18674

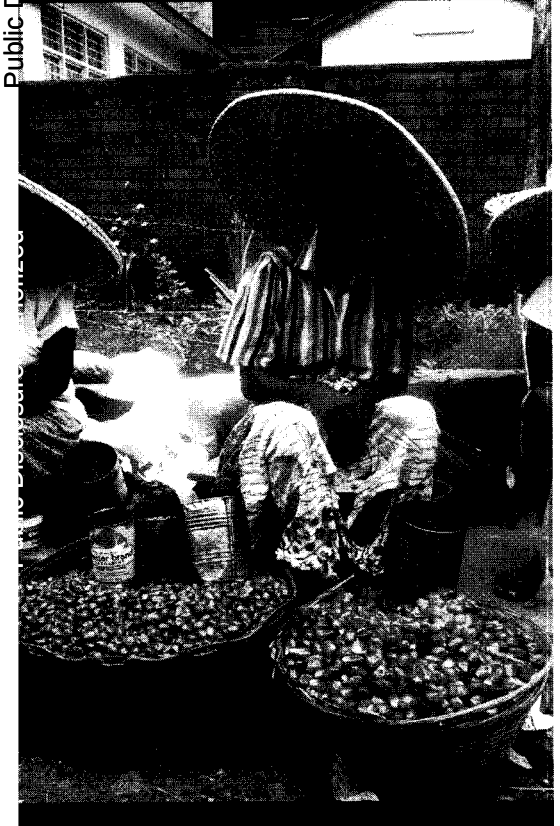
CGAP

# Newsletter

THE CONSULTATIVE GROUP TO ASSIST THE POOREST
[A MICRO-FINANCE PROGRAM]

## DEAR READERS,

*This issue focuses primarily on experiences with micro-finance in West Africa. Much of the literature has focused solely on the hurdles and challenges to micro-finance in Africa, to the exclusion of innovation and initiatives in the field. While we by no means discount the significant challenges and constraints faced by MFIs (presented in the theme article by the Secretariat), we thought it equally important to hear from practitioners in the region on experiences in delivering financial services to poor households, despite these challenges. Renée Chao-Beroff, Phyllis Wanjiku Kibui, Francis Beinpuo, and Ibrahima Seck do this justice.*



## VILLAGE BANKS IN PAYS DOGON: A SUCCESSFUL HOME-GROWN APPROACH

→ Renée Chao-Beroff, CIDR

While they have not been widely publicized, many successful micro-finance operations have been recorded in Sahelian Africa. As the World Bank's study on micro-finance in West Africa (Leila Webster et al., September 1995) demonstrates, these operations are comparable to the phenomena that have emerged in Asia and Latin America, in the sense that they have proven very efficient in offering high quality financial services to very poor segments of the population in regions that are virtually inaccessible. At the same time, however, the MFIs of West Africa seem to be very different from their Asian and Latin American counterparts.

The Self-Managed Village Savings and Loan Banks of Pays Dogon in Mali provide a very clear example of the specific nature of the West African systems. Pays Dogon is located in a Sahelian zone that has suffered from severe droughts for the past twenty years or so. It is an extremely poor region, accessible only with the greatest difficulty via a dilapidated network of dirt roads, and has one of the country's lowest school enrollment rates. How on earth was it possible to develop a viable and sustainable financial sys-

*(continued on page 3)*

## PERSPECTIVES ON MICRO-FINANCE IN WEST AFRICA

→ The Secretariat

The informal sector provides income-generating opportunities for the majority of economically active people in West Africa. It employs an estimated 90 percent of the total labor force in Senegal, 85 percent in Mali, and 62 percent in Guinea. Women are active participants throughout the Region; they represent 66 percent of the sector in Burkina Faso, 80 percent in Cape Verde, and 40 percent in Niger. Low literacy levels, lack of collateral and credit histories, poor information, and socio-economic factors limit access to financial and non-financial services by informal sector participants. Women face additional obstacles due to their minor legal status, lack of property rights, and higher rates of illiteracy and poverty. Formal financial institutions typically ignore this client group, given the high transactions costs of service delivery, the perceived risk, and the poverty levels of the clients. There are, however, an increasing number of micro-finance institutions (MFIs) that are responding to the needs of this vast under-served market.

### WEST AFRICAN MFIS

Credit unions (cooperatives/mutuelles) and non-governmental organizations are the two prevalent

*(continued on page 10)*

## CONTENTS

1 **Village Banks in Pays Dogon: A Successful Home-Grown Approach**
*continued on pages 3 and 12*

**Perspectives on Micro-Finance in West Africa**
*continued on pages 10-11*

2-3 **Microfinance as a Breakthrough Service**

4-5 **Practitioners' Perspectives**

Stengthening Micro-finance in Africa

Rural Banking in Ghana
*continued on page 13*

RIECA—An African Network of Savings and Loan Initiatives
*continued on page 13*

6-9 **Member Donor Activities**
French Assistance for the Development of Micro-Finance Institutions (MFIs)

UNDP Initiatives in Micro-Finance

USAID Launches Microenterprise Best Practices (MBP)

14-15 **CGAP Events**

## CONTRIBUTORS

**Renée Chao-Beroff**
Centre International de Développement et de Recherche and CGAP Policy Advisor

**CGAP Secretariat Staff**

**Elisabeth Rhyne**
USAID, Member Donor

**Ministére de la Coopération/Caisse Francaise de Développement**

**Phyllis Wanjiku Kibui**
Women's World Banking

**Francis Beinpuo**
Freedom from Hunger

**Ibrahima Seck**
RIECA

**Henry Jackelen**
UNDP, Member Donor

## MICRO-FINANCE AS A BREAKTHROUGH SERVICE

— Elisabeth Rhyne, USAID

***Question:*** What do Grameen Bank, Nordstrom's Department Store, Club Med, Federal Express Package Delivery, and McDonald's Restaurants have in common?

