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From Project to Institution: AFD and Crédit Rural de Guinée Invest in Rural Finance for the Long Term

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This case study examines how Agence française de développement (AFD) made a long-term commitment to provide financial services to very poor, rural customers in the Republic of Guinée through a network of rural community banks.

Overview

When Agence française de développement (AFD) agreed to support a government-initiated rural finance project in Guinée in 1989, no one expected it to be easy. The Republic of Guinée was primarily rural, extremely poor, and fraught with corruption. Furthermore, the country's tumultuous political past had resulted in the emigration of many well-educated citizens. The Crédit rural de Guinée (CRG) project sought to meet the financial needs of very poor rural residents, nationwide—a very ambitious goal.

The project would require AFD and project manager IRAM (Institut de recherches et d'applications de méthodes de développement) to engage in developing a rural social fabric to support locally managed rural banks. As AFD would discover, it would have to make a trade-off that it might not make again—it sought to establish pro-poor outreach and depth before sustainability. Achieving financial viability would consequently require a 20-year commitment, perseverance, and significant financial and institutional investment.

Its efforts have begun to pay off. As of March 2004, Crédit rural de Guinée, CRG, offered savings and loan products to over 130,000 members across the country through individual rural banks. While not yet sustainable, it has a high-quality portfolio and is projected to break even in 2007, when the consolidated net income of its community banks will cover costs without subsidies for the first time.

In addition to providing a valuable service to clients, CRG today is one of Guinée's top 20 employers and, as the largest financial institution with countrywide coverage, it is a significant force in local development. This is no small achievement.

1989: CRG Is Launched

In the late 1980s, the Guinean Ministry of Rural Development was determined to develop a financial structure for the rural poor in a society where local elites had traditionally monopolized financial resources. With the support of AFD, IRAM conducted a feasibility study that recommended the development of a rural finance project. IRAM was subsequently chosen to implement the CRG project as technical assistance provider.

Elected president of a local CRG rural bank at a General Assembly meeting in Conakry, Guinea. (Photo: Francois Doligez, 2002)

> *"Operations for CRG began in early 1989 within the framework of an experimental project [which aimed] to put in place a policy of rural financing in conjunction with development projects, and to test credit provision adapted to the needs of the poorest."*
>
> Lucien Humbert, task manager for CRG, AFD (late 1990s)

Rural finance is challenging in any environment, but the acute poverty and economic and social crisis in Guinée made the creation of a self-sustaining network of rural banks exceptionally difficult. The execution and exile of millions of Guinéens under the 26-year regime of Sekou Touré stifled development and left an exceptionally poor and uneducated workforce in its wake. When the project began in 1989, Guinée was ranked by the UNDP Human Development Index as the poorest developing country worldwide. The extremely limited transportation, power, and telecommunications infrastructures exacerbated operational problems. For example, only 16 percent of the population had access to electricity in 1999, a situation that has not appreciably improved. Eight of 33 government prefectures nationwide still do not have a telephone line, and what roads exist are in poor condition.

2004: CRG Today

By the first quarter of 2004, CRG had achieved remarkable rural outreach, with 109 community banks across the country serving 130,000 members (including borrowers and savers), 43 percent of whom are women. The institution has an outstanding loan portfolio of €5.9 million and some €2.7 million in member savings. As of July 2003, its portfolio-at-risk ratio (greater than 30 days) was 2.6 percent (see table 1). Since the bankruptcy of Crédit mutuel de Guinée in 2001 (another AFD-supported rural finance institution that targeted larger traders, entrepreneurs, government workers, and employees of large companies), CRG is the only financial services provider to operate on a nationwide scale. Although it began with an exclusively rural focus, CRG now works in some urban and peri-urban areas as well.

Compared to its peer group of medium-sized African MFIs defined by the *MicroBanking Bulletin*,[1] CRG has a much smaller average loan size (€97) and much higher productivity, with 519 members and 419 borrowers per loan officer (December 2002). However, CRG's adjusted return on assets is much lower, and the network of rural banks is not expected to reach sustainability until 2007, 18 years after the project was launched.

