

# **Microfinance Regulation in Benin: *Implications of the PARMEC Law for Development and Performance of the Industry***

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## **Abstract**

**L**egislation to implement the law governing the microfinance industry in Benin and other members of the West Africa Monetary Union (UMOA), known as the PARMEC Law, has been in effect since August 1997. Several shortcomings have become evident during nearly five years of implementation, including issues with interest rate ceiling and a lack of adequate monitoring and supervision by the authorities. The advent of the PARMEC Law has not been able to rid the microfinance industry of weak institutional capacities of microfinance institutions (MFIs) as was envisaged by the authorities.

Although the PARMEC law is generally considered adequate for credit unions, for which it was intended, quite a few modifications are needed to bring the prudential regulations in line with international best practice. Also, a void still exists with regards to the regulation of non-credit union

MFIs, which are subject to idiosyncratic rules and some degree of uncertainty.

The biggest issue with the PARMEC Law remains the inability of the supervisory authorities to handle the large number of MFIs that have been granted a license to operate, irrespective of their size and whether they engage in deposit mobilization or not. As it stands now, the Ministry of Finance is responsible for the supervision of the microfinance industry. However, it has little capacity to adequately monitor the industry, and it is doubtful that on-going efforts to improve the situation will yield any position results given the lack of appropriate incentives. As UMOA Governments consider granting the direct supervision of the 40 largest MFIs to the Central Bank, it is hoped that this new arrangement, along with greater selectivity in licensing, will contribute to a better development of the microfinance industry in Benin and the UMOA region.

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## Foreword

This country study is one of three being published as part of research on the implications of legal and regulatory structures for the development of microfinance institutions in African countries. This research is a collaborative effort between the World Bank's Financial Sector Operations and Policy Department and the Financial and Private Sector Units of the Africa Region, with funding from the Financial Sector Board and Africa Regional Programs. The published country studies on Benin, Ghana, and Tanzania, together with work on Ethiopia, South Africa, Uganda, and Zambia in Africa, as well as experiences drawn from other regions, will form the basis for a comparative review intended to provide practical lessons and guidance to policymakers and donor agencies on how the structure of legal and regulatory systems may affect (and in turn be influenced by) the evolution of microfinance institutions in different country contexts.

Increasing the access of the poor to sustainable financial services is an important part of the World Bank Africa Region's strategy for supporting the Millennium Development Goals for poverty reduction. Convenient and affordable instruments for savings, credit, insurance, and payment transfers are essential both to cope with the economic fluctuations and risks that make the poor especially vulnerable and to take advantage of opportunities to acquire productive assets and skills that can generate increased income. Microfinance is the application of innovative methodologies that make such financial services available to

relatively poor households and microenterprises in small transactions suited to their conditions. Innovative microfinance institutions have had substantial success in making financial services accessible to the poor in many parts of the world, and microfinance is increasingly provided through licensed, commercial financial institutions capable of mobilizing the funds necessary to significantly increase the scale of outreach.

The microfinance sector has evolved and developed according to different patterns and growth paths in various countries and regions. The literature on microfinance identifies the legal and regulatory framework as one factor that influences the emergence of different kinds of institutional providers of microfinance and, especially, their development into self-sustaining, commercial microfinance institutions capable of reaching growing numbers of poor clients, especially in rural areas. These country studies provide an assessment of how the legal and regulatory framework influences the microfinance sector and the benefits and risks of different approaches, providing important lessons for other countries that may be going through a similar process of establishing or modifying the legal and regulatory framework for microfinance.

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## Abbreviations and Acronyms

ALAFIA	Professional Association of Microfinance Practitioners in Benin
BCEAO	<i>Banque Centrale des Etats de l’Afrique de l’Ouest</i> (Central Bank of West African States)
BOAD	<i>Banque Ouest Africaine de Développement</i> (West African Development Bank)
CBDIBA	<i>Centre Béninois pour le Développement des Initiatives de Base</i>
CLCAM	<i>Caisse Locale de Crédit Agricole Mutuel</i>
CNCA	<i>Caisse Nationale de Crédit Agricole</i>
CRCAM	<i>Caisse Régionale de Crédit Agricole Mutuel</i>
CVEC	<i>Caisse Villageoise d’Épargne et de Crédit</i>
ECOWAS	Economic Community of West African States
FECECAM	<i>Fédération des Caisses d’Épargne et de Crédit Mutuel</i>
FENACREP	<i>Fédération des Caisses Rurales d’Épargne et de Crédit</i>
GDP	Gross Domestic Product
GNI	Gross National Income
IDA	International Development Association
IMF	International Monetary Fund
MFI	Microfinance Institution
MIS	Management and Information System
MRDM	<i>Mission pour la Réglementation et le Développement de la Microfinance</i> (Mission for the regulation and development of microfinance)
NGO	Non Governmental Organization
OHADA	<i>Organisation pour l’Harmonisation du Droit des Affaires en Afrique</i> (Organization to Harmonize Business Law in Africa)
PADME	<i>Programme d’Appui au Développement des Micro Entreprises</i>
PAPME	<i>Programme d’Appui aux Petites et Moyennes Entreprises</i>
PARMEC	<i>Projet d’Appui à la Réglementation sur les Mutuelles d’Épargne et de Crédit</i> (Project for the regulation of credit unions)
PASSEF	<i>Projet d’Association et d’Entraide des Femmes</i>
TPCF	<i>Tout Petit Crédit aux Femmes</i>
UMOA	<i>Union Monétaire Ouest Africaine</i> (West Africa Monetary Union)
URCLCAM	<i>Union Régionale des Caisses Locales de Crédit Agricole</i>
USAID	United States Agency for International Development

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# **MICROFINANCE REGULATION IN BENIN:** *Implications of the PARMEC Law for Development and Performance of the Industry*

## **I. OBJECTIVES AND BACKGROUND**

This country study of Benin is one of three case studies that have been undertaken as part of research on the implications of legal and regulatory structures for the development of microfinance in African countries. Together with the other case studies of Ghana and Tanzania, the Benin study will form the basis for a comparative review of microfinance regulation in Africa and is intended to do the following:

- first, set forth (a) how financial laws and regulations affect the ability of microfinance institutions (MFIs) to become more commercial and integrated with the formal financial system, and (b) the incentives (or disincentives) for licensed financial intermediaries to move “downmarket” into microfinance. This analysis should provide information on how practices have been adapted to the local context and innovations that could be incorporated in operational support to improve the licensing, regulation and supervision of MFIs.
- second, assess how business and commercial laws and institutions may affect contract enforcement and collateral, asset transfer, and the operation of micro and small enterprises (MSEs) that are clients of MFIs.

### **A. Introduction**

Benin is member of the Franc Zone and West Africa Monetary Union or the *Union Monétaire Ouest Africaine* (UMOA) established in 1973 and made up of eight francophone countries in West Africa (Benin, Burkina Faso, Côte d’Ivoire, Guinea Bissau, Mali, Niger, Senegal, and Togo). A common Central Bank, *Banque Centrale des Etats de l’Afrique de l’Ouest* (BCEAO), located in Dakar, Senegal, with national branches in member states was created earlier in 1962. All members of UMOA use the CFA Franc (CFAF) as their currency. The CFAF has been pegged to the French Franc at FF 1 = 100 CFAF after the devaluation of the currency in January of 1994 and is now pegged to the Euro (655.5 to 1) with convertibility guaranteed by the French Treasury. Exchange controls apply to all currencies other than the CFA Franc and the Euro. Monetary policy, currency, and trading regulations in member countries are controlled and determined by the country’s membership in the Franc Zone. BCEAO and the regional Banking Commission oversee all financial intermediaries in the UMOA zone.

In 1993, a common approach to the regulatory framework for microfinance institutions (MFIs)<sup>1</sup> was developed by BCEAO and adopted by all UMOA member countries, except Guinea Bissau<sup>2</sup>, between 1993 and 1998. The initiative that was funded with Canadian support under the *Projet d'Appui à la Réglementation sur les Mutuelles d'Épargne et de Crédit* (PARMEC) has given rise to the law regulating all licensed MFIs in the UMOA zone, and referred thereafter in the paper as the PARMEC Law.

The purpose of this paper is to analyze the evolution and impact of the policy, legal, and regulatory environment since the enactment of the PARMEC in the UMOA countries, with Benin as a case study. The paper will review the basic approach that Benin has taken towards legislation and regulation regarding MFIs, and briefly analyze whether the policy/legal/regulatory environment has been conducive to commercialization of microfinance, either by licensing of MFIs or by commercial institutions moving downmarket.

This introductory section will be followed by an overview of the macroeconomic and policy context in Benin. Chapter 2 and 3 will review the microfinance industry and the licensing and regulatory framework for microfinance in Benin, successively. Chapter 4 will assess the impact of regulation on the evolution of microfinance and review the business and contract enforcement environment in Benin. Finally, conclusions and recommendations will be provided in Chapter 5.

## **B. Macroeconomic and Policy Context**

### *Economic and Poverty Characteristics*

The country of Benin is located in West Africa, and it covers a land area of 112,622 sq. km. The Capital City of Benin is Porto-Novo, with 450,000 inhabitants, located in the Ouémé department.

The population of Benin was estimated at 6.3 million inhabitants in 2001, of which 51 percent were women and 60 percent of the population lived in rural areas (World Bank data). Average population growth is 2.8 percent and population density is relatively low at 56 people per square kilometer. However, one fourth of the population lives along the coast in the southern half of the country where the density reaches 340 per square kilometer, one of the highest densities in Africa. Nearly 60 percent of the population live in rural areas and derive their subsistence from agriculture and the cultivation of cotton.

The official language in Benin is French, although there are approximately 20 ethnic groups that speak several different African languages. The illiteracy<sup>3</sup> rate in Benin is 60 percent which is 15 percentage points above that of peer countries members of the Economic Community of West African States (ECOWAS). Less than half the male population and less than a quarter of the female population can read and write. Life expectancy in Benin is only 53

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<sup>1</sup> For the purpose of this study, any organization that engage in small financial transactions with relatively low-income clients who typically lack access to normal commercial bank products would be considered as MFIs, regardless of their legal status.

