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IMPLEMENTATION OF THE FIRST CYCLE OF THE RURAL FINANCIAL SERVICES DEVELOPMENT PROGRAMME IN NIGER

1. The Executive Board approved the establishment of the Flexible Lending Mechanism (FLM) at its Sixty-fourth Session in September 1998. A loan provided under the FLM differs from a standard IFAD loan in that it has:

- a longer repayment period to allow for the achievement of sustainable development objectives;
- a continuous and evolving design process through implementation of distinct three-to four-year cycles; and
- clearly defined preconditions, or "triggers", to proceed to subsequent cycles.

2. The report on the establishment of the FLM (document EB 98/64/R.9/Rev.1) stipulates in its paragraph 13 that "for each FLM loan and prior to the end of each cycle, IFAD management will decide whether to proceed to, cancel, or delay subsequent cycles. Management will inform the Board accordingly. The document presented to the Board will set out the lessons learned from initial cycles and their incorporation into subsequent cycles, the attainment of physical targets, progress towards meeting long-term development objectives, and achievement of the pre-conditions stipulated in the loan agreements."

3. This information paper reports on the progress of the Rural Financial Services Development Programme in Niger in its first cycle. Its content draws on several sources, including annual supervision reports by the United Nations Office for Project Services (UNOPS) for the period 2001-2004; an IFAD institutional diagnostic mission conducted in December 2002; a multi-stakeholder internal evaluation of the first cycle conducted between December 2004 and March 2005; and an IFAD-organized first-cycle assessment mission that took place in March-April 2005. The assessment mission started with a stakeholders' workshop, held on 23 March 2005, which reviewed the conclusions and recommendations of the internal evaluation. The mission included staff from the

Western and Central Africa Division, the Technical Advisory Division, the Office of the General Counsel, the Office of the Controller, and a team of consultants.

I. BACKGROUND

4. The Rural Financial Services Development Programme was approved by the Executive Board in May 2000. The programme is national in scope and has a ten-year duration, with a first cycle of four years followed by two three-year cycles.

5. The programme's overall objective is to improve the income and living conditions of the rural population in Niger. Its specific objective is to improve and make durable the access of the rural population, including the poor, to financial services (savings and credit) by establishing viable microfinance institutions (MFIs). To reach these objectives, the programme was to provide support for:

- Strengthening the microfinance sector as a whole though enhanced partnership in sector management between the various stakeholders; elaboration of a consistent and evolutionary microfinance policy and strategy; establishment of effective control instruments at the national level; the emergence of an association of MFIs and the creation of a technical centre to provide effective services to MFIs and to implement research and development (R&D) activities;
- Restructuring and strengthening MFIs (institutionally, technically and financially) and expanding their networks, with a special focus on innovations targeting vulnerable groups/areas and the empowerment of grass-roots organizations; and
- Fostering the development of new approaches and financial products that specifically target the needs of the rural poor and agricultural development.

6. The first cycle was expected to focus mainly (though not only) on: restructuring the microfinance sector through the promotion of effective policy dialogue at sector level; implementing adequate legal and regulatory rules; consolidating existing MFIs; creating and structuring an association of MFIs; providing training at the grass-roots level; and creating/or strengthening impact assessment networks and a first set of tests under the two R&D themes (promotion of microfinance technologies that match the needs of the vulnerable groups, and development of financing instruments to address the requirements of agriculture and livestock activities).

7. The programme has the following four components:

- **Enhancing sectoral and professional capabilities.** The programme was to: (i) promote constructive policy dialogue among public institutions, the MFIs, the national association of MFIs, the rural organizations and the donors, at both the national level and of the West African Economic and Monetary Union (UEMOA) level; (ii) support the present dynamic towards the creation and effectiveness of the national association of MFIs; and (iii) support both the Government's and MFIs' implementation of appropriate legal and regulatory standards.
- **Consolidation and development of professional MFIs.** This component aims, in the first instance, at restructuring and strengthening MFIs, and subsequently, at developing and expanding their networks.
- **Research and development.** Two themes were to be explored under this component: (i) promotion of microfinance technologies that match the needs of the vulnerable groups; and (ii) development of financing instruments to address the requirements of agriculture, including livestock activities, and two major cross-cutting issues, savings and refinancing.

- **Programme management.** This component provides for a small programme management unit (PMU) to deal with financial management, administrative and financial implementation of contractual arrangements with MFIs or any other partner institution, and the programme's central accounting and financial management, including audit.

II. PROGRAMME ACHIEVEMENTS DURING THE FIRST CYCLE

8. The programme was declared effective in June 2001. Early during implementation of the first cycle, competence conflicts arose as to the respective roles of the PMU and the technical centre. As a result, an institutional diagnostic mission was fielded in December 2002. Amendments to the loan agreement, based on the mission's recommendations, included: (i) closing the technical centre; (ii) regrouping all management functions within the PMU; and (iii) expanding the responsibilities of the PMU.