***Hint:*** It's not their social vision.

***Answer:*** Each of these institutions is an example of a "breakthrough service."[1]

Each organization provides a service: credit, clothing sales, vacations, package delivery, and fast food. More importantly, every one of these organizations introduced breakthroughs in service delivery techniques that surpassed the prevailing methods, transforming their entire industries.

Around business schools these days, courses on services analyze the underlying principles exceptionally successful service companies share. The micro-finance field rarely looks to business schools as sources of greater understanding. We either assume that what works in corporate America would not apply to poor people in rural Uganda, or we don't want to listen to people unless they share our social vision. But perhaps we should.

Micro-finance is about breakthroughs in service delivery. After all, micro-finance offers services the private sector has long believed feasible only on charitable terms. The leading micro-finance organizations have already redefined the way credit and savings services are provided to the poor and demonstrated that this can be done on a financially viable basis. The current challenge is to understand how the leading organizations work and to apply those "secrets" to all micro-finance organizations. Every micro-finance organization must seek to be a top-performer if it is to survive, grow, and achieve financial viability.

Services, including micro-finance, have special characteristics which become apparent when they are compared to manufacturing. Manufacturing firms make their products at one time and place and sell them at other times and places. Manufacturers therefore focus on control of production at the factory site and on managing the logistics of product movement. Sales are quite separate from production.

In service firms the "product" cannot be separated from the customer: it is produced and sometimes even consumed in the moment it is purchased. The production and sales staff are the same front line employees. This simple observation produces several fundamental tenets about service firms:

- Client satisfaction is an integral part of the product. How clients are treated matters.
- Service firms organize all their systems around creating successful interactions with clients.
- Front line staff have wide discretion over production of services. Firms must trust employees to perform well, independently of constant supervision.
- Because production of services is decentralized and many aspects are not tangible, quality control is difficult.

- Front line staff must have both technical and human relations skills — often a difficult combination.

These propositions show an almost uncanny precision in defining challenges micro-finance organizations face.

What should micro-finance organizations do if they wish to improve their own service delivery?

1. *Think seriously about client satisfaction.* Are loan terms really tailored to support the financial decisions clients face? What are the time and travel costs of participation, and can they be reduced? How frequently do clients drop out, and does the organization know why? Following up on dropouts may be one of the best — though least used — ways to find out how to improve services.

2. *Focus on training and motivation of front line staff.* Does training give staff a precise understanding of how to carry out their jobs, including how to treat clients? What incentives — tangible or intangible — motivate staff to perform well? How is staff performance measured and monitored?

If "breakthrough" micro-finance organizations are like breakthrough firms in other service industries, the secret of their success may well lie in how they solve these two challenges.■

---

[1] This term comes from *Breakthrough Services: Changing the Rules of the Game* (Haskett, Sasser and Hart: MacMillan: 1990).

---

*(continued from page 1)*

tem in such a location? The answer is: by calling on the strength of the Dogon villagers — their sense of social community and value systems that are grounded in mutual help and solidarity (particularly towards the weakest among them), integrity, honor, and respect for the elders.

The village banks in Pays Dogon offer a savings service that is accessible to all members who deposit sums as small as CFAF 100 (20 US cents) a week. Interest rates on deposits vary from one village to another, averaging around 20 percent a year, far higher than the rate offered by formal banks (5%). All of these local savings are reinvested in loans within the village, at the decision of a management committee made up entirely of villagers elected by their peers. In 1986, when the system was first set up, loans were used by the villagers mainly for small-scale subsistence-level economic activities. As time went on, a few microentrepreneurs launched larger-scale operations. Today, in 1996, loans from the village banks are also helping local products from Pays Dogon to penetrate external markets, thus opening up the entire region to economic activity.

At present, each bank has a varied portfolio comprised of loans from CFAF 2,500 (US$5) to women for cotton-spinning activities, to loans of CFAF 25,000 (US$50) made to women and young people wishing to develop a sheep raising business, as well as loans ranging from CFAF 200,000 to 500,000 (US$400-1,000) for blacksmiths to help them

*(continued on page 12)*

**The village banks in Pays Dogon offer a savings service that is accessible to all members who deposit sums as small as CFAF 100 (20 US cents) a week. All of these local savings are reinvested in loans within the village, at the decision of a management committee made up entirely of villagers elected by their peers.**

# PRACTITIONERS' P

## STRENGTHENING MICRO-FINANCE IN AFRICA

— Phyllis Wanjiku Kibui, Women's World Banking

WWB

To improve access to financial services among low-income people in Africa, Women's World Banking (WWB) and the United Nations Development Programme (UNDP) are collaborating to build a network that will link practitioners at leading micro-finance institutions throughout the continent. The main objectives of this initiative are:

- To strengthen and expand the client outreach of local institutions providing financial and non-financial services to low-income people, especially women; and
- To influence changes in government and commercial bank policies, practices, and resource flows in favor of low-income entrepreneurs.

The strategy for achieving these objectives includes expanding the WWB network in Africa, establishing collaborative relationships between existing micro-finance organizations, and facilitating best practice workshops and policy forums throughout the region. The initiative is being implemented in several phases from 1995–1997. Specific activities include:

- Developing an inventory of leading micro-finance institutions and conducting in-depth assessments of these institutions;
- Establishing dialogue with eligible institutions interested in becoming affiliates or associates of the WWB global network;
- Facilitating best practice workshops for leading institutions, to promote lateral learning; and
- Promoting ongoing exchange of best practice information among network participants.