<sup>2</sup> Due to the absence of a sizable microfinance industry.

<sup>3</sup> Population age 15 and older.



years. A poorly educated population, undoubtedly, reduces the economic opportunities available to the poor, and it shrinks the pool of available human resources for all sectors of the economy.

With a Gross National Income (GNI) per capita of US\$380 in 2001, Benin remains one of the poorest countries in the world. Over one third of the population lives in poverty with inadequate food supply and little access to medical care, education, and other social services. The economy remains in general underdeveloped, and Benin experienced great economic difficulties in the late 1980s associated with an overvalued currency, weak primary commodity prices, and mismanagement of public finances. A limited physical and institutional infrastructure has constrained economic opportunities, while macroeconomic instability has added risks to the uncertainties of economic life in general in this environment. Economic performance over the last decade has, however, been commendable.

In many respects, economic performance in Benin is strongly linked to that of its powerful neighbor, *i.e.*, to Nigeria's oil booms and slumps. Trade and migration across the border are important sources of income in Benin due to its role as a trade corridor for landlocked UMOA countries and as a link to Nigeria. Under a structural adjustment program started in 1991, growth in real Gross Domestic Product (GDP) which averaged 2.4 percent a year in the 1980-92 period, picked up above 4 percent in the early 1990s, increased to 5 percent after the CFA Franc devaluation in 1994, even reached 6 percent in 1995 and averaged 5.3 percent in the 1995-2002 period. However, GDP increases were partially offset by a high annual rate of population growth of 3 percent.

Inflation remained low at an average of 1.9 percent during the period 1990-93, rose to 38.5 percent in 1994 following the devaluation of the currency that year, but subsided gradually in 1995 and has remained below 5 percent since 1996 (IMF statistics).

The economy of Benin was once highly dependent on subsistence agriculture and on cotton production. In recent years, however, the share of the agricultural sector in Benin's economy has been falling. Value added in agriculture accounts for 37 percent of GDP, while agriculture employs about 40 percent of the active labor force. The industrial sector contributes about 8 percent of GDP, and it employs 14 percent of the active labor force. Services, including financial services, contribute the most to GDP (54 percent) while employing 38 percent of the active labor force (IMF statistics).

### ***The Financial Sector in Benin***

Monetary policy, currency, and trading regulations in Benin are controlled and determined by the country's membership in the Franc Zone.

At the end of 2001, the financial sector in Benin was made up of five commercial banks<sup>4</sup>, four non-bank financial institutions and numerous (over 600) microfinance and savings and loans associations.

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<sup>4</sup> The five commercial banks are Bank of Africa (BOA), Ecobank, Financial Bank, Continental Bank, and *Banque Internationale du Bénin* (BIBE). Of all the banks, only Continental Bank had majority shareholding by Government of 46 percent.

The restructuring of the state-owned banking sector in 1990 gave rise to a fully private commercial banking sector. All three government-owned commercial banks that were operating before this period were liquidated following the collapse of the banking system as a result of the banking crisis that occurred in late 1980s. The private commercial banks were set up with assistance from the international donor community including the World Bank. Commercial banks operate in major urban areas and have limited or no branches in rural areas.

Today, the financial sector in Benin remains shallow with a ratio of M2 to GDP of 26 percent, indicating that the size of formal financial intermediation is small compared to the size of the economy. However, financial deepening in Benin remains slightly higher than the average Sub-Saharan African ratio of 25 percent. Credit to the private sector represented 11 percent of GDP in 1999. Demand for financial services by poor households is not satisfied by the banking sector as access to bank loans is restricted to a small number of large, established firms, mostly in commerce.

Only the microfinance industry, with more than 600 organizations in both urban and rural areas, is able to achieve broader and deeper outreach and to provide financial services to clients who lack access to the formal banking sector. However, by the end of 2000, credit by microfinance institutions represented only 8 percent of total financial sector credit and 6.1 percent of all financial sector deposits were held by microfinance institutions.

### ***Regulatory Framework for the Banking Industry***

Commercial banks and non-bank financial institutions (*établissements financiers*) are governed by the banking law of BCEAO (law 90-018 of 27 July 1990) and supervised by the banking commission (*commission bancaire*) which are both established as regional institutions (see Box 1).

Prudential regulation designed by BCEAO for the banking sector include minimum liquidity ratio of 60 percent. The capital adequacy ratio was raised in June 1999 from 4 percent to the international standard of 8 percent<sup>5</sup> and the risk concentration ratio was reduced from 100 percent to 75 percent (see Schedule 1 in Annex 1).

One of the main issues confronting the financial system in Benin today is the growth in non-performing loans in the banks due to inadequate supervision, the inability of the judicial system to enforce contract and collect credit, insufficient coordination in decision making, and weak administrative capacity of the Ministry of Finance. Although three of the five banks observed capital adequacy ratios, the financial situation of the two remaining banks (accounting for 20 percent of deposits), continued to deteriorate in 2001, and their risk-adjusted equity levels were below the prudential norms. Following vigorous loan recovery efforts, the non-performing loans of commercial banks fell from 5.4 percent of total credit at end-December 2000 to 4.7 percent at end-June 2001.<sup>6</sup>

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<sup>5</sup> Commercial banks were granted a two-year adjustment period to meet this new ratio, i.e., by the end of 2001. Only three banks met the new capital adequacy ratio of 8 percent on January 1, 2002.

<sup>6</sup> IMF Benin Country Report No. 01/208.

BCEAO strengthened prudential regulations in June 1999 in all its member countries, including Benin, to bring the capital adequacy ratio in line with international norms, although allowable risk concentrations will remain at triple internationally agreed levels. Three new regulations on internal control, external auditors, and corporate governance were also adopted by BCEAO for better management of bank operation including more transparency and accountability. BCEAO chose, however, to not raise the minimum capital for banks which has been unchanged since the devaluation of the CFA Franc in 1994 and is still CFAF 1 billion, approximately US\$1.33 million, amount considered by some, including the IMF, to be rather low.<sup>7</sup>

While banking supervision by the sub-regional Banking Commission is generally professional, enforcement in member countries is sometimes weak, in part because it is a responsibility shared with national Ministries of Finance. That may translate in a situation where many banks operate for years without complying with regulations or following directives of the Banking Commission.

#### **Box 1: West African Banking Commission**

##### **Origin**

The West African Banking Commission was created on April 24, 1990 by a convention signed by the ministers of finance of the then seven member countries. It began operations on November 22, 1990; its primary goal is to ensure a uniform and efficient supervision of all banks and financial institutions in the eight member countries of the West Africa Economic and Monetary Union (WAEMU), and to promote financial integration. At end 2000, there were 59 banks and 25 non-bank financial institutions subject to the banking law and to banking supervision. A single union-wide licensing agreement for banks was adopted in January 1999.

##### **Organization**

The West African Banking Commission is composed of 17 members: the governor of the BCEAO, who serves as the president, eight members, one per member state, and eight other members selected by the Council of Ministers on the basis of their qualifications and expertise in banking matters. The Executive Secretariat of the West African Banking Commission is headquartered in Abidjan, Côte d'Ivoire. Its human, material, and financial resources are provided by the BCEAO. It has a total of 80 staff members and has the prerogative to carry out all the responsibilities entrusted by the Commission, which meets at least twice yearly, and as often as necessary. Decisions are taken with a simple majority vote. In case of deadlock, the governor's vote determines the final outcome.

##### **Responsibilities**

The primary responsibility of the West African Banking Commission is to ensure that financial institutions maintain sound financial structures, including having adequate liquidity and solvency ratios. To carry out this function, the Executive Secretariat issues general instructions to banks and other financial institutions in the union, defines accounting procedures and prudential standards, and conducts on-site and off-site supervision of the financial institutions operating in the region.

The licensing of any financial institution in the region is subject to the prior agreement of the Executive Secretariat of the West African Banking Commission, following a technical review of the application. The commission is a jurisdictional body with authority to take disciplinary action without prejudice to any sanctions taken by national authorities. It can take the following sanctions: admonish, reprimand, prohibit certain operations or impose any restrictions on banking activities, suspend auditors, suspend or remove directors from office, and repeal operating licenses. However, both licensing and delicensing require formal signature of the Minister of Finance of the member state. The Executive Secretariat can also take the precautionary measure of placing a financial institution in distress under its direct control by appointing a temporary administrator.

*Source: IMF Country Report, October 2001.*

<sup>7</sup> Minimum capital requirement of US\$10 million is generally deemed adequate.

## II. THE MICROFINANCE INDUSTRY IN BENIN

### A. Structure and Growth of Institutions Engaged in Microfinance

Despite its relatively small size, Benin remains the country with the largest number of MFIs in the UMOA region and with a comparable diverse array of institutions. The Ministry of Finance estimated that, as of December 31, 2001, the MFI industry in Benin had more than 600 organizations<sup>8</sup>, around 700 000 clients, CFAF 30 billion (US\$40 million) in savings deposits, and CFAF 25 billion (US\$33.3 million) in loans outstanding. Organizations engaged in microfinance in Benin and the rest of UMOA are formally classified into three main categories: (i) credit unions, (ii) credit-only MFIs, and (iii) donor projects with a microfinance component.

*Credit unions* dominate the microfinance industry in Benin and that is closely related to the evolution of the formal financial sector in the country. The large number of credit unions in Benin today are the result of a rehabilitation program started in 1990, after the collapse of the banking sector and of the *Caisse nationale de crédit agricole* (CNCA), a parastatal engaged in agricultural credit. To restore the savings and loans system to its original mutualist principles, the government withdrew from the management of the cooperatives and replaced them with credit unions or *caisses locales de crédit agricole mutuel* (CLCAM). The largest credit union network in Benin, the *Fédération des Caisses d'Épargne et de Crédit Mutuel* (FECECAM) was, thus, born. By December 2000, FECECAM had 298,000 shareholders, 96 CLCAMs, CFAF 20 billion (US\$26.7 million)<sup>9</sup> in deposits, and CFAF 12 billion (US\$16 million) in loans outstanding. By the end of 2001, FECECAM dominated completely the microfinance industry in Benin with 94.2 percent of savings deposits of the industry and 61 percent of total loans outstanding.

