

PROJECT DESCRIPTION

CECM Up-Country Expansion

Burundi

I. Introduction

This appendix describes the activities to be undertaken and the results to be achieved with the funds obligated under this Agreement. Nothing in this Appendix A shall be construed as amending any of the definitions, conditions, or terms of the Agreement.

II. Background

The Caisse Cooperative D'epargne et de Credit Mutuel (CECM) is a micro-finance institution (MFI) that grew out of ADF's only project in Burundi before the outbreak of civil war. Given the lack of banking services outside of Bujumbura, particularly credit access for rural women, CECM sees a significant opportunity for growth by opening a new branch in Bubanza. Though CECM has already purchased the land and building, it lacks the capital to complete the renovation and expand its loan fund.

III. Funding

A. ADF Contribution

The financial plan for ADF's contribution is set forth in Appendix A-1 to this Agreement. The parties may make changes to the financial plan without formal amendment, if such changes are made in accordance with Article 7 of the Agreement and do not cause ADF's contribution to exceed the obligated amount specified in Article 4, section 4.1 of the Agreement.

B. CECM Contribution

CECM will have an equivalent of Burundi Francs (BIF) 3,451,469,919 in assets to contribute to the success of this Project. For the Bubanza branch, CECM will cover the salaries of security guards and one loan officer the first year. Furthermore, it will add its own funds if the purchase of a vehicle for the branch exceeds the budgeted amount, and it will cover the cost of fuel, insurance and any other cost associated with the vehicle from the time of purchase onwards. CECM will continue to meet all of its operational costs for its Bujumbura branches the first year, and assume all operational costs from the second year of the Project onwards.

IV. Project Goal

The goal of the Project is to improve the standard of living of residents in Bubanza and Bujumbura.

V. Project Purpose

The purpose of the Project is to increase access to loans for residents in Bubanza, Burundi. The following indicators will be used to track the achievement of this purpose.

- A. Number of loans in Bubanza increases from a baseline of zero to the following:
 1. 1,125 in Year 1;
 2. 3,175 in Year 2;
 3. 5,016 in Year 3;
 4. 6,856 in Year 4; and
 5. 8,415 in Year 5.

- B. Value of loan portfolio in Bubanza increases from zero to the following:
 1. BIF 22,412,500 in Year 1;
 2. BIF 115,155,333 in Year 2;
 3. BIF 222,505,855 in Year 3;
 4. BIF 397,862,647 in Year 4; and
 5. BIF 571,211,252 in Year 5.

- C. Number of active clients in Bubanza increases from zero to the following:
 1. 470 in Year 1;
 2. 1,300 in Year 2;
 3. 1,980 in Year 3;
 4. 2,670 in Year 4; and
 5. 3,350 in Year 5.

VI. Project Outputs

The Project's output is the increased institutional sustainability of CECM as indicated by the following.

- A. CECM's net income (after taxes and before donations), after decreasing from a baseline of BIF 143,064,925 to BIF 82,747,381 in Year 1, will increase to the following:

1. BIF 246,422,331 in Year 2;
 2. BIF 396,440,990 in Year 3;
 3. BIF 580,416,630 in Year 4; and
 4. BIF 734,634,151 in Year 5.
- B. Operational sustainability (earned income divided by the sum of operating expenses, financial costs and provisions) will increase over the Project period from a baseline of 103 percent in Year 1.
- C. Financial sustainability (earned income divided by the sum of operating expenses (including adjustments for inflation, subsidized loans, and in-kind donations), financial costs and provisions) of 100 percent will be reached by the end of Year 2 of the Project.
- D. The portfolio at risk (greater than 30 days) will be less than ten percent of the average outstanding loan balance for CECM during the Project period.
- E. CECM's loan default rate will not exceed the following:
1. 4.8 percent in Year 1;
 2. 4.5 percent in Year 2;
 3. 4.4 percent in Year 3;
 4. 4.4 percent in Year 4; and
 5. 4.5 percent in Year 5.
- F. CECM will increase its savings from BIF 2,214,000,000 to the following:
1. BIF 2,547,000,000 in Year 1;
 2. BIF 3,216,000,000 in Year 2;
 3. BIF 3,730,000,000 in Year 3;
 4. BIF 4,418,000,000 in Year 4; and
 5. BIF 5,195,000,000 in Year 5.

VII. Activities

- A. CECM will renovate and equip its existing building in Bubanza to become a fully functional branch entity complete with six loan products and three savings products to serve the needs of residents of Bubanza. This will entail:
1. hiring and training new staff;
 2. conducting market research in order to fully develop a new "Village Banking" product;
 3. conducting client training in Bubanza;
 4. purchasing a vehicle and office equipment; and

5. assessing different infrastructure options to find the most appropriate option for CECM based on capacity, price and government regulations.

B. CECM staff will strengthen CECM's operations by:

1. attending Microfin training and revising current Microfin projections;
2. visiting at least one other MFI to learn about improving operational capacity;
3. updating a loan procedures manual; and
4. implementing a risk management strategy and loan recovery process.

VIII. Roles and Responsibilities of the Parties

ADF's Partner in Burundi will provide CECM the standard ADF training in bookkeeping, monitoring and assessment. CECM will be responsible for ensuring that there is proper management and implementation of the Project. The ADF Partner in Burundi will provide CECM with technical and management assistance during the implementation of the Project.

IX. Monitoring and Evaluation

ADF's Partner in Burundi will closely monitor the activities of CECM to ensure proper reporting, adherence to the Project implementation plan by the client and movement towards the achievement of Project objectives. The Partner will continuously assess the Project risk and take remedial actions as needed. Monitoring by the Partner will be an important aspect of the ongoing coaching and advisory service. The Partner will review ADF's quarterly reports and will submit comments and observations to the management of CECM as a part of the on-going performance assessment.

X. Other Implementation Issues

After staff training, CECM will revise the targets in Microfin to better reflect past performance and show more accurate projections. Loan funds will not be disbursed until a revised Microfin file has been submitted and approved by ADF.