### PROGRESS TO DATE

To identify leading institutions, an inventory was conducted during the second half of 1995, covering all countries in Africa in which UNDP has country offices. Seventeen countries were subsequently selected for in-depth assessments, based on completeness of responses, population size, and the importance and development of the micro-enterprise sector. These include: Benin, Burkina Faso, Cameroon, Ethiopia, Ghana, Guinea, Côte d'Ivoire, Kenya, Mali, Mozambique, Niger, Nigeria, Senegal, South Africa, Tanzania, Togo, and Uganda.

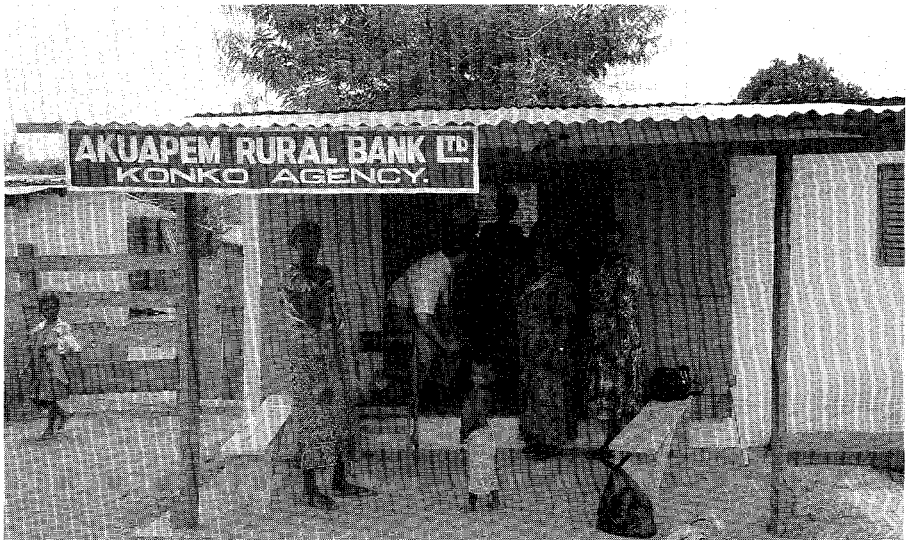
An in-depth assessment tool was developed by WWB that was distributed to UNDP offices and sent to selected institutions. By the end of 1995, reliable information had been received from 14 countries, covering 81 institutions. Average loan size across the 81 institutions was US$294, indicating that most of the institutions in the sample are seeking to address the needs of low-income people. Sixty-four of the 81 institutions reported providing savings services to their clients. At 46 of the institutions, women constituted more than 50 percent of the clients.

Thirty-three organizations among the 81 organizations sampled qualified as leading institutions based on the following criteria:

- private sector institutions, not government-owned;
- loans of US$1,200 or less;
- at least 500 active clients;
- a repayment rate of 85 percent or higher;
- commercial — or higher than commercial — rates of interest; and
- savings incorporated in their lending methodology.

### PRELIMINARY CONCLUSIONS

While a more comprehensive inventory of micro-finance organizations in Africa would be desirable, some important conclusions can nonetheless be drawn from the relatively small sample of institutions presented above. Clearly, the myth that "nothing works in Africa" is not true. A large number of institutions throughout the continent are delivering financial services to low-income people. Most of these organizations have managed to incorporate a savings component into their credit delivery systems, despite the different policy environments in which they operate. To further expand access to financial services among Africa's low-income population, donors and



other key players should continue to support local micro-finance institutions' efforts to build capacity, mobilize capital funds, and improve the policy environment. Preliminary results also suggest that, for such development to be sustainable, funders and other key players should combine efforts and support existing organizations that meet measurable performance standards, rather than promote a multitude of weak programs.

## RURAL BANKING IN GHANA

Francis Beinpuo, Freedom from Hunger

### CONTEXT

Freedom from Hunger

As in most countries, Ghana's banking system does not serve the financial needs of the poor. In 1976, the Bank of Ghana created a network of 125 rural banks to increase the poor's access to financial services. The 275 bank branches are located primarily in the major towns of Ghana and do not serve rural households. These small, community-owned rural banks have not entirely fulfilled their mission. For example, although by December 1995, 90 rural banks had mobilized a total of 31 billion cedis (US$20 million) in savings, the demand for savings services remains largely unmet. Over 50 percent of savings are held outside of the banking sector, and Ghanians pay informal savings (susu) collectors 4 percent a month on their deposits for safe-keeping even with inflation at 70 percent per annum. On the credit side, like commercial banks, the rural banks use collateral-based lending, thereby excluding many of the poor. This obstacle has compelled many poor people to turn to informal savings collectors and moneylenders for their banking needs.

Freedom from Hunger (FFH) has teamed up with selected Ghanaian rural banks to develop an alternative and sustainable model for financial services delivery for the rural poor of Ghana. This initiative, called "Credit with Education," combines provision of financial services with an overall education program in health, nutrition, and 'survival skills' that is targeted exclusively to poor, rural women. FFH decided to work with the rural banks because they already have an established presence throughout the country and have experience in collecting savings. It is believed that providing these banks with a sustainable lending and savings technology will help bridge the gap in the demand for financial services.

### IMPLEMENTATION AND PROGRESS

The first step towards implementing this initiative was to identify 'partner banks' with which FFH would work. The Bank of Ghana and Association of Rural Banks joined FFH in this exercise to identify banks that were strong enough to effectively manage a credit program. This was not easy because about half the rural banks (65 of them) were rated as mediocre or distressed. Starting in September 1992, three rural banks — Lower Pra (Western region), Brakwa Breman (Central region), and Nandom (Upper West region) — were re-licensed as community banks to work in partnership with FFH. FFH provides the lending methodolo-

*(continued on page 13)*

## RIECA — AN AFRICAN NETWORK OF SAVINGS AND LOAN INITIATIVES

Ibrahima Seck, RIECA

RIECA

Some two decades ago, the vast majority of Africa's inhabitants had no access to financial services that would enable them to engage more productively in the economy. Commercial banks concentrated on the more lucrative formal sector, and, lacking the appropriate tools, simply passed over the entire informal economy, which, although remote and barely visible, was very much alive.