9. Key activities undertaken during the first cycle include:

- adopting the "national microfinance strategy" (SNMF) following a broad-based consultation process involving all key stakeholders in the sector;
- preparing in-depth diagnostics reports of all four major MFIs;
- developing business plans for three MFIs, and starting implementation of two business plans, which aim at: (i) consolidating and rehabilitating MFI operations; (ii) developing the capacity of managerial staff; (iii) improving financial management and loan recovery; (iv) establishing financial control of individual MFI operations; and (v) establishing an annual financial reporting system;
- developing partnerships with other donors and projects (for example, with the World Bank-funded Private Irrigation Promotion Project and with a Canadian NGO, Developpement International Desjardins, for the cofinancing of the MFIs' business plans.
- supporting the preparation and adoption by MFIs of an administrative, accounting and financial procedures manual;
- providing cross-cutting training support to isolated MFIs;
- providing support for the establishment and early development of the national association of MFIs (ANIP-MF [formerly APSFD]), which is now playing an important advocacy role in the implementation of the SNMF, promoting a code of conduct among MFIs, and providing some support services to isolated MFIs;
- conducting action-oriented research on five key themes: (i) financing of pastoral activities; (ii) financing of farm equipment and inputs; (iii) relations and partnerships between MFIs and women groups; (iv) partnerships between MFIs and farmers' organizations; and (v) warranted lending (which was market-tested in collaboration with Projet Intrants Agricoles, a project promoting the use of agricultural inputs funded by the Food and Agriculture Organization of the United Nations [FAO] and is now being mainstreamed by some MFIs); and
- providing support to administrative services in the Ministries of Economy and Finance and of Agricultural Development for exercising their regulatory control functions.

10. Of the overall loan of SDR 8.8 million, a total of SDR 3.2 million was allocated to the first cycle (2001-05). At end of May 2005, some SDR 1.8 million had been disbursed, which represents a disbursement rate of 57% of first-cycle loan resources.

III. LESSONS LEARNED

11. The key lessons from the early implementation of the programme are summarized below.

- In countries with weak implementation capacity, such as Niger, and for programmes with a national scope, it is essential to **keep the institutional arrangements for implementation as simple as possible**. In this case, the early implementation problems experienced by the programme were mainly due to a complex arrangement for implementation with potential overlap of responsibilities between the PMU and the technical centre, and have led to an amendment of the loan agreement.
- For a sector-wide programme that inherits numerous weak institutions, **proper sequencing of programme interventions** becomes a key to effective implementation and measurable impact. In this case, absolute priority should have been given to the institutional rehabilitation and consolidation of existing MFIs, at the expense of R&D activities, which the MFIs were generally not ready to follow up on.
- With the multiplicity and diversity of MFIs in Niger, the programme should have been **more focused in providing its support on those major MFI networks with a potential for sustainability and growth**.
- **Cofinancing arrangements should be firmed up before finalizing the overall programme and its cost.** In this case, some of the cofinancing arrangements planned during appraisal did not materialize. However, the programme was able to develop field-level partnerships that yielded cofinancing arrangements of the three business plans prepared during the first cycle.
- **R&D activities should focus more on market-testing of new services to facilitate quicker adoption and mainstreaming by the MFIs.** The market tests of the warranted lending system provide a good example to follow in this regard.
- **Relationships between the programme, client MFIs, partner organizations and service providers should rely on performance-based agreements/contracts/conventions to ensure that activities and resources lead to results and impact.** The unconditional institutional support provided by the programme to the administrative units in the two line ministries yielded very limited results in terms of oversight and regulatory control of MFIs.

IV. ACHIEVEMENT OF FIRST-CYCLE TRIGGERS

12. There were 15 triggers, grouped by component, for proceeding from the first to the second cycle of the programme. Each trigger is specified below and information is provided on its status:

Component for Enhancing Sectoral and Professional Capabilities

(i) A microfinance policy will have been established and implemented by all stakeholders.

A national microfinance strategy (SNMF) was adopted by the Government in March 2004. Measures have been taken for its implementation, including a monitoring mechanism established under the authority of the Prime Minister and lodged with ANIP-MF. Achievement rate assessed at 100%.

(ii) MFIs involved in the programme will have been supervised in an effective and constructive manner.

Despite the support provided by the programme to the administrative units of the two line ministries, and in view of the bureaucratic and budgetary constraints, and of the spatial dispersion of MFIs, oversight and controls were ad hoc and of variable quality. Achievement rate assessed at 25%.

(iii) The national association of MFIs is effective and assures self-regulation of the profession.

ANIP-MF was established with the help of the programme and support from other partners. While start-up-related difficulties and the short time elapsed have prevented its transformation into a fully functioning professional association, ANIP-MF has been able to finalize its business plan, it has started playing an advocacy role for the sector and it is delivering limited support services to its members. Achievement rate assessed at 33%.

(iv) Proposals for improving the prevailing regulatory framework in terms of the programme strategy will have been drawn up by local stakeholders.