The slow progress towards financial viability can largely be attributed to working in a rural environment, which means higher costs. Transportation costs in Guinée are very high and the average CRG loan size is very small. In fact, transportation is a greater expense for CRG than staff salaries because most of the community banks are often located deep in the countryside on unpaved roads. Furthermore, the management information system for CRG's 130,000 members is largely manual, although the MIS of 20 community banks will be computerized in the near future. While operating expenses have shrunk by 10 percent over the past two years and financial revenue has risen due to a 2002 rise in interest rates, high operational costs and an inefficient MIS remain serious obstacles to sustainability.

The apex structure that oversees the individual community banks project was transformed from a government project into a for-profit private institution, CRG, Société Anonyme (CRG, S.A.) in 2001. By December 2002, CRG, S.A. had an equity base of €4.6 million divided among three major shareholder groups: the community banks (40 percent), CRG employees (35 percent), and external parties (25 percent). The last group consisted of the Guinean government (15 percent), IRAM (1.8 percent), and Société d'investissement et de développement international, a French social investment institution (8.2 percent).

Table 1. CRG Indicators

Item	*CRG*	*Average for medium-sized African MFI* **
Community banks	109	N/A
Members	130,244	N/A
Active borrowers	76,746	29,935
Average loan size	€97	€158
Savings	€2.7 m*	€273,000
Outstanding portfolio	€ 5.9 m*	€3.1 million
Portfolio at risk > 30 days	2.6 %**	2.1%
Adjusted return on assets	14.3%**	-2.3%
Adjusted operating expense ratio	40.6%**	28.3%
Borrowers per loan officer	419**	423

Sources: IRAM; PlaNet Finance rating, July 2003 (December 2002 numbers); MIX (July 2003). *Notes:* *December 2003 **July 2003

> *"[C]onditions in the country and the very small average outstanding balance per client (12 percent of GNP) limit economies of scale—after 14 years of operation, total outstanding loans in December 2002 were only €4.4 million—and make it difficult to break even."*
>
> PlaNet Finance rating report, July 2003 [transl. by CGAP]

AFD Rural Finance Strategy

AFD's uncompromising priority was to provide very poor rural people with access to credit and, later, savings services. AFD achieved this goal by emphasizing human resource development, local ownership, and supporting the development of an informed government supervisory capacity.

Significant investment over the long term. AFD made an initial investment of €760,000 to establish physical infrastructure, finance the technical assistance provider, and begin credit operations. High demand and good repayment rates encouraged AFD to continue its support. From 1991 to 1998, AFD supported CRG's expansion with three different grants totaling €10.33 million. In late 2002, AFD agreed to provide a €5 million subsidy to CRG so that the network of community banks could consolidate its activities (including computerizing 20 banks which represent 40 percent of the total CRG outstanding loan portfolio), and make investments in technical assistance and training. Over the same period, the European Union, the African Development Bank, and the United Nations Capital Development Fund, collectively provided CRG another €7.6 million in support (see table 2).

Such large investments in the Guinean rural finance project were not always easy to justify within AFD. Yet

[1] The *MicroBanking Bulletin* Peer Group No. 2, "Africa Medium," consists of CRG, Finadev, FINCA Uganda, PRIDE Tanzania, PRIDE Finance, UMU, UWFT, Vital Finance.

the positive evolution of CRG and its success in mobilizing, training, and penetrating poor rural populations provided strong arguments in the project's favor.

Table 2: Donor Support of CRG (in € millions)

Operational phase	*AFD grants*	*EU grants*	*AfDB grants*	*UNCDF loan**	*Total*
Pilot phase: 1989–1990	0.76	0.68			1.44
Growth: 1991–1998	10.33	3.84	0.49		14.66
Institutionalization: 1999–2001		1.90	0.56		2.46
Consolidation: 2002–present	5.00		0.41	0.15	5.56
TOTAL	**16.09**	**6.42**	**1.05**	**0.15**	**24.12**

Sources: PlaNet Finance rating, July 2003; AFD.
Notes: *UNCDF concessional loan

> *"It is not easy to make a case for an institution that still hasn't achieved sustainability after 15 years, even if performance indicators are improving."*
>
> Anne Clerc, chargé d'affaires, Bank and Financial Markets Division, AFD (task manager for CRG, June 2002–present)

Creation of human resource capacity. Training has been a mainstay of the CRG project. From 1989 until its formalization in 2001, CRG was provided with on-site technical assistance from IRAM, whose goal was to transfer all necessary management and financial skills to CRG staff and members. In that same period, AFD also sponsored 19 Guineans at a three-week technical course in microfinance management at the Center for Financial, Economic and Bank Studies in Marseille, France. Some 16 others have received or are currently pursuing recognized diplomas in finance via distance-learning courses. Members have also benefited from financial literacy programs through grants from the US Agency for International Development, the United Nations Development Programme and AFD. Elected representatives of the community banks often receive management training during quarterly CRG board meetings.