In the early eighties, when Africa experienced a widespread economic crisis, it began to be apparent that rural and urban microentrepreneurs represented an immense and hitherto untapped potential, and that failure to bring them into the economic mainstream could seriously hamper all efforts to promote development. To give free rein to those entrepreneurial capacities, it was necessary to increase poor households' access to financial services.

Within this context, a multitude of Self-managed Savings and Loan Initiatives [Initiatives d'Epargne et de Crédit Auto-Gérées - IECA] came into being in Africa. The IECAs have developed client-responsive and innovative approaches to providing financial services at a decentralized level.

### INSTITUTIONAL ENVIRONMENT OF THE IECAS

It is important to emphasize that every IECA had to develop in a hostile economic, legal, political, and

*(continued on page 13)*

MEMBER

Australia

Belgium

Canada

Denmark

Finland

France

Germany

Luxembourg

The Netherlands

Norway

Sweden

Switzerland

United Kingdom

United States

African Development Bank

Asian Development Bank

European Commission

Inter-American Development Bank

International Fund for Agricultural Development

International Labour Office

United Nations Capital Development Fund

United Nations Development Programme

The World Bank

## FRENCH ASSISTANCE FOR THE DEVELOPMENT OF MICRO-FINANCE INSTITUTIONS (MFIS)

Ministère de la Coopération/Caisse Française de Développement

### BACKGROUND

In the wake of the economic crisis that affected all of the countries of Sub-Saharan Africa in the eighties, the adoption of certain adjustment mechanisms became a matter of urgency. In the rural sector, the curbing of public expenditures under the Structural Adjustment Programs (SAPs) and the gradual privatization of many services formerly delivered by the government (supply of inputs, storage, marketing, and extension) undermined the stability of the socioeconomic environment of rural communities.

An essential service in the rural areas, access to credit, was weakened as a number of the Agricultural Development Banks filed for bankruptcy or else experienced serious financial difficulties as a result of structural problems (inadequate management capabilities, low recovery rates, absence of realizable guarantees, etc.).[1] Even while operating, these institutions did little to meet the needs and satisfy the expectations of rural communities. They were set up by governments primarily to support development of agricultural exports, rather than to deliver affordable financial intermediation both in terms of providing credit and mobilizing local savings.

### NEW FINANCIAL INTERMEDIATION OPTIONS

To cope with this situation, during the late eighties the Ministère de la Coopération and Caisse Française de Développement (CFD) embarked on promoting new projects designed to establish a minimum level of financial intermediation in rural areas, essentially as a means of supporting and promoting local entrepreneurs. Between 1987–1994, this policy led to the financing of 19 projects for a total of approximately 450 million francs (US$90 million), including technical assistance furnished by the Ministère de la Coopération.[2] These projects fall into two groups:

- those based on the principles of "mutualism and membership" where access to loan funds are subject to the establishment of a savings account;[3] and
- those based on the principle of solidarity-group lending that was inspired by the Grameen Bank of Bangladesh, and where the underlying philosophy is that financial intermediation is possible in both rural and poor urban areas if it is based on solidarity mechanisms that are appropriate to the local social context.

Most of the 19 projects were oriented towards serving rural areas and supporting farming and commercial activities, as well as cottage industries. A few of them such as the ones in Congo and Burundi served urban and rural communities concurrently.[4]

### A SUCCESSFUL VENTURE: CRÉDIT MUTUEL DU SÉNÉGAL (CMS)

CMS began in the form of a Rural Savings and Loan Support Project with the objective of creating a decentralized network of mutualist banks providing financial services to rural communities throughout Senegal. Over time, it has established itself successfully as a rural and urban mutualist institution in the Senegalese financial sector.

Although the project experienced some difficulties as it was getting started in 1989, by 1995 CMS had collected about CFAF 2 billion (US$4 million) in savings and its volume of lending had reached about CFAF 680 million (US$1.36 million), with an average loan amount of CFAF 18,000 (US$36). Thus, loans represent roughly 35 percent of deposits. The annual rate of interest charged on CMS loans is 24 percent, while depositors receive 4.5 percent rate of interest on their savings.

Today, CMS has established its headquarters at Thiès, with four branches at Kaolack, Tambacounda, Thiès, and Ziguinchor, and a network of 65 local banks. The Ministère de la Coopération has provided the institution with an external technical assistance team in the form of four specialists, who will gradually be phased out (by 1998-2000) in favor of local professionals from the network who will have benefited from intensive on-the-job training and upgrading programs.

Moreover, it should be noted that since project start-up, the number of local members has continued to rise, increasing from 1,000 to 37,000 — a fact that serves not only as a good indicator that the system is well accepted among the inhabitants but also as a guarantee of the institution's sustainability.

### FUTURE CHALLENGES FOR THE MFIS

The core objectives of French assistance for micro-finance programs are to: ensure that the institutions can reach a level of financial viability and autonomy that will enable them to cover their operating costs and, as far as possible, obtain refinancing from the existing banking system; and to encourage the emergence of project implementers in Sub-Saharan Africa and to enhance their capacities to enable them to take over the establishment and management of micro-finance projects. The Regional Program in Support of Savings and Loan Operations [Programme Régional d'Appui aux Opérations d'Epargne-Crédit - PRAOC] was started in 1991 to build the capacities of MFIs.

