the project implementation unit were highly technical and consultation with beneficiaries in the procurement process could have avoided acquiring the wrong equipment at a very high price. The beneficiaries were engaged in very different fields of activities each of which requiring significant expertise and experience. The ownership of the procurement process by the beneficiaries would have better ensured that procurement was relevant to their needs. The procurement procedure itself seemed to have become the driving determinant of the implementation process instead of serving the objective of assisting the enterprises.

A fourth lesson is to make procurement conditions less rigid, more participatory, and with a much greater beneficiary ownership of the process.

Understanding the Local Context

The first page of Benin Country Brief Compact Closeout states that “land insecurity, lack of access to capital, an inefficient judicial system” hinders sustainable economic growth and poverty reduction in Benin and the Compact was designed to address such lacks and absences. In the same document little is described regarding the state of the existing land holding relationships, the existing formal and informal systems of access to capital, and the how justice is carried out. This comparison encapsulates a common practice in project formulation by donors which is based on *negation* where an external ideal is used to compare with an actual reality which is often ignored regardless of the relevance or the extent of the applicability of the ideal to the local social and economic relationships. This critique is relevant because the project did not adequately address the questions of what are the potential of the major value chains, markets, suppliers, support services, and the community connections before initiating its investments. The businesses and the

MFIs were viewed as an amorphous mass that needed improved technologies mostly in the shape of hardware and equipment. The packages supplied to MFIs for example were surprisingly very uniform which confirms the hypothesis that the pre-existing needs were not adequately assessed.

The idea that MSMESs "lack access to capital" implicitly assumes that the only form of access to capital is through the formal financial institutions or the MFIs. However, many MSMEs start-ups use personal and family funds and continue operating through raising private and informal capital. They are also involved in the "tontine" which are informal savings and credit clubs managed by a "tontinier" who receives a commission. Many of the MFIs in Benin are basically tontine aggregators and the concept of "lack of access" did not adequately capture the local dynamics of MSME funding through the tontines. These local dynamics could have been built upon positively to enhance the impact and relevance of the project for increasing access to capital by MSMEs.

A fifth lesson is that a financial services project should build on an understanding of the existing financial flows and mechanisms including the informal flows before proposing institutional interventions or supporting product development.

The enterprises received different packages of mainly equipment whereas a major pre-existing needs was to strengthen business accounting and management knowledge in terms of understanding the business environment, strategy development and marketing. Most enterprises that were supported lacked and still lack basic management tools such as a double entry accounting system, operational manuals and systems, market research expertise, quality control and customer data base management systems. This hypothesis can be confirmed by noting the difficulties of evaluating the businesses which in most cases did not have an adequate accounting and financial reporting system.

No significant effort was made to address these soft management skills for strengthening the enterprise capacity. This is particularly evident of the association between closed or poorly performing enterprises and those who could not provide any financial data whatsoever. In other cases, there was an oversight overlooking when electric equipment were supplied in areas without access to electricity and with no assessment of operating costs for using a generator.

A sixth lesson is that for any future MSME support projects, the project should assess the value chain including capabilities in terms of basic accounting and internal management as well as relationships with buyers and suppliers, local infrastructure especially access to electricity, and the type of competitors and substitute products (especially imported products) are considered before embarking on MSME support.

Economic Sustainability

Without a strong degree of confidence, it can be stated that the project's support to the MFIs had a strategic impact and made a major contribution to strengthening the MFI sector and contributed to its revival and growth after the 2010 pyramid scheme crisis. The project's support, however, did not influence a major dimension of MFI viability which is their governance structure. The degradation of performance of many of the MFIs before and after the support is admittedly due to poor governance and weak accountability of the board and management in spite of presence of external supervision which is primarily focused on prudential aspects and the quality of the loan portfolio. The common governance weaknesses affecting the MFIs include excessive concentration of responsibilities in one person (Manager or President), vague definition of roles and responsibilities of board members who often do not receive the required corporate governance training, dependence of management on the board or vice versa, and weak control organs such as an audit or supervisory committees who report to the President instead of reporting directly to the board of directors or to the members in cooperatives. The availability of public funds and grants through the National Microfinance Fund has further exacerbated the governance problem in many of the MFIs in Benin.

A seventh lesson is that future MFI support must have the dimension of strengthening MFI governance systems through training and strengthening of internal controls and not just providing hardware or financial supervision.

The project did not address some key issues regarding the viability of the support to the S3 enterprises. Although some enterprises have survived and have become profitable, others have closed down or are struggling. Even if the majority of the S3 enterprises would have prospered, which is not the case, it is difficult to see the strategic significance of such micro level interventions focused mainly on equipment that benefitted only a handful of enterprises.

The criteria of enterprise selection largely favored unions and associations or NGOs at the expense of privately owned enterprises. Only 5 out of 42 enterprises supported were privately owned enterprises while the rest were NGOs, associations of producers or cooperative unions. In fact, 4 out of 5 privately owned enterprises benefitted relatively well from the project and are still in operation. A number of cooperative unions that were supported had internal governance issues as mentioned above and the project did not fully benefit the members. Many of the enterprises supported were already donor dependent and have remained so. Some of the NGOs that received grants were living on donor handout and were an unlikely candidate for a sustainable enterprise. There were few genuinely BDS providers in spite of the declared criteria of supporting the BDS providers***. An eighth lesson is that Challenge Facility should be designed with strategic economic impact in mind with greater due diligence of the enterprises and their viability. This involves supporting lead firms that are value chain drivers, key processing industries that can substantially increase the market for producers, and industries with a distinct local competitive advantage. Social enterprises such as cooperatives, associations, and NGOs need additional due diligence including the dimensions of governance and long term viability.***