*Credit-only institutions* are the second biggest players in the microfinance industry in Benin with each more than CFAF 1 billion (US\$1.3 million) in total loans outstanding in 2001. They are: (i) FINADEV, a microfinance outlet of a commercial bank with CFAF 1.1 billion (US\$1.5 million) loans outstanding; (ii) PADME (*Programme d'Appui au Développement des Micro Entreprises*) with loans outstanding of CFAF 6.8 billion (US\$9.1 million); and (iii) PAPME (*Programme d'appui aux Petites et Moyennes Entreprises*), aimed at providing financial services to micro entrepreneurs as well as small and medium scale enterprises, and outstanding loan portfolio of CFAF 7.1 billion (US\$9.5 million). Both PADME and PAPME are World Bank supported projects. By the end of 2001, credit-only institutions provided 34 percent of all loans in the microfinance industry.

*Donor projects with a microfinance component* are numerous and primarily small non governmental organizations (NGO) supported by donor agencies, some of them organized as credit unions, including FENACREP<sup>10</sup>, PASSEF<sup>11</sup>, CBDIBA<sup>12</sup>, and Convergence 2000. These

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<sup>8</sup> The number of MFIs include all independent organizations member of networks such as FECECAM.

<sup>9</sup> US\$ 1 = CFAF 750.

<sup>10</sup> FENACREP = Fédération Nationale des Caisses Rurales d'Épargne et de Crédit (National federation of rural savings and credit cooperatives) created in 1992 by the NGO Sassakawa Global 2000.

<sup>11</sup> PASSEF = *Projet d'Association et d'Entraide des Femmes* is a Swiss Government supported project started in 1992 for women organized within small credit unions.

projects have loans outstanding representing less than 5 percent of the microfinance market. In addition to the formal microfinance market, there are a large number of informal microfinance organizations in Benin including moneykeepers, moneylenders, rotating savings and credit associations (ROSCAs) or tontines (especially in urban markets but also in many rural areas), and “yes-yes” system<sup>13</sup>. “Convergence 2000”, a local licensed NGO, has helped start a “yes-yes” system with the ultimate goal of transforming it into a formal microfinance organization.

Microfinance institutions in Benin are organized around a professional association known as Consortium ALAFIA which has a membership of 50 MFIs. ALAFIA’s main objective is to play an active advocacy role for its members in discussions with the Government and the donor community. ALAFIA is currently receiving considerable support from several international donors including the World Bank IDA project No. 3296-BEN, for capacity building and to carry out its annual work plan. ALAFIA’s on-going activities include the provision of training opportunities for its members, and the creation of a credit bureau, and possibly the development of internal benchmarking and management ratios at a national level.

The World Bank’s support to the microfinance industry in Benin has been on-going for several years with capacity building support to FECECAM under several rural credit projects until 2000. The current private sector project (IDA credit No. 3296-BEN) includes support to microfinance via PADME and also to small and medium scale enterprises via PAPME. Under the project, both organizations have made remarkable progress, and are now the third and four largest MFIs in the country by asset size. Both PADME and PAPME have established themselves as models in the microfinance industry; their next challenge is to become financially sustainable by the time the project and donor subsidies end in December 31, 2004. World Bank support also extends to the *Cellule Microfinance* at the Ministry of Finance for strengthening its capacity to carry out more effectively its role of supervision and monitoring of the microfinance industry.

## **B. Profile of Key Microfinance Institutions**

Although the formal microfinance industry in Benin is made up of diverse institutions including credit unions, credit-only MFIs, and donor projects with a microfinance component, the market is dominated by credit unions and FECECAM as the main player. The other important players are those organizations with more than CFAF 1 billion (US\$1.3 million)<sup>14</sup> in total loans outstanding, i.e., FINADEV, PADME and PAPME (see table 1). The analysis below will, therefore, focus on the profile and performance of the four most important institutions in the microfinance industry in Benin, today. Due to the size of their operations, these institutions do in fact represent a good case of licensable MFIs to be regulated and supervised by financial authorities.

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<sup>12</sup> CBDIBA = *Centre Béninois pour le développement des initiatives de Base* (Center for the development of local initiatives) was created by a French NGO to help set up a number of MFIs including the *Caisses Villageoises d’Epargne et de Crédit* (CAVECA), a network of non credit union MFIs.

<sup>13</sup> A “yes-yes” system is an informal microfinance organization which allows a client to save regularly, on a daily basis, with an individual money collector who in turn is able to extend a loan to its clients.

<sup>14</sup> Amount of minimum capital required to be licensed as a commercial bank under the UMOA banking law in effect in Benin.

**Table 1: Portfolio Data on the Most Important MFIs in Benin in 2000**

ORGANIZATION NAME	Outstanding loan Portfolio In CFAF million	\$ Outstanding loan portfolio in US\$ million*	Number of loans	Avg. loan size in CFAF	Avg. loan size in US\$
FECECAM	8,767.00	\$12.4	45,141.00	194,234.00	\$275
PADME	4,818.00	\$6.8	14,330.00	336,191.00	\$477
PAPME	2,681.00	\$3.8	1,416.00	1,893,698.00	\$2,686
FINADEV**	1,066.00	\$1.4	3,373.00	316,046.00	\$421

Source: Data gathered by author

Notes \* US\$ 1 = CFAF 704.95 in 2000 and CFAF 750 in 2001.

\*\* December 2001 data

### **FECECAM**

FECECAM is the largest network of credit unions in Benin and in the UMOA region<sup>15</sup>. The creation of FECECAM in July 1993 was the result of a rehabilitation program started by the government of Benin in 1990, after the collapse of the banking sector in Benin. When the government nationalized the banks in the 1970s, the *Caisse Nationale de Crédit Agricole* (CNCA), was one of the public development bank set up in 1975 to disburse long-term and agricultural loans to the population. By 1977, several local and regional credit unions, *i.e.*, *Caisses Locales de Crédit Agricole Mutuel* (CLCAMs), and *Caisses Régionales de Crédit Agricole Mutuel* (CRCAMs) were created and placed under the supervision of CNCA. To restore the savings and loans system to its original mutualist principles and end several years of mismanagement, the government withdrew from the management of the credit unions and decided to rehabilitate the network and transform it into a private, autonomous, and financially viable institution. FECECAM was, thus, created in 1993 with 42 CLCAMs, CFAF 17 million (US\$ 22,667) in deposits, and CFAF 12 million (US\$ 16,000) in loans outstanding. Originally, the network had a three-tier structure of operation and management with the CLCAMs at the local town level, URCLCAMs at the regional level, and the FECECAM, the apex organization at the national level. A fourth level was added to the structure in 1996 with the creation of the *Caisses Villageoises d'Épargne et de Crédit* (CVECs)<sup>16</sup> located at the village level.

FECECAM, the apex organization has its headquarters in Cotonou and its members are made up of URCLCAMs<sup>17</sup> (7) whose members are individual CLCAMs. Only URCLCAMs can be shareholders and benefit from the followings:

- Placement of their excess liquidity with the federation;
- Benefit from all the services (training, continuing education, and audit) performed by the federation;
- Participate in the general assembly and vote on major decisions;

<sup>15</sup> FECECAM is the largest credit union network in UMOA region in terms of total outstanding loan portfolio and second only to FENACOOPEC in Côte d'Ivoire by total savings deposit size.

<sup>16</sup> CVECs are run as an integral part of the CLCAM to which they depend. In fact, the same elected officials at the CLCAMs serve as management committee members at the CVECs and are responsible for loan granting.

<sup>17</sup> URCLCAMs are at the second-tier level of the network and are located in the capital of each of the seven regions of Benin.

- Get a copy of all financial statements and reports from the board of directors and supervisory board of the federation.

The principal mission of FECECAM is to coordinate the activities of its members, i.e., the CLCAMS and *URCLCAMS*, define the general policies of the network, provide technical assistance to network members, and manage excess liquidity generated by the network. One of FECECAM's ultimate objective is to become a more effective Central Finance Facility (CFF) by engaging more directly in financial intermediation between surplus and deficit units and becoming an effective lender of last resort.<sup>18</sup> The apex organization derives its resources from share capital, members' current accounts and term deposit accounts<sup>19</sup>, reserves, lines of credit, and grant subsidies. FECECAM deposits its excess liquidity with commercial banks and in the year 2001, it earned 5.25 percent annual interest on its term deposit accounts and 4 percent on its current accounts.

*Membership:* Originally created to provide agricultural loans to farmers only, today CLCAMS, the pillar of the FECECAM network, have outgrown their original mission, and membership is a diverse mix that includes individuals especially micro entrepreneurs as well as groups who reside or work in a particular community. CLCAMS are located primarily in rural towns, communes, and sub-prefectures. They collect savings and grant loans to their members only. At end-December 2001, there were 96 CLCAMS in Benin, down from more than a 100 two years earlier. Each CLCAM covers 20 to 30 villages. CLCAMS are organized around a general assembly of shareholders held once a year, where members are elected to serve on the board of directors and a supervisory board.

To become a member/shareholder, an individual is required to pay CFAF 200 (less than US\$0.30) in membership fee, and to buy at least one share at CFAF 1,000 (less than US\$1.50). A minimum of CFAF 5,000 (less than US\$7) to buy five shares is required for a group. Opening an account requires a deposit of CFAF 5,000 (less than US\$7). The main sources of funds at the CLCAMS are from members/shareholders deposits and, more recently, grants and lines of credit, especially for CLCAMS located in the poorest areas of the country such as Ouémé region.

*Financial Services:* Both deposits and loan services are available to members. The three types of deposit accounts all require a minimum of CFAF 5,000 (less than US\$7) deposit:

- Current accounts earn no interest and are reserved for NGOs and other enterprises
- Passbook accounts earn 3 percent annual interest rate
- Term deposit accounts earn 4 percent annual interest rate, and 4.5 percent for longer term, *i.e.* greater than two years.