PRAOC assists MFIs by training MFI professionals and promoters, assisting in the establishment of partnership networks in Sub-Saharan Africa, and through other capacity building efforts. PRAOC organizes workshops and seminars on various issues related to loan financing and savings and is also working towards the establishment of a legal framework favorable to MFI development.

Given the immensity of the financing needs of the populations of Sub-Saharan Africa, micro-finance represents one of the links in the chain of solutions that enables potential microentrepreneurs to develop grassroots initiatives with significant social and economic effects (increased income, more local job opportunities).

The criteria for evaluating the success of such efforts should be on whether the institution achieves financial sustainability, and is managed and controlled by national staff.■

### UNDP INITIATIVES IN MICRO-FINANCE

Henry Jackelen, UNDP

UNDP

Through programs in more than 170 countries, UNDP technical assistance funds have supported a wide range of micro-finance activities and institutions. In addition to its program with Women's World Banking in Africa (Wanjiku), and the work of the United Nations Capital

1 Two notable exceptions are Mali's BNDA and Burkina Faso's CNCA.

2 Ten projects in West Africa, eight in Central Africa, and one in Cambodia.

3 These projects are implemented by Centre International du Crédit Mutuel (CICM), an offshoot of Crédit Mutuel, the second largest mutualist bank group in France.

4 In 1993 and 1994 projects with a predominantly urban and peri-urban focus were approved in Togo and Mali.

Development Fund, UNDP has recently launched the following initiatives:

**A Joint UNDP/CGAP/World Bank Program for Viet Nam.** In November 1995, Ira Lieberman, Chief Executive Officer of CGAP, and Henry Jackelen, Deputy Manager of UNDP's Private Sector Development Programme, visited Viet Nam. UNDP/Hanoi was instrumental in scheduling meetings with key decision makers. As noted by the Hanoi Resident Representative, Roy Morey, the timing of the visit one week prior to the first meeting of the Board of Directors of the Viet Nam Bank for the Poor (VBP), allowed focussed discussions on policy and institutional issues.

At the request of the VBP, CGAP, UNDP/Hanoi, and the Regional Division of the World Bank developed a program of technical assistance to the newly established VBP, focused on lending and savings methodologies to reach the poor. UNDP/Hanoi is also conducting a study in collaboration with the Vietnamese NGO community, reviewing local micro-finance activities that presently serve over 30,000 poor clients.

**A New Micro-Finance Institution for Brazil.** High- and hyperinflation have long been a significant constraint to the development of effective micro-finance services in Brazil. With the lower inflation rates experienced during the past two years, conditions are at last improving in this country, in which a majority of the population earns its livelihood in the urban informal sector with practically no access to institutional credit. UNDP has been working to initiate micro-finance services in one of the poorest states of the country, located in the semi-arid northeast. At the request of the Governor of the State of Ceará, UNDP established a partnership of organizations to create a new, private micro-finance institution that would provide financial services to the urban and rural poor. Beginning in February 1995, UNDP conducted three missions in support of this activity. The first mission resulted in the creation of a Technical Team approved by the Governor. The second involved organizing a series of study tours during which Technical Team members visited successful micro-finance programs in Bangladesh, Bolivia, Chile, and Colombia. On the third mission, in August of last year, a workshop was held in Fortaleza, the state capital, at which representatives of the federal and state government, the Central Bank, the private sector, and donor organizations endorsed the initiative and recommended the establishment of a private foundation.

In January of this year, UNDP worked with the Technical Team on the final design and plans for the launch of the new foundation. The new institution will have an initial capitalization of US$3-5 million and is projected to begin operations during the second half of 1996. A primary objective of the foundation will be to reach at least 50,000 borrowers within five years.

**MicroStart—A New Micro-Finance Product.** Although micro-finance as a practice now receives widespread donor acceptance and support, investigations have revealed at least one distinct market niche that continues to require assistance, namely small start-up programs. With its extensive network and commitment to poverty eradication, UNDP is uniquely positioned to invest in these types of programs. "MicroStart" is a micro-finance product being developed by UNDP that will allow Country Offices to use their resources to support start-up ventures. Seed capital grants of up to US$50,000 will be issued to intermediaries such as NGOs, grass-roots organizations, and public and private banks for lending to microenterprises. A typical MicroStart program would comprise 20-30 seed capital grants along with a technical assistance component implemented by a qualified practitioner organization.

The first step in launching this new product will be the publication of a guide covering all elements required to design and manage an effective, sustainable micro-finance program capable of handling up to 1,000 clients. The guide, co-sponsored by Citicorp Foundation, is currently being reviewed by experts within and outside UNDP. Based on feedback from the review, the guide and accompanying financial guidelines will be released shortly.■

**USAID LAUNCHES MICROENTERPRISE BEST PRACTICES (MBP)**

On March 26, the U.S. Agency for International Development (USAID) launched its new microenterprise learning project, "Microenterprise Best Practices" (MBP). This five-year effort will conduct research on 21 major issues facing microenterprise and micro-finance development, and create an on-line information exchange facility. MBP also includes a grant facility to support information exchange and training between implementing institutions, as well as innovative pilot projects. Development Alternatives, Inc. (DAI) leads the consortium implementing the project. It is joined by Ohio State University, ACCION International, the Foundation for International Community Assistance (FINCA), Opportunity International, the Small Enterprise Education and Promotion Network (SEEP), Harvard Institute for International Development (HIID), and the International Management and Communications Corporation (IMCC). DAI is now building mailing lists for the MBP information exchange and grants facilities. To be added to these lists, send your contact information to Joan Parker, DAI, 7250 Woodmont Avenue, Suite 200, Bethesda, MD 20814, fax: (301) 718-5136, internet: joan_parker@dai.com

*(continued from page 1)*

institutional models in micro-finance in West Africa. Credit unions have operated in the Region since the 1970s, and several are reaching impressive numbers of poor households. Examples include Crédit Mutuel of Guinea and Senegal, Réseau des Caisses Populaires in Burkina Faso that has over 80,000 members, and FECECAM in Benin, which has 128,000 members. These institutions incorporate savings as the key feature of their activities. The Réseau des Caisses Populaires in Burkina Faso had collected over US$4 million in savings by the end of 1994.