Proposals in this regard were prepared by ANIP-MF with programme support and presented to a UEMOA regional workshop in July 2004. Some of the credit practices that are not consistent with the SNMF are being phased out thanks to the advocacy role played by ANIP-MF and the programme. Achievement rate assessed at 50%.

Component for the Consolidation and Development of Professional Microfinance Institutions

(i) Two contracts will have concluded with two MFIs.

Two contracts have been implemented with two of the major MFI networks, Mouvement des caisses populaires d'épargne et de crédit (MCPEC) and the Coopérative de services d'intermédiation en credit rural (KOKARI/SICR). Achievement rate assessed at 100%.

(ii) The selected MFIs will have responded satisfactorily to assessments of their activities, drawn up a development plan and strengthened their internal structures.

Three out of four major networks have already responded to the diagnostics of their operations, and prepared business plans on that basis. Two have started implementation. Consolidation of the internal structures have started for two MFI networks (MCPEC and KOKARI/SICR). Achievement rate assessed at 60%.

(iii) Information will have been made available on methodologies and products for delivering financial services to the target group.

Information has been disseminated on the new services and market-testing has been developed. However, a majority of MFIs have so far focused their efforts on internal diagnostics, on business plan development and on consolidation. They were not able to expand new services, and some had to reduce their coverage within the framework of the consolidation plans. Achievement rate assessed at 25%.

Component for Research and Development

(i) Microfinance technologies and products corresponding both to the needs of the target group and to the requirements of agricultural development financing will have been tested and validated.

This trigger is somewhat redundant with trigger (iii) in the MFI component above. R&D activities have been conducted on the five major themes required in the first cycle. Most notable was the market-testing of the warranted lending scheme. Achievement rate assessed at 33%.

(ii) A functional impact assessment system will have been set up.

An impact assessment system has been designed but was not put in place as no baseline had been prepared at start-up. In any case, it would have been premature to expect impact to materialize at the target group level at this stage of programme implementation. Achievement rate assessed at 10%.

(iii) The selected MFIs will have effectively participated in research and development activities.

MFIs have fully participated in R&D activities. Achievement rate assessed at 100%.

Component for Programme Management

(i) The operations manual will have been prepared.

An initial manual was prepared but proved too complex for effective management of the programme. A revised version has been implemented, and most financial management procedures have been implemented correctly. An exception consisted of personnel contracts, which did not provide for regular performance evaluations. Achievement rate assessed at 90%.

(ii) Appropriate funding mechanisms will have been implemented.

Funding mechanisms have been established. However, their operations lead to implementation delays. Achievement rate assessed at 50%.

(iii) The disbursement of funds will have complied with the strategy of the programme.

The rate of disbursement was only 57% of the amount allocated to the first cycle. However, disbursement has been in line with the rate of effective implementation. Achievement rate assessed at 80%.

(iv) The contracts will have been implemented effectively.

But for a few exceptions, contractual arrangements were made in timely fashion and were generally correctly implemented. However, contractual and partnership agreements need to be revised to incorporate a results-based system of accounting. Achievement rate assessed at 90%.

(v) The monitoring and evaluation unit is operational.

The programme established an information-gathering and processing system that permits the monitoring of physical progress and a limited number of performance indicators. The programme also was able to organize a rather successful participatory internal evaluation process. However, the programme has neither a baseline on target groups nor an analysis process that permits the evaluation of impact. Achievement rate assessed at 50%.

V. CONCLUSIONS

13. In accordance with the above, the overall achievement rate for the 15 triggers is estimated to be around 60%. Hence the conditions for proceeding to the second cycle have not been met. This was due to a number of factors, including too many objectives to be met and the initial delays experienced in programme implementation.

14. However, recent positive developments also emerged at the level of some of the microfinance networks targeted by the programme. They include: (i) the finalization of detailed business plans

highlighting the necessary reforms and the road towards sustainability; (ii) the development of cooperation frameworks and the mobilization of additional funding from several important donor partners, including the World Bank (through the Private Irrigation Promotion Project and the Financial Services Development Project) and Developpement International Desjardins. Moreover, (iii) Banque Régionale de Solidarité expressed keen interest in collaborating with the programme, offering the possibility of providing loan capital for the consolidation and expansion of some of the MFIs, in the context of their business plans. Finally, (iv) the programme also helped some MFIs to test a promising new financial service (warehouse receipt) developed by FAO's Projet Intrants Agricoles, which shows strong potential for improving the food security situation of the rural poor and could be further scaled up.

15. In that context, it was felt that it would be premature and not fully justified to close the programme immediately considering its initial shortcomings. It was therefore decided to extend the first cycle to December 2006, during which period the programme would refocus its interventions on the stronger MFIs, supporting the implementation of their business plans and preparing contingency plans for future expansion to new beneficiaries and to new areas. A thorough evaluation of the situation will be carried out by the new closing date, which will determine whether or not IFAD's microfinance interventions should be continued in Niger in the context of the new country strategic opportunities paper. If the results achieved through the extension phase are not satisfactory and the triggers to move the programme to the second cycle are not met, the programme will then be terminated.