By comparison, commercial banks pay 3.5 to 5 percent annual interest rates on deposit accounts.

Several loan products are also available to eligible members. They are:

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<sup>18</sup> FECECAM is already engaged in liquidity management for its members, though informally and could do so formally by creating an "organe financier", i.e., a credit union bank .

<sup>19</sup> FECECAM members are URCLCAMS whose members are individual CLCAMS.

- *Tout Petit Crédit aux Femmes (TPCF)* or very small loans to women. It is the latest loan product offered to groups of women members. The loan amount varies between CFAF 10,000 to CFAF 30,000 per woman for three to six months. Borrowers are not required to hold a deposit account with the CLCAM.<sup>20</sup>
- Short term loans of CFAF 10, 000 to CFAF 1 million are granted for a maximum of 12 months. These loans are not targeted to any specific use and include emergency loans that are CFAF 50,000 on average.
- Medium term loans are granted for 24 months and range between CFAF 300,000 to CFAF 1 million.
- Longer term loans are granted for 13 to 36 months for a maximum of CFAF 1 million. These loans are used to finance agricultural production and were made possible through lines of credit from international donors such as IFAD<sup>21</sup> and the African Development Bank (ADB). Repayment is expected in installments.

It is worth noting that newer loans products such as TPCF and longer-term loans granted from lines of credit have not been very successful, and constitute the bulk of non-performing loans at CLCAMs.

CLCAMs currently transform up to 70 percent of savings deposits into loans to members. Nominal interest rates on loans are 2 percent per month on a declining basis, yielding an effective annual percentage rate of more than 27 percent including all the fees associated with a loan.<sup>22</sup> A new CLCAM usually requires three months of deposit mobilization before starting any loan activity and can use up to 50 percent of deposits as loan funds. Loan granting decisions are made by the board of directors of 9-15 people. The board of supervisors made up of five people is responsible for monitoring loan granting, and repayment. To be eligible for a loan, members must be with their institution for at least six months, have a minimum of CFAF 3,000 in their savings accounts except for TPCF, *i.e.*, loans to women groups. Also 20 percent of the loan amount is required as guarantee in addition to other forms of physical collateral. Loans are granted to individuals as well as groups such as women and producer groups. Repayments can be made monthly, quarterly, annually or as a balloon payment for short-term loans.

*Outreach:* CLCAMs are primarily located in rural areas, and membership is mostly made of low income farmers and microentrepreneurs. CLCAMs were second only to the largest commercial bank in Benin in terms of deposit mobilization. The average deposit size was CFAF 58,705 (US\$90)<sup>23</sup> for CFAF 18.9 billion (US\$28.9 million) in outstanding deposits amount in December 1999. Loans were granted to 69,531 members, *i.e.*, 33 percent of the membership with an average outstanding loan balance in the network of CFAF 178,661 (US\$274) representing 75 percent of the GDP per capita of \$365. Thus, although CLCAMs cater to a poor segment of the population, its clientele is not among the poorest in Benin. The strategy to reach more of the poor has pushed FECECAM to create CVECs, which are located at the village level and thus closest to the rural poor. Also group loans to women via TPCF are intended for a much poorer

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<sup>20</sup> Experience of TPCF has not proven very successful.

<sup>21</sup> IFAD = International Fund for Agriculture Development.

<sup>22</sup> The usury rate for microfinance institutions is set at 27 percent under the PARMEC law.

<sup>23</sup> US\$1 = CFAF 652.95 in December 1999.



segment of the population with an average loan size of CFAF 20,000 (US\$31), i.e., one third the network average loan size.

*Operational and Financial Performance:* Despite continuous support provided by the donor's community, including the World Bank, since its inception, the performance of the FECECAM network has somewhat been disappointing.

The network has experienced yearly increase of more than 15 percent of not only its membership since 1993, but of loans outstanding as well as deposits. Unfortunately, the network has been unable to manage its growth carefully and failed to put in place a management and internal control system capable of managing loan growth.

Thus, the growth of the FECECAM network also translated in an increase in delinquent loans of 200 percent in one year, from 1998 to 1999, to reach CFAF 1.3 billion (US\$1.7 million) at the end of 1999. By March 2000, the portfolio at risk ratio<sup>24</sup> at FECECAM was 34 percent and 32 CLCAMs were insolvent, putting the whole network at risk of collapse. FECECAM is currently being restructured with technical assistance from Canada and closely monitored by the Ministry of Finance, the supervisory body of microfinance institutions.

The crisis at FECECAM has raised questions about the sustainability of the network, whose failure will have wide repercussions in the whole financial sector. Several factors including an inadequate management and information (MIS) system, unscrupulous management, and poor governance were identified as responsible for FECECAM problems. In addition, the availability of lines of credit from the donor community granted at subsidized rates of interest to certain members proved devastating to an already weak network. The first line of credit in 1996 was meant for loans to women groups under very relaxed terms using a technology that FECECAM did not master and translated in loan outstanding portfolio increase 55.4 percent and unfortunately resulted also in an increase of 162 percent in the number of delinquent loans. The latest line of credit from the African Development Bank offered also to members at subsidized rates of interest compounded the problem further, resulting in non-performing loans of 43 percent of outstanding loan portfolio and several insolvent CLCAMs. FECECAM was subsequently put under receivership by the regulatory authorities who also ordered the closure of several CLCAMs.

*Challenges and Potential for FECECAM:* Poor governance of the FECECAM network has long been acknowledged but not dealt with satisfactorily until it got out of hand when lines of credit and unsustainable growth met poor management. The network has finally taken some drastic steps to reorganize itself, institute new internal control to reduce fraud and after an aggressive loan recovery effort, FECECAM was able to bring its non performing loans to 5 percent of its total loan portfolio by December 2001. An important lesson from the FECECAM crisis was the realization by the network that rapid growth under the impulse of lines of credit at

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<sup>24</sup> Greater than 90 days.

the expense of good financial management can jeopardize an institution's sustainability.<sup>25</sup> This is a lesson, it is hoped, the donor community would have learned as well.

Several challenges still remain for FECECAM, the apex organization, as the network has yet to achieve financial sustainability, provide much needed technical assistance to its members, and carry its supervisory role better. FECECAM is also confronted with the choice of creating an "organe financier", i.e., a formal financial intermediary to become a more effective CFF and lender of last resort for its members. Although, transforming into a formal financial intermediary as is required by the CFF status may help FECECAM become financially sustainable, the decision is not an easy one to make as the new CFF will be subject to the banking law, a different set of prudential regulation, and lose its tax-free statute.

### ***PADME***

The *Projet d'Appui au Développement des Micro Entreprises* (PADME) is a project originally funded by The World Bank to help the Government of Benin with a structural adjustment program that resulted in numerous government employees being laid off. The project was aimed at mitigating the social costs of structural adjustment and at helping those who were laid off by providing financial support to former government employees who wanted to start microenterprise activities. The project was launched on September 1st, 1993, and it quickly expanded to include all types of microentrepreneurs, not just former Government employees.

The PADME project has gone through three phases:

- (i) The *pilot phase* lasted for two years, from September 1993 to August 31, 1995. During this phase, PADME was managed with technical assistance from VITA, an American NGO.
- (ii) The *consolidation phase* covered the period from September 1995 to June 1996. During this phase the project was strengthened and expanded.
- (iii) The *institutionalization phase* started on July 1st, 1996 and was completed on December 31, 1997. This phase was expected to allow the program to firmly position itself in the microfinance world and to transform itself into a private not-for profit organization.

Up to December 1997, PADME was a public entity under the direct supervision of the Ministry of Planning of Benin. PADME was then a component of a larger government program called the *Projet d'Assistance aux Entreprises* (PAE), set up under the Ministry of Planning, Economic Restructuring, and Employment to provide support to all enterprises in Benin. A coordinator from the PAE and the Ministry of Planning oversaw PADME's activities. The project remained otherwise free of any government interference in hiring its personnel and carrying out its stated mission. PADME acquired its new status of private voluntary organization and became an *association* on December 23, 1997.

*Organizational Structure:* As an association, PADME is run by a General Assembly that includes microentrepreneurs, staff members, financial and other partner organizations, and the Government of Benin. The General Assembly is the supreme governing structure of the

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<sup>25</sup> FECECAM, in the end, returned the unused portion of the line of credit to the African Development Bank, refusing to continue the subsidized rate of interest policy that helped divert loans to unscrupulous people including managers of credit unions.

association, and it appoints the members of the Executive Committee. The General Manager is responsible for the day-to-day management of the association, and the supervision of the staff from four departments: credit, administration and finance, computing, and internal auditing

PADME started with five employees in December of 1993. For the first two years, it benefited from the technical assistance of VITA, an American NGO, until August 1995, when the program was handed over to a Beninese staff. As of December 2001, there were 75 employees at PADME, including a Managing Director, an Assistant Manager in charge of the credit division, a Financial Manager in charge of the financial and administrative unit, a computer specialist in charge of the computing department, and an internal auditor responsible for the audit unit.<sup>26</sup>

*Financial Services:* PADME's mission was initially limited to providing credit in Cotonou, where its potential clientele (*i.e.*, laid off public employees) resided. That mission was later extended to include all established micro entrepreneurs in other areas and towns including Porto-Novo, Abomey, and Parakou. Today, PADME provides: (i) loans to existing and eligible microenterprises; (ii) loans to local NGOs to be disbursed to their own clientele in rural areas; and (iii) training and technical assistance to microentrepreneurs and local NGO staff members.

By 1999, PADME was the third largest microfinance institution in Benin with total loans outstanding of CFAF 3.1 billion (US\$4.8 million). In the year 2000, PADME continued its tremendous growth with total assets reaching CFAF 5.6 billion (US\$7.5 million), and CFAF 4.8 billion (US\$6.4 million) in total loans outstanding (see table 1 in Annex 2).