NGO services range from pure credit delivery to programs that integrate credit with training, health, education, and other services. Lending methodologies build on existing informal financial mechanisms (tontines) and strong social structures at the village or urban market level. For example, the CIDR program in Pays Dogon, Mali, Catholic Relief Services village banking programs in Senegal, Burkina Faso and Benin, and BRK in Niger all rely on solidarity groups to reach large numbers of rural and urban households. WAGES in Togo, VITA in Chad, and Citi Savings and Loans in Ghana work with informal rotating savings and credit associations to expand their outreach to low-income savers and borrowers.

NGO services range from pure credit delivery to programs that integrate credit with training, health, education, and other services. Lending methodologies build on existing informal financial mechanisms (tontines) and strong social structures at the village or urban market level.

To date, program outreach has been the primary emphasis of initiatives in the Region. Increasingly, MFIs are striving towards financial sustainability. SOCODEVI in Côte d'Ivoire and Togo, CIDR in Mali, and CARE in Niger and Togo are in the process of transforming savings and credit projects into local micro-finance institutions.

## KEY CHALLENGES

ECONOMIC REALITIES. The 50 percent devaluation of the Franc CFA[1] in January 1994 resulted in rampant inflation of 35-40% that decapitalized loan portfolios of MFIs in the region. Inflation is now slowly being contained, but remains a challenge for long-term sustainability. Predominantly rural populations (nearly 60% in Senegal to over 80% in Niger), and reliance of the rural population on a few commodity cash crops (coffee, cacao), subject MFIs in the region to undiversified loan portfolios and make them vulnerable to volatilities in commodity prices. The rural economy, especially in the Sahel, is characterized by low population density and weak infrastructure (0.48 telephone per 100 people in Sub-Saharan Africa compared with 60 per 100 in the United States) that increase costs of service delivery.

SOCIOCULTURAL FACTORS. The multiplicity and diversity of ethnic groups and languages throughout the Region adds to program costs. While institutions located in areas with greater linguistic homogeneity are able to function in national languages such as Bambara (Mali), Hausa (Niger), and Moré (Burkina Faso), others, such as the Programme Intégré Pour le Développement de l'Enterprise in Guinea operate in three languages (Susu, Pular, and Mandinka).

POLICY AND REGULATORY ISSUES. A challenge facing regulatory and supervisory bodies worldwide is to design and implement sound regulation and supervision while not stifling MFIs they are intended to benefit. In December 1993, the

UEMOA adopted a regional credit union law which to date has been promulgated in Burkina Faso, Mali, Senegal, and Togo. The law requires all MFIs, whether credit unions, savings and loan initiatives, or others, to register their operations. However, it provides a specific legal framework only for credit unions, leaving the regulatory and supervisory status of other MFIs somewhat ambiguous. The law also states that all registered institutions must comply with the Law on Usury, which places a ceiling on interest rates to be charged at twice the discount rate, which is currently 8 percent. This ceiling will make it impossible for MFIs to cover their operating costs and move towards financial sustainability. Another challenge posed by the new law is that it stretches the currently thin human and technical capacity of supervisory bodies even further as they extend their activities to the micro-finance sector.

INSTITUTIONAL CAPACITY. In West Africa as elsewhere, the key to bridging the gap between the demand and supply for financial services depends on building capacity in local institutions. This process involves phasing out expensive expatriate staff, creating strong local governance structures, and strengthening financial management and staff skills. Regional initiatives such as PRAOC in Burkina Faso that disseminates information on best practices; PAMEF in Benin that provides training to credit unions; and PARMEC in Senegal that runs training programs for MFIs on the new regulation; PA-SMEC in Senegal that maintains a database of MFIs in the seven BCEAO countries, as well as

promotes networking and training services; and RIECA, a network of MFIs, discussed in this newsletter, are all promising efforts to build local institutional capacity.

## A STEP FORWARD

MFIs in West Africa have demonstrated their ability to provide services to a largely unreached segment of the population. They provide important lessons on increasing savings mobilization and depth of outreach. Institutions have demonstrated the ability to reach extremely poor people in sparsely populated rural areas while making important strides towards financial sustainability. These lessons need to be shared more widely among practitioners and policymakers. CGAP, in collaboration with several divisions of the World Bank, UNDP, Women's World Banking, the Governments of Mali, France, and Canada, brought together governments, donors, and practitioners to discuss the experiences, challenges, and issues in micro-finance in the region. The workshop, held in Bamako, Mali in June 1996, set in motion a concerted effort among all players to reach a common purpose — enabling poor households to access services currently denied them. An upcoming Focus note will be devoted to the results of the Mali Forum.■

1 Common currency supported by all UEMOA countries. UEMOA is the Economic and Monetary Union of the following seven West African nations: Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal, and Togo.

*(continued from page 3)*

improve their production of farm implements and household utensils or weavers interested in diversifying their product range.

In this way, women and youths, who have traditionally been left out of the village decision-making process, have come to acquire the status of economic agents, entitling them to take a place in the village banks at the decision-making and management levels. The 54 village banks of Pays Dogon, which served close to 17,000 members in 1995, have connections with the formal banking sector for annual refinancing to expand their lending capacity. This refinancing is accorded at market rates and on market conditions. In 1995, the volume of lending totaled CFAF 350 million (US$700,000), of which 65 percent came from village savings, making it possible to grant approximately 14,000 loans averaging US$50 each.

Other than the difficult environment in Mali and the challenges normally associated with a micro-finance operation, the village banks in Pays Dogon are faced with yet another challenge: that of delivering cost-effective financial services to a very poor clientele. To do so, the banks have opted for a strategy that would ensure their eventual financial autonomy. From the very beginning, before attempting to cover their operating costs, the village banks mobilized local savings and linked with the existing banking system. This has enabled them to lay a solid base to achieve sustainable development and financial viability, so that the banks can consistently perform their mission.

This strategy, however, is in contrast to micro-finance institutions in other parts of the world that started out by focusing on lending alone, which was facilitated by the availability of subsidized external capital. Given that the cost of capital to these institutions is practically zero, it allowed them to acquire operational sustainability more rapidly than their West African counterparts. On the other hand, since few of these institutions were designed or equipped to collect local savings (which operationally speaking is an expensive resource to mobilize) they find it more difficult to achieve financial sustainability. The tendency for such institutions, as it was for the development banks in their day, is to continue to onlend subsidized external capital as a means of financing their growth.

In Sub-Saharan Africa, there are many areas like Pays Dogon, which while very poor, isolated, and marginalized in terms of growth, have their own solid and dynamic social institutions. To help these areas overcome their poverty, it is important to consolidate and capitalize on these social links that are their underlying strength, and to blend those links successfully with institutional innovations. Whatever the world may think, tradition and modernity are very congenial bedfellows in Africa.

The notion of importing models from other parts of the world no longer holds good for Sahelian Africa. The time has come to promote the widespread dissemination, particularly with support from CGAP, of those home-grown approaches that have already proven their worth, with the ultimate aim of reaching the millions of potential microentrepreneurs who cannot get started without affordable credit.■

The notion of importing models from other parts of the world no longer holds good for Sahelian Africa. The time has come to promote the widespread dissemination, particularly with support from CGAP, of those home-grown approaches that have already proven their worth, with the ultimate aim of reaching the millions of potential microentrepreneurs who cannot get started without affordable credit.

*(continued from page 5)*

gy and technical support to its partner banks; in turn, the banks provide the bulk of the loan funds, credit delivery service, and the staffing, infrastructure, and supervision needs.

The lending methodology is similar to other group-based lending practices around the world. FFH assists rural women to form a self-managed peer group or credit and savings association that approves, tracks, and recovers loans given to each member. Members are free to choose their own investments in income-generating activities. The association meets weekly to take out loans, make repayments, deposit savings, and participate in the training and education provided by FFH. The loans are mutually guaranteed by the association, and members are eligible to take new loans once they have repaid their previous loan in full.

By March of this year, 2,800 women had formed 99 groups and had received total outstanding loans worth 195 million cedis (US$125,000). The associations charge a 16 percent rate of interest for a four-month loan cycle (or 48% per annum). The loan recovery rate to date is about 98 percent and there has been a significant accumulation of savings. In some areas 15 percent of the total loan portfolio has been generated through member deposits. Some of the earlier associations now cover all of their operating expenses. FFH plans to work with each partner bank for a period of five years, during which time the banks learn to incorporate new banking technologies to reach previously excluded client groups. As they scale-up over time, it is hoped that the banks will collect enough interest income to cover all costs, including financial costs.

#### CONCLUSION

The program has demonstrated that poor people, and especially poor women, are bankable. FFH's approach to build on the existing country-wide structure of rural banks minimizes some of the delivery costs in providing services and maximizes outreach. Although many challenges remain, particularly from the volatile inflation in Ghana, which can undermine even the best financial institution, the initial results hold promise for long-term financial sustainability.■

*(continued from page 5)*

physical environment. As a result, each faced a number of problems that could not be solved in isolation.

Aware of this difficulty, in 1989, 19 decentralized savings and loan institutions from eleven African countries started to hold a series of regular consultations, in the form of training and cross-support workshops. As a result, the Network of Self-Managed Savings and Loan Initiatives in Africa [Réseau des Initiatives d'Epargne et de Crédit Auto-Gérées en Afrique - RIECA] was established.

#### RIECA MEMBERS ESTABLISHED THREE PRIMARY OBJECTIVES:

- serve as a forum for mutual support and solidarity among the different savings and loan initiatives, thus facilitating the sharing of experiences, exchanges of ideas, know-how, tools, management systems, and methodologies.
- dialogue with governments and donors for effective reforms of the policy and institutional environment within which the IECAs and microentrepreneurs have to operate in the African countries.
- upgrade the professionalism of the IECAs through training, capitalization, innovation, and dissemination.

To achieve its objectives, RIECA produces a six-monthly bulletin for distribution to the IECAs, which serves as an excellent information and communication tool. It is developing a computerized data bank of local institutions and expertise to facilitate and promote lateral exchanges among the IECAs. RIECA also organizes a series of workshops and exchange visits for the IECAs to strengthen institutional capacities.■

For further information,
please contact R.I.E.C.A.
c/o FONGS
B.P. 269 Thiès, SENEGAL
Fax: (221) 51 20 59

**FEBRUARY 5-7, 1996**

### Second Meeting of CGAP, Rome

The second meeting of CGAP was opened with a Consultative Forum that was attended by members of both the Consultative Group (CG) and the Policy Advisory Group (PAG), as well as over forty micro-finance practitioners and experts. This forum was an opportunity for the CG and other participants to discuss the CGAP eligibility criteria and strategy with PAG members. In Rome, the International Labour Office (ILO) joined CGAP as a new Member Donor and was followed shortly thereafter by the government of Luxembourg. James D. Wolfensohn, President of The World Bank, joined the proceedings at the end of the first day and emphasized the Bank's commitment in this important area of development. There were two main outcomes to the second CG meeting. First, Member Donors agreed to undertake an exercise to report on what their respective agencies are funding in the field of micro-finance. This effort will create a body of information to draw upon for best practice and map donor activities in micro-finance. Second, seven working groups were formed by the CG around core themes in micro-finance. The purpose of the groups is to review, synthesize, and further knowledge on a particular topic, and to come up with concrete recommendations for actions by CGAP. They are organized around the following themes: (i) Financial reporting and information systems; (ii) Impact assessment methodologies; (iii) Poverty yardsticks and measurement tools; (iv) Private sector involvement; (v) Mainstreaming and dissemination; (vi) Financial instruments; and (vii) Donor structures, instruments, modalities as they apply to micro-finance. All working groups will report on their progress-to-date at the next CG Meeting scheduled for September 17-20, 1996 in Washington DC.