PADME is a credit-only organization which offers loans to its clients for a maximum term of one year (12 months), and monthly repayments, with a grace period of at most two months. The maximum loan amount is CFAF 2 million (US\$2,667), while the minimum is CFAF 20,000 (US\$27). The quoted interest rate is 2 percent per month on a declining balance. Loan applications require a fee of 1 percent of the loan amount. In addition, a mandatory 1 percent of the value of the loan is charged on all loans. Taking those fees in consideration yields an effective annual interest rate between 25.8 and 27.6 percent. Collateral is always required and it varies from physical assets (land, equipment), habitat permit, cosigner, to a group liability.

PADME does not offer any deposit services except for the 10 percent forced savings required of every borrower and used as a guarantee. Those who cannot provide appropriate collateral, such as registered land title, are required to deposit an additional 10 percent of the loan. Delinquent loans carry a penalty of 2 percent of the late amount in addition to a CFAF 3,000 (US\$4) fee for each late payment. Loan disbursements take place twice a week and all loan operations (disbursement and repayments) are handled by Financial Bank, PADME's long-time commercial bank partner, through special windows at the bank. The operations of PADME customers at Financial Bank represent one-third of all the Bank's cash transactions. However, after PADME's refusal to merge with Financial Bank and become its microfinance unit, the bank created its own microfinance institution called FINADEV.

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<sup>26</sup> PADME has a low operational cost by international standards. Its staff number would in fact need to be raised substantially as the organization expands further.

As a non credit-union MFI, PADME was licensed under the PARMEC law via a *convention-cadre* which stipulates the specific rules and prudential regulations that the organization has to abide to.

PADME's current sources of portfolio funding are lines of credit from the World Bank, and *Banque Ouest Africaine de Développement* (BOAD). For the year 2001, PADME expected 25 percent of its loan portfolio to be financed by the donor community. PADME financed the rest of its loan portfolio with retained earnings. PADME had also access to a short-term facility from Financial Bank of CFAF 800 million (US\$1.1 million) between July 2000 and February 2001.

*Outreach and Sustainability:* As of December 31, 2000, PADME had 14,440 active clients of whom 82 percent were women (see table 1 in Annex 2). Total loan outstanding portfolio was CFAF 4.8 billion (US\$6.4 million), indicating an average loan size of CFAF 332,410 (US\$443), i.e., 1.2 times the country's GDP per capita. Thus, PADME is catering to microentrepreneurs in major cities in Benin and its clientele is not among the poorest in the country, though they lack access to commercial bank finance.

PADME has been operationally self-sufficient since 1994, reached a ratio of 243 percent in 2000, and maintained a low portfolio at risk of less than 1 percent. PADME has only recently become financially self-sufficient with a ratio of 143.87 percent in December 2000.<sup>27</sup>

*Challenges and Potential for PADME:* Since its creation, PADME has experienced tremendous growth and the organization has built a solid reputation as a viable microfinance organization. PADME's future as a microfinance retail organization seems bright, so long as it is able to secure future sources of income for its operations beyond donor's funding. PADME does not mobilize deposits from the public although it is permitted to do so under the law. PADME's ability to leverage funds from private investors remains a main preoccupation and challenge as management contemplates the change of status from project to a formal financial institution under the BCEAO banking law.

### ***PAPME***

Started also as a component of the World Bank private sector project in 1993, PAPME's objective is to provide financial services to small and medium scale enterprises (as opposed to PADME which caters to microentrepreneurs). Located primarily in Cotonou and four other major towns, PAPME had a total outstanding loan portfolio of CFAF 1.4 billion (US\$2.2 million) in 1999 and an average loan size of CFAF 3.0 million (US\$4,563), reflecting its niche market. Total loans outstanding increased 93 percent to CFAF 2.7 billion (US\$3.6 million) in 2000 with a total asset size of CFAF 2.9 billion (US\$3.9 million). With total loans outstanding of CFAF 7.1 billion (US\$10 million) in 2001, PAPME stood as the third largest microfinance organization in Benin. Loans to individuals, mainly small entrepreneurs and farmers organizations have a maximum ceiling of CFAF 80 million, for a maximum period of 3 years and at 2 percent nominal interest rate per month on a declining balance (see table 2 in Annex 2).

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<sup>27</sup> Source: Planet Finance, Planet Rating evaluation of PADME.

PAPME is primarily a credit-only organization and relies primarily on donor funds for loan capital as well as operational expenses. The main contributors of funds include the World Bank, the Canadian Agency for International Development, and BOAD. PAPME has also been able to secure loans from commercial banks such as Bank of Africa. Support from the World Bank is to last until 2004 and will total CFAF 5 billion (US\$6.7 million). Until very recently, PAPME did not mobilize savings from its clients but collected a forced deposit of 10 percent of the loan amount from each borrower to use as security against the loan in addition to physical collateral. PAPME has had a good performance over the years, with portfolio at risk averaging less than 4 percent. In the year 2000, PAPME reached financial self-sufficiency with a ratio of 111.31 percent.<sup>28</sup>

As the organization faces the prospect of the end of World Bank financial support, it has started looking for ways to ensure its sustainability by engaging in deposit mobilization and other funding alternatives. Securing future sources of income will in fact be a major consideration in PAPME's decision to transform itself into a full-fledged financial institution under the BCEAO banking law by December 2004.

### ***FINADEV***

FINADEV was the fourth largest microfinance organization in Benin by 2001 with CFAF 1.1 billion (US\$1.5 million) in total loans outstanding. FINADEV was created in July 2000 as a subsidiary and microfinance outlet of Financial Bank, a private commercial in Benin. FINADEV has branches in the four major towns in Benin including Cotonou, Parakou, Porto-Novo, and Natitingou.

FINADEV's main clientele is made up of microentrepreneurs, with average loan size of CFAF 230,491 (US\$307) for 3,373 loans in December 2001. FINADEV does not mobilize deposits. It was created with CFAF 1 billion (US\$1.3 million) in capital and its shareholders include the IFC (25 percent of capital). Financial Bank Benin and Financial Bank Holding remain its largest shareholders by holding 35 percent of its capital.

FINADEV obtained a license to operate as a limited liability microfinance company<sup>29</sup> by signing a *convention-cadre* in July 2000, with the Ministry of Finance, under the PARMEC law. This is the first time a commercial bank has taken advantage of the PARMEC law to go downmarket into microfinance.

## **III. LICENSING AND REGULATORY FRAMEWORK FOR MICROFINANCE**

### **A. Rationale for and Evolution of Regulation**

Before the advent of the PARMEC law in 1993, all microfinance institutions operating in Benin and any UMOA country were subject to several laws, including the cooperative law, the usury law and the banking law. The need for a common law to regulate the microfinance

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<sup>28</sup> PAPME Annual Report, 2000.

<sup>29</sup> As a limited liability company, FINADEV is not tax-exempt.

industry was motivated by the authorities' desire to closely monitor a fast-growing industry and to protect its clients and especially depositors.

The process towards regulation of the microfinance industry was started with financial support from the Canadian Government in a project with the Central Bank, the *Projet d'Appui à la Réglementation sur les Mutuelles d'Épargne et de Crédit (PARMEC)*, which ultimately resulted in a law passed in 1993 and enacted in all UMOA countries, except Guinea Bissau,<sup>30</sup> between 1994 and 1998. The World Bank was not actively involved in the process of passing the PARMEC law but expressed concerns that the law only took credit unions into consideration, despite the multitude of other microfinance organization forms that operated in UMOA countries. Nowadays, the World Bank remains an active member of a consultative group of donor countries working with BCEAO to monitor the impact of the PARMEC law on the microfinance industry and make any adjustment that may be warranted and agreed upon.

## **B. Structure of Legal and Regulatory Framework**

Legislation to implement the PARMEC law has been enacted in Benin in August 1997 (loi no. 97-027) and emulates very closely the regional model law. Under the PARMEC law, only credit unions and their network federation can be granted a full-fledge license. Other MFIs are permitted to operate within the realms of rules defined by a *convention-cadre* signed with the Ministry of Finance for five years and renewable by mutual consent. The PARMEC law excludes *groupements*, i.e., small and informal microfinance organizations, from the application of the law, and provides for their voluntary formalization and registration called *reconnaissance*. Even this provision applies only to groups organized as credit and savings cooperatives (article 4). It reinforces the credit union focus of the law and could prevent financial innovation at the base. In addition, the law does not, unfortunately, define when small groups with just an authorization to operate need to be registered and regulated and too many small credit unions do successfully seek and obtain a license<sup>31</sup>.

Official estimates by the microfinance unit (*Cellule Microfinance*) at the Ministry of Finance put the number of MFIs in Benin at more than 600, of which 85 are licensed or authorized to operate under the PARMEC law. Twelve of the licensed MFIs are credit unions, and have been granted a full license, including one single license for the FECECAM network. Four MFIs have signed a "*convention-cadre*"<sup>32</sup> with the Government, 69 MFIs have been given a simple authorization to operate, due to their small size (56 credit unions members of FENACREP, and 13 APHEDD NGO village-based credit union initiatives).

A tiered structure in licensing and regulating financial institutions in Benin and the UMOA region is, in effect, achieved through different minimum capital requirements under the Banking law for commercial banks and other NBFIs. However, the PARMEC law ties licensing benefits to the organizational form of the microfinance institution instead of allowing the diverse

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<sup>30</sup> Due to the absence of a notable microfinance industry.

<sup>31</sup> All credit unions are subject to the supervision and prior approval of the Ministry of Finance. If written approval is not received by the applicant within three months of filing an application form with the Ministry, then the license is automatically deemed given at that point.

<sup>32</sup> The four MFIs are PADME, PAPME, FINADEV, and CAVECA. *Convention-cadre* under the PARMEC is only granted to MFIs that are not credit unions.

range of organizations that provide microfinance to be recognized and regulated by the same authority. This puts different organizational types in different regulatory regimes, under different jurisdictions, with a high potential for regulatory arbitrage, i.e., inviting some institutions to exploit loopholes in the law by picking and choosing a less severe regulatory regime.