**MARCH 16, 1996**

### Forum on The Role of Micro and Small Enterprise Development in the Economic Reconstruction of the Tuzla Canton, Bosnia-Herzegovina

A workshop was organized by The Tuzla Association for Local Development Initiatives (TALDI), a Bosnian NGO, to bring together local government, NGOs, donors, and microentrepreneurs to: review the experience of a few nascent microenterprise support efforts to date in Bosnia, discuss international experiences in microenterprise development, and develop strategies to assist emerging enterprises under a World Bank pilot micro-credit program to be implemented by TALDI. A follow-on workshop was organized in June for development organizations interested in starting microenterprise support programs. Presenters and discussants included the Mayor of the Tuzla Canton, The Deputy Mayor of Bologna in Italy, Maria Nowak of The World Bank/CGAP PAG, and Mohini Malhotra, CGAP Secretariat.

## EVENTS

**MARCH 24-30, 1996**

### Study tour to Central America for ODESYPANO

The World Bank (MN1IE, EDI, and PSD) and CGAP co-sponsored a study tour to Honduras and Guatemala for five Tunisian managers and policy makers that was led by Anne-Marie Chidzero, CGAP Secretariat. It was designed to assist ODESYPANO, a Tunisian rural development organization, pioneer a micro-finance scheme for the rural poor (particularly women) in the Northwest Mountainous region of Tunisia. The pilot project is receiving financial assistance from The World Bank under the Northwest Mountainous Areas Development Project.

The tour facilitated first-hand learning and experience on how village banks reach poor rural clients with credit and savings services. The delegates visited FINCA Honduras, CARE Guatemala, and Genesis Empresarial, Guatemala. Site visits were organized to village banks at different stages of development. Although differences exist between the socio-political conditions in Central America and Tunisia, tour participants were nevertheless able to develop a vision for the micro-finance pilot they intend to launch.

Organizers hope that the exposure received by the Tunisian delegates will be shared with others in the country to ensure the successful implementation of the project, and pave the way for the development of other initiatives.

**MARCH 25-29, 1996**

### Ghana—Seminar on Micro-Finance

The Ministry of Finance of Ghana and The World Bank (AF4TF) in collaboration with the CGAP Secretariat organized a seminar on non-bank financial institutions in Ghana. The 100 participants represented the Ministry of Finance and Bank of Ghana, donors, financial institutions and an array of non-bank financial institutions, business associations, and NGOs. The seminar focused on the policy and regulatory framework for micro-finance institutions (MFIs) in Ghana, and on institutional characteristics and methodologies to reach the poor.

Discussions on the policy and regulatory framework for MFIs centered on the effects of inflation on the financial sector, the steps needed to increase the level of savings, and the need for finan-

cial intermediation in rural regions. Although the government has undertaken financial sector reform and introduced regulatory measures to permit the entry of new types of financial institutions, the macroeconomic context within which these reforms were enacted has constrained the intended effects. Participants urged fiscal prudence and macroeconomic stability to stimulate financial intermediation. Micro-finance institutions in Ghana, such as Citi Savings and Loans, the susu collectors, Freedom from Hunger, and the Rural Banks exchanged experiences with Grameen Bank (Bangladesh), BRI (Indonesia), FECECAM (Benin), Women's World Banking (global) and the World Savings Institute (global) representatives. The Ministry of Finance proposed the formation of a working group of practitioners and policy makers to recommend a strategy for support to the sector under The World Bank loan to the Government to support non-bank financial institutions.

**FEBRUARY 2-4, 1997**

**Global Microcredit Summit (Organized by RESULTS)**

A Global summit on Microcredit is being organized in Washington, DC as a first step in a decade-long campaign working to ensure that 100 million of the world's poorest families, especially the women of those families, are receiving credit for self-employment by 2005. Thousands of people representing micro-finance institutions, corporations, NGOs, UN Agencies, donor agencies and banks will gather at the Summit.

For information contact: Microcredit Summit, c/o RESULTS Educational Fund, 236 Massachusetts Ave., N.E., Suite 300, Washington DC 20002, USA; Fax: (202) 546-3228; e-mail: microcredit@igc.apc.org

## NEWSLETTER CREDITS

Editors Mohini Malhotra
Joyita Mukherjee

Production Valerie Chisholm

This newsletter is printed on recycled paper
using vegetable-based inks, by The MATTIE Corporation,
16000 Trade Zone Avenue, Bldg. 101
Upper Marlboro, MD 20772.

## CONTACT INFORMATION

The CGAP Secretariat, The World Bank,
1818 H Street, NW, Washington, DC 20433
Tel: 202. 473 9594, Fax: 202. 522 3744
E-mail: CProject@Worldbank.org
World Wide Web: http://www.worldbank.org/html/cgap/cgap.html

SIXTEEN

CGAP

THE CONSULTATIVE GROUP TO ASSIST THE POOREST
[A MICRO-FINANCE PROGRAM]

Newsletter