### ***Regulation of Credit Unions***

Although the PARMEC law has a major shortcoming in that it favors the cooperative form of microfinance institutions above all others, it has, nonetheless, been recognized by various reviewers<sup>33</sup> that the drafters have done a decent job in elaborating the law. Thus, a number of positive governance features are embedded in the PARMEC law including:

- (i) Liability to third parties by credit union members is as great as their share capital contributions, and the rules of liquidation are essentially based on commercial insolvency rules (articles 22, 36-7). Any excess after liquidation is used as determined by the credit union.
- (ii) Credit unions are tax-exempt (articles 30-1), but the relevant provision does not make it clear whether this exemption extends only to revenues or also applies to employee income and social insurance taxes.
- (iii) Credit unions cannot engage in checking, but can handle fund transfers (article 24), which is a very important service for microfinance clients.
- (iv) “Professional secrecy” applies to credit and deposit information (article 52). This is a necessary requirement, and one that is subjected to regulatory exceptions. The big question mark here is whether this, in practice, will be allowed to obstruct the development of credit information and reporting services. That question is currently at the center of discussions to establish a credit bureau for MFIs in Benin.

### ***Prudential Regulation***

Prudential regulation of financial institutions involves definition of detailed standard for financial structure, accounting policies, and other important dimensions of an institution’s business. Enforcement is carried through off-site supervision and on-site inspections as financial authorities vouch for or assume responsibility for the soundness of the regulated institution.<sup>34</sup> In the case of Benin and UMOA, key prudential standards have been defined for licensed MFIs<sup>35</sup> under separate BCEAO instructions<sup>36</sup> related to the PARMEC law. Prudential guidelines and ratios were, thus, defined (Instruction No. 6) with respect to loan classification and provisioning, reserve requirement, liquidity adequacy, single borrower limit, ceiling on loans to management and conflict of interest rules (see Schedule 1 in Annex 1).

*Provisioning guidelines:* No provision is required until the loan has been delinquent for more than 90 days. Thus, the PARMEC law provisioning guidelines appear significantly less

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<sup>33</sup> E.g. Patrick Meagher, “Comments on the PARMEC Law”, Draft paper, IRIS, University of Maryland, 1999.

<sup>34</sup> Rosenberg & Christen, “The Rush to Regulate”, CGAP occasional paper No. 4.

<sup>35</sup> Prudential standards are for Credit unions and non-credit union MFIs alike, supposedly. BCEAO has been in discussions with CGAP and leading MFIs to revise the ratios that are due for publication before the end of the year 2002.

<sup>36</sup> BCEAO: “*Instructions Relatives à l’Application de la Réglementation Régissant les Structures de Financement Décentralisées* », Dakar, Sénégal, March 1998.

stringent than those recommended by CAMEL and microfinance best practices (see table 2). Given the nature of microfinance loans (short term and unsecured collateral), provisioning only 40 percent for a six-month loans that is 3 months late may not be sufficient to support the risk inherent in the loan portfolio. It is worth noting that the World Council of Credit Union (WOCCU) recommends under the PEARLS<sup>37</sup> monitoring system that all delinquent loans for one to 12 months have to be provisioned 35 percent and 100 percent for all delinquent loans for more than 12 months.

*Liquidity adequacy ratio:* Minimum liquidity ratio is set at 80 percent, implying that current assets of the MFI have to cover 80 percent of current liabilities.

*Conflict of interest rule:* An organization’s loans to connected parties are limited to 20 percent of organization total deposits. This rule, although useful, appears to be more generous than that prescribed under microfinance best practice and could be made stricter.

*Maximum exposure of an MFI to a single borrower:* A single customer cannot borrow more than 10 percent of organization’s total deposits.

*Reserve requirement:* General reserve requirement is set at 15 percent of an organization’s annual net income.

*Risk exposure:* MFIs are allowed to lend up to twice the institution’s total deposit amount.

*Coverage of medium and long-term assets by resources of similar maturity:* the ratio is 1, indicating that medium and long term loans should be covered 100 percent by medium and long term resources. The ratio is 75 percent for commercial banks, and at end-2000, 17 banks out of 59 in the UMOA region<sup>38</sup>, representing 75 percent of total deposits were not in compliance, reflecting the shortage of long-term resources in the banking system and prompting bankers to complain that the ratio is too stringent. It is to be feared that MFIs will be even less able to comply with a stricter ratio of 100 percent coverage.

**Table 2: Loan Loss Provisioning Guidelines - PARMEC vs. CAMEL**

Days delinquent	PARMEC Law	Accion CAMEL recommended levels	
		Normal Portfolio	Rescheduled Portfolio
1-30 days	0%	10%	50%
31-90 days	0%	30%	75%
91-180 days	40%	60%	100%
181-360 days	80%	100%	100%
> 360 days	100%	100%	100%

*Source: Accion Camel – Technical Note by Sonia B. Saltzman and Darcy Salinger, Accion International, September 1998.*

Although the prudential ratios were meant, supposedly, to include all MFIs (credit unions and non-credit unions alike), they seem to have a credit union bias, using deposits as a reference

<sup>37</sup> The PEARLS monitoring system was developed by WOCCU and tailored to the specific needs of credit unions.

<sup>38</sup> IMF Benin country report No. 01/193, October 2001.



instead of total assets. Recognizing that fact and to correct other shortcomings, BCEAO has been in discussion with CGAP and professional associations of MFIs to revise the ratios so that they are in line with international microfinance standards.

### ***Regulation of Credit-only MFIs***

The text for the regulation of credit-only MFIs in UMOA and in Benin was approved on June 7, 1999 as an addendum to the PARMEC law. It stipulates that all non-credit union organizations including credit-only MFIs, irrespective of their size, have to be licensed via a *convention-cadre*, i.e., special agreement with the Ministry of Finance. The *convention-cadre* describes all rules and prudential regulations applicable to the institution.

Unlike the PARMEC law, the *convention-cadre* is not a well defined framework that is uniformly and homogeneously applied to all licensed non-credit union MFIs. In its attempt to accommodate other forms of MFIs beside credit unions, the regulator has created a different regulatory regime that is far from solving the initial problem of regulatory void felt by non-credit union MFIs. The advent of *convention cadre* has brought to the forefront several issues including:

- (i) *The uncertainty in the length of convention cadre*: Although originally conceived to last only five years, *convention-cadre* with non-credit union MFIs will presumably be allowed to be renewed indefinitely if no problem arises. That still leaves the MFI in a regulatory limbo that may make it difficult to attract potential private investors.
- (ii) *The heterogeneity of the convention cadre*: With each agreement tailor-made to a specific institution makes it more difficult and more involved for the supervisory authorities to effectively monitor MFIs to which different standards apply.
- (iii) Credit-only MFIs licensed under a *convention cadre* can be allowed to mobilize deposits and are tax-exempt if they chose the association status, i.e., a non-profit organization legal status.
- (iv) There are no predefined prudential ratios for credit-only MFIs. They are to be negotiated with the Ministry of Finance by each organization.
- (v) Unless an MFI holding a *convention-cadre* wants to become a credit union, its only other alternative is to transform itself into a formal entity under the banking law either as a commercial bank or a non bank financial institution (NBFI), i.e., *établissement financier*.
- (vi) The transformation of a licensed credit-only MFI into a formal entity under the banking law will subject the new organization to a minimum capital of CFAF 1 billion (US\$1.3 million) for a bank and CFAF 300 million<sup>39</sup> (US\$400,000) for an NBFI, but more importantly, to prudential rules that may not fit well a microfinance portfolio such as limiting unsecured lending to 40 percent of equity capital while nearly 100 percent of MFIs' portfolio could be unsecured lending.

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<sup>39</sup> Minimum capital requirements for NBFIs vary by UMOA country and is FCFA 500 million (US\$666,667) in Côte d'Ivoire, for example.

### C. Supervision and Monitoring Mechanisms

A special microfinance unit (*Cellule Microfinance*) established in 1998 at the Ministry of Finance is responsible for the supervision of the microfinance industry carried out through off-site supervision and on-site inspections. Under the PARMEC law provisions, all licensed MFIs must submit their year-end financial statements (article 63), according to a specific format, to the *Cellule* for an offsite supervision which is to be followed by an on-site inspection of each MFI.

The PARMEC law provides for a tiered approach to supervision according to the following five-level hierarchy: network-confederation-federation-union-credit union. Each higher level has internal supervision and control requirements over the lower level, conducts audits, and represents the lower-order entities at the next higher level. Each lower-level entity can belong to only one higher-level entity (articles 38-42). It appears, thus, that some private entities are granted delegated power and given official status and even monopoly power to perform certain functions. The PARMEC law does, however, allow freedom of association and choice among credit unions as to which aggregation to join, hence there may be some “exit” option and competitive discipline. At the same time, that can create undue tension for institutions which want to exit the network but may not be viable on their own.

This well-defined supervisory arrangement is, however, for credit unions only and, unfortunately, the PARMEC law does not provide such a well-defined structure of supervision for non-credit union MFIs. Thus, heterogeneous licensed non-credit union MFIs, each with its own *convention-cadre* and specific prudential ratios, are placed directly under the supervision and control of the Ministry of Finance. A large number of such MFIs could add significant burden on the Ministry of Finance and the *Cellule Microfinance* given their heterogeneity. In an effort to harmonize the rules in the industry which would ultimately help with regulation, ALAFIA, the professional association of MFIs in Benin is joining forces with APIM, the association of MFIs in Mali to design common prudential ratios for the entire industry and submit them to BCEAO for approval. It is worth noting that the PARMEC law does not, nor should it, confer any supervision power to ALAFIA, or any other microfinance professional association in the UMOA region.

Although the administrative governance aspects of the Ministry of Finance supervision and approval appear well defined in the law, there have been numerous shortcomings in practice. The Ministry of Finance in Benin, and indeed in most UMOA countries, has been unable to supervise all licensed and registered MFIs in the country effectively due to a lack of capacity, both human and technical. Since the creation of the microfinance unit at the Ministry of Finance in Benin, only a total of 14 MFIs have been subjected to an on-site inspection. Under the law, all licensed MFIs are required to submit to the Ministry of finance their yearly financial statements. However, the law does not require MFIs to have their operations audited each year. Fines can be imposed on MFIs that are late in complying with the submission of financial statements but none has been levied thus far, implying lack of enforcement of the rules. In the year 2000, only 35 financial statements were received, representing a compliance rate of 41 percent, with no sanction taken against non-compliant licensed MFIs.

In Benin, non-performing loans in the microfinance industry have recently become a major problem, increasing 9 percent, for FECECAM alone, between 1999 and 2000, representing

close to 43 percent of the outstanding loan portfolio. *Cellule Microfinance* was forced to concentrate all its attention and resources for more than a year to the crisis at FECECAM. With support from both BCEAO and the donor community, including the World Bank, several inspections of FECECAM were undertaken that resulted in a few CLCAMs being closed and 18 CLCAMs placed under close monitoring and supervision. Fortunately, however, aggressive loan recovery efforts have brought the bad debt situation down to 5 percent of the outstanding loan portfolio by June 2001.

It is doubtful that, given its current limited human and technical resources, coupled with the lack of appropriate incentives, the *Cellule Microfinance* in Benin will handle well the supervision of all licensed MFIs. To put things in perspective, the regional Banking Commission is in charge of a total of 59 commercial banks in the UMOA region while the *Cellule Microfinance* in Benin already has 85 licensed MFIs to monitor.

#### **IV. ASSESSMENT OF IMPACT OF REGULATION ON THE EVOLUTION OF MICROFINANCE**

##### **A. Business and Contract Enforcement Environment**

In 1997, all UMOA countries including Benin signed the OHADA Treaty, which harmonizes business law in 14 countries. The OHADA business law and Uniform Acts are based on the civil law system and now govern essential features of financial and commercial transactions including security law and bankruptcy law in Benin.

Financial contracts in both the banking and microfinance industries are subject to the OHADA law, which in effect is a complement of the Banking law as well as the PARMAC law. At all levels of business activities, some uncertainties still exist regarding the judicial interpretation of important provisions of the OHADA Acts such as the ‘Seizure-Awards’ of debts (*saisie-attribution*), which could lead to substantial losses for financial institutions.<sup>40</sup> The OHADA law does not recognize habitat permit, widely used as collateral by commercial banks in the region. Only mortgage titles are allowed under OHADA.

In the specific case of microfinance, following the OHADA law would make it difficult and costly for MFIs to ask their clients for tangible collateral, as the collateral would have to be formally registered and could only be foreclosed upon by hiring a law clerk and going to court. The good news is that discussions are currently being held among OHADA officials and microfinance practitioners to correct these shortcomings.

A number of improvements in the legislative framework could also provide less uncertainty in the legal environment for financial institutions. These include: (i) the streamlining of business regulations to reduce red tape and transaction costs; (ii) the overhauling of the judiciary system to reduce the costs of dispute resolution and contract enforcement; (iii) the

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<sup>40</sup> The problem arises from the legal handling of the third-party attachment procedure set forth in Title VI of the OHADA Uniform Act Establishing Simplified Recovery and Enforcement Procedures. Third-party attachment is defined in Article 153 as a procedure whereby “any creditor in possession of a writ of execution showing a debt due for immediate payment may, in order to secure payment of the debt, attach money in the hands of a third party to cover the debts owed by his debtor, subject to the special provisions relating to the attachment of earnings.”

introduction of a land registration system to facilitate mortgage lending by banks and other financial institutions; and (iv) a computerized registration system for liens on moveable assets, as recommended by OHADA.

## **B. Impact of Regulation on the Structure and Growth of Microfinance**

Based on information collected since the passage of the PARMEC law in 1993, there has been considerable growth in the microfinance industry<sup>41</sup> in the UMOA region with total savings deposits increasing from CFAF 12.7 billion (US\$43.3 million)<sup>42</sup> in 1993 to CFAF 140 billion (US\$186.6 million) in September 2001. Total loans outstanding also increased from CFAF 17.9 billion (US\$61.1 million) to CFAF 115 billion (US\$153.3 million) over the same period. Thus, the microfinance industry saw a 331 percent growth in deposits<sup>43</sup> and 151 percent growth in loans outstanding over a period of less than 8 years. Today, MFIs in UMOA cater to 2.9 million clients and groups for a total of 4.4 million individuals. In Benin alone, the number of microfinance members and clients saw more than a 1,000 percent increase from 62,698 in 1993 to 740,797 by December 31, 2000, i.e., a 12 percent penetration rate, vis-à-vis the total population.

The microfinance industry in Benin and in the rest of UMOA is dominated by credit unions, representing 85 percent of all existing MFIs in the industry. While that dominance may not be directly attributed to the PARMEC law, it is fair to say that new entrants to the industry will be tempted to register as credit unions to be in conformity with the only microfinance law in the books. In fact, the number of credit unions in UMOA has increased more than 244 percent, while credit-only MFIs increased 13 percent, and donor projects with microfinance component saw a 56 percent decline between December 1997 and 2000.

## **C. Regulation and the Usury Law**

All financial institutions including MFIs are subject to the usury law, and a ceiling on interest rate determined yearly by the regulatory authorities. When the PARMEC law was enacted in 1993, MFIs were also subject to an interest rate ceiling that was set at twice the Central Bank rediscount rate. That maximum interest rate on loans of 18 percent was set based on elements not relevant to microfinance such as the rediscount rate and was much lower than the average rate of more than 40 percent prevalent in the industry at the time. In addition, setting such a low rate would have been impossible for the regulatory authorities to enforce.

In September 1997, BCEAO increased the usury rate limit from 9 to 18 percent for commercial banks, and to 27 percent for microfinance, thus, responding positively to complaints by microfinance practitioners. This was, however, only a slight improvement of a law that remains a major deterrent to financial sector development. In fact, recent case studies of several institutions in different UMOA countries revealed that most MFIs charge effective real interest rates on loans well in excess of 27 percent, to be able to cover their costs. That is a clear indication that the interest rate limit is highly inappropriate. If interest rate controls were to be

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<sup>41</sup> Both licensed and non-licensed MFIs

<sup>42</sup> US\$ 1 = CFAF 293 in 1993; US\$1 = CFAF 750 in 2001.

<sup>43</sup> Growth in US\$ terms.

enforced, that could make sustainable microcredit impossible, or at least discourage outreach to poorer customers (Christen and Rosenberg, 2000)<sup>44</sup>.

#### **D. Commercialization of Microfinance**

Commercial banks in Benin play very little or no direct role in providing microfinance services to the population. The only linkages that exist between commercial banks and microfinance institutions are in the form of deposit accounts from the largest MFIs and also loans to select MFIs by a few commercial banks. In the year 2000, loans by commercial banks to a few microfinance organizations represented up to 43 percent of their total loan portfolio. Also, commercial banks collected CFAF 14.8 billion (US\$19.7 million) in savings deposits from the major MFIs of which 95 percent came from FECECAM alone. In fact, deposits from FECECAM represented 6 percent of total deposits at Bank of Africa, the largest commercial bank in Benin.

The PARMEC law does not directly address the issue of commercialization of microfinance with specific provisions that would entice banks to downscale into microfinance. The only linkage made by the PARMEC law to the banking law is in the context of creating an *organe financier*, i.e., a credit union apex bank. Thus, under the PARMEC, a credit union apex organization can transform itself to an *organe financier* to formally undertake its Central Financing Facility and liquidity management functions for its members, and intermediate effectively between the surplus and deficit units, receive deposits, grant loans and even issue negotiable instruments (*titres*).

According to the PARMEC law, an *organe financier* must be incorporated as a *société à capital variable*, i.e., a limited liability company, and is directly placed under the supervision of the Central Bank and the Banking commission. Although this feature of the law recognizes the need for financial deepening and the integration of the base credit unions into the mainstream financial sector, the law is not meant for an existing bank or non bank financial institution to become a network's *organe financier*. The creation of an *organe financier* is in fact an upscaling exercise, reserved only for credit unions, whereby a credit union apex becomes a formal financial institution under the banking law.

There has been only one instance in Benin, and in the whole of UMOA, of a commercial bank moving down market into microfinance products and micro clients. This was the case of Financial Bank, which started out by providing window services for PADME's clients and finally created FINADEV, a microfinance organization, licensed under the PARMEC law via a *convention-cadre* with the Ministry of Finance. Contrary to what some have argued, FINADEV is not a case of regulatory arbitrage but rather a successful downscaling exercise by a commercial bank into microfinance. The challenge now is whether the Ministry of Finance is up to the task of assuming the supervision of FINADEV and vouching for its soundness and that of all the institutions to whom it grants a license.

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<sup>44</sup> Christen, Robert, and Richard Rosenberg; "The Rush to Regulate: Legal Frameworks for Microfinance", CGAP Occasional Paper No.4, March 2000.

## **E. Supervision: Strengths and Weaknesses.**

The tremendous growth of microfinance in UMOA countries has also been accompanied by a deterioration of the loan portfolio especially among the biggest institutions in the industry such as FECECAM in Benin and FENACOOPEC<sup>45</sup> in Côte d'Ivoire. Under the PARMEC law, supervision of MFIs has been granted to the Ministry of finance in each country. On-site inspections and off-site supervision of MFIs are to be conducted every year with the help of the BCEAO microfinance department (MRDM)<sup>46</sup> if requested.

Ministries of Finance are poorly equipped and staffed and receive no additional salary motivation compared to Central Bank or Banking Commission supervisors. The capacity to adequately supervise existing MFIs in Benin and perform due diligence in the licensing of new entities is currently extremely limited, not only in Benin but also in most UMOA countries. The Ministry of Finance Benin is not able to adequately monitor all the licensed MFIs, and had its hand full for the past two years dealing with difficulties at FECECAM which controls more than 90 percent of the market. There is a real risk that an excessive proliferation of weak institutions could create massive failures and a loss of savings for low-income households not only in Benin but in all of the UMOA region.

BCEAO has been able to avoid the cost of supervision of MFIs by leaving it to Ministries of Finance, and no systematic effort was made to fund the costs of supervision, let alone build capacity. Some Ministries of Finance have received donor support for capacity building in supervision of microfinance but it remains to be seen whether these efforts are sustainable given the lack of appropriate incentives. It should be noted that BCEAO is considering taking direct responsibility for the supervision of the 40 most important MFIs<sup>47</sup> in the UMOA region. If member-countries agree, this would represent a major improvement over the current supervision arrangement and would relieve Ministries of Finance of the bulk of a task which they are not well equipped to undertake.

## **V. CONCLUSIONS AND RECOMMENDATIONS:**

The most important issues facing the microfinance industry in Benin are similar to those confronting all UMOA countries; growth in bad loans; weak institutional capacities of MFIs; a lack of adequate monitoring mechanisms, and weak supervision. The decision by microfinance practitioners to create a credit bureau in Benin should go a long way in helping reduce the level of bad debt in the industry. BCEAO also recognizes that a lot still needs to be done to strengthen the capacity of MFIs and supervisors in the region and donors such as the World Bank could play an important role there.

The recommendations for a better supervisory environment in Benin do in fact apply to all UMOA countries where the PARMEC law is in effect. Although the PARMEC law seems

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<sup>45</sup> FENACOOPEC is the largest network of credit unions in the Côte d'Ivoire and in UMOA by total savings deposit size with CFAF 27 billion (US\$36 million) in 2000.

<sup>46</sup> MRDM stands for *Mission pour la Réglementation et le Développement de la Microfinance*. On February 7, 2003, MRDM became *Direction des Systèmes Financiers Décentralisés* to signal the permanent nature of the structure within BCEAO.

<sup>47</sup> The 40 most important MFIs represent 90 percent of the UMOA microfinance market.

generally adequate for credit unions, for which it was intended, a void still exists with regards to the regulation of non-credit union MFIs which needs to be addressed by the UMOA regulatory authorities and the current law could benefit from a few modifications such as:

- The elimination of the usury ceiling: that would help promote transparency in loan contracts and remove incentives for MFIs to place funds away from the target microfinance clientele to other financial institutions to reduce high transaction costs.
- The strengthening of the current provisioning guidelines to bring them in line with international standards.
- The supervisory role of MFIs should rest primarily with BCEAO and its microfinance department. At it stands now, Ministries of Finance have no capacity to adequately monitor the industry, and it is doubtful that on-going efforts to improve their supervisory capabilities will yield any positive results under the current circumstances. It is encouraging to know that BCEAO has expressed the desire to assume direct control of the supervision of the most important MFIs (40) in the region. The final decision is, however, dependent on UMOA Governments.
- Monitoring of the microfinance industry could also be enhanced by requiring that all licensed MFIs be subject to an annual external audit.
- Only credit unions with a certain total asset size and potential long term viability should be granted a license under the PARMEC law. Supervision of financial institutions is costly and supervisory authorities should also realize that granting a license to an institution is paramount to vouching for its safety to depositors.
- Professional associations of MFIs such as ALAFIA should be encouraged and supported in their quest to become the main advocate for the microfinance industry as well as to develop standards and monitoring mechanisms. MFI associations should be used effectively to promote capacity building among their members and a healthier industry. While MFIs associations could serve as a clearing house for donor support to the industry and to individual MFIs, conferring supervisory powers to MFI associations may not be a good idea as it may be subject to a high degree of conflict of interest.

*Regulation of Credit-only MFIs:* It has been argued that credit-only MFIs should not be subject to prudential regulation.<sup>48</sup> While that recommendation could have been valid before the advent of the PARMEC law in the UMOA region, it may be difficult now to go backward as credit-only MFIs in UMOA are in fact subject to prudential regulation within the realms of a *Convention-cadre* with the Ministry of Finance. In addition, several credit-only MFIs are among the largest organizations in the microfinance industry and are allowed to mobilize deposits once granted a license to operate. The main difficulty with *convention-cadre* is that it is so institution-specific that it will quickly become unmanageable to monitor for any supervisor. It is in fact in the best interest of the regulator to see that *convention-cadre* are made more homogenous and formalized under the PARMEC law.

It should be noted that credit-only MFIs could also easily be accommodated in the current banking law and rules regulating non-bank financial institutions or *établissements financiers*

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<sup>48</sup> Christen and Rosenberg, 2000. "CGAP Occasional Paper, No.4".

(article 4-6). A few adjustments would have to be made to the law or by decree, however, to take into account some specificities of microfinance such as:

- The ability to mobilize deposits from the general public
- The ability to set freely interest rate that cover costs
- Greater flexibility on unsecured lending: the Banking law limits unsecured lending to 40 percent of equity capital while nearly 100 percent of MFIs' portofolio could be unsecured lending.
- Registration of collateral: applying current rules will prove too expensive for MFIs.

*Regulation of Projects with a Microfinance Component:* It seems pointless to license donor projects with a microfinance component. Such projects do not have a primary focus on microfinance and should not be regulated as MFIs. In addition, reporting requirements and monitoring by the sponsoring donor should be an adequate supervision tool.

In conclusion, supervision of MFIs in UMOA and Benin should be practical for both institutions and the regulatory authorities. The Central Bank (BCEAO) and its microfinance department should be granted the overall primary responsibility of supervising MFIs as they are better equipped than Ministries of Finance to undertake such a task.



## **Annexes**

Annex 1: Schedule 1: Legal and Regulatory Requirements for Different Types of MFIs

Annex 2: Table 1: PADME - Selected Performance Indicators

Annex 2 Table 2: PAPME – Selected Performance Indicators

**Annex 1: Schedule 1 - Legal and Regulatory Requirements for Commercial Banks and Different Types of MFIs in Benin**

Name of Institution in Benin	Type of Institution	Permitted Activities	Requirements for Entry		Capital Adequacy	Portfolio Quality & Risk concentration	Liquidity Reserves	Area Restriction	External Regulation	Licensing/ Prudential Supervision
			Organizational Format	Required Minimum Capital						
BOA BIBE ECOBANK Financial Bk Continental Bk	Commercial bank (5)	Banking services, savings deposits, loans	Limited liability co.; Unit bank	US\$ 1.3 million Equivalent	8% of risk-weighted Assets	Maximum exposure of 75% of own funds to single borrower	15% reserve Provisioning	None	BCEAO	BCEAO/ Banking commission
Equibail Benin Cr. du Benin Cr. Promotion Caisse N'le	NBFIs (4)	Limited banking services, savings deposits, loans	Limited liability company	US\$ 400,000 Equivalent	8% of risk-weighted Assets	Maximum exposure of 75% of own funds to single borrower	15% reserve Provisioning	None	BCEAO	BCEAO/ Banking commission
FECECAM	Apex fin Inst.	Wholesale loans/deposits Central financing facility;	Limited liability Company; 2nd tier organization	US\$400,000 equivalent	8% of risk-weighted Assets	Maximum exposure of 75% of own funds to single borrower	15% reserve Provisioning	None	BCEAO	BCEAO/ Banking commission
MEC	Credit union	Savings, deposits, & loans to members	Cooperative	None	Not applicable	Maximum exposure of 10% of deposits to single borrower	15% reserve Provisioning	None	Min of fin	Min of Fin
PADME PAPME FINADEV	Credit-only MFI	Savings & loans	Association	None	Not applicable	Maximum exposure of 10% of deposits to single borrower	15% reserve Provisioning	None	Min of fin	Min of Fin
ASF (PROMIC & PAGER)	Project with a microfinance component	Savings & loans	Association	None	Not applicable	Maximum exposure of 10% of deposits to single borrower	15% reserve Provisioning	None	Min of fin	Min of Fin
Groupement (GEC)	Cooperative	Savings & loans to members	Cooperative	None	Not applicable	Maximum exposure of 10% of deposits to single borrower	15% reserve Provisioning	None	Min of fin	Min of Fin

**Annex 2: Selected Performance Indicators: PADME and PAPME**

**Annex 2 Table 1: PADME - Selected Performance Indicators**

<b>Indicators</b>	<b>2001</b>	<b>2000</b>
<b>Main branches</b>	3 (Cotonou, P-Novvo, Parakou,)	2 (Cotonou, P-Novvo)
<b>Female clients</b>	82%	81%
<b>Loans outstanding amount (million CFAF)</b>	6 763 416	4 817 616
<b>No of loans outstanding</b>	20 955	14 330
<b>Portfolio at risk (&gt;90 days)<sup>1</sup></b>	0.24%	0.15%
<b>Operational self-sufficiency<sup>2</sup></b>	--	207.44%
<b>Financial self-sufficiency<sup>3</sup></b>	--	143.87%

Notes: 1: Portfolio at risk > 90 days = Outstanding balance of loans overdue > 90 days/Total gross outstanding loan portfolio

2: Operational self-sufficiency = Operating income/Operating expense

3: Financial self-sufficiency = Adjusted operating income/Adjusted Operating expense

Source: PADME's Annual and Quarterly Reports and Planet Finance Rating Report

**Annex 2 Table 2: PAPME – Selected Performance Indicators**

<b>Indicators</b>	<b>2001</b>	<b>2000</b>
<b>Major Branches</b>	4 (Cotonou, Porto-Novo, Bohicon, Parakou)	4 (Cotonou, Porto-Novo, Bohicon, Parakou)
<b>Total outstanding loan portfolio (million CFAF)</b>	7 083 865	2 681 476
<b>No of loans outstanding</b>	2982	1416
<b>Portfolio at risk (&gt;90 days)<sup>1</sup></b>	1.88%	3.94%
<b>Operational self-sufficiency<sup>2</sup></b>	154%	137.4%
<b>Financial self-sufficiency<sup>3</sup></b>	--	111.31%

Notes: 1: Portfolio at risk > 90 days = Outstanding balance of loans overdue > 90 days/Total gross outstanding loan portfolio

2: Operational self-sufficiency = Operating income/Operating expense

3: Financial self-sufficiency = Adjusted operating income/Adjusted Operating expense

Source: PAPME's Annual and Quarterly Reports.

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