This investment has yielded impressive results: CRG has a competent and trained staff of roughly 200 employees and its clients are sufficiently versed in finance to participate in managing the community banks, although credit management skills still need improvement.

Ensuring local governance. The CRG governance structure is a unique mix of cooperative and corporate elements. At the community bank level, borrowers, savers and employees all participate in management decision making, but their relative influence is weighted to insure that depositors and employees (who could potentially direct credit toward themselves) do not control lending decisions. Elected borrower representatives hold positions on the community bank's management committee that oversees loan approvals and repayment policy, as well as on a supervisory committee. They also hold positions on Board of Directors of the corporate structure, CRG, S.A. Savers and employees, on the other hand, are represented *only* in the supervisory committee at the community bank level (see figure 1). This arrangement guarantees that decisions on loans are essentially made by local community peers of loan applicants.

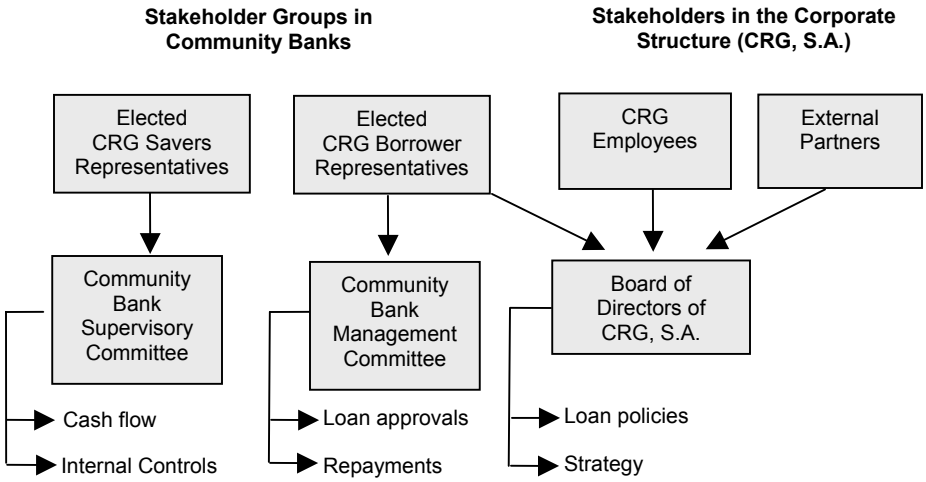
Also represented on the Board of Directors are external stakeholders (donors, IRAM, and the government of Guinée) who provide technical advice and play a mediating role. As a result, the three distinct groups of stakeholders—employees, client representatives, and external partners—effectively have an equal say in management decisions. The unique model is designed to preserve the institution's core mission of serving the very poor.

Developing a supervisory model. Although the community banks are member-based and not financially linked to one another, the Central Bank of Guinée, CRG, and AFD wanted a system that could effectively protect poor people's savings. CRG proposed a National Solidarity Fund housed within the corporate structure of CRG, S.A. Community banks that are five years or older must give the Fund 50 percent of the loan insurance fees that they impose on loans (1 percent of loan value). In the event of bankruptcy, the Fund will cover the losses of the failing community bank up to the limit of the Fund. This arrangement means the corporate structure can be supervised directly by the Central Bank of Guinée, while the financial responsibility for the rural banks remains with the banks themselves.

Moving from project to institution. Because it was set up as a government project, the assets of CRG, S.A., originally belonged to the Guinean government (assets of the community banks already belonged to the individual rural institutions). Institutionalization of CRG required the transfer of these assets to the new corporation. Although government stakeholders in the ministries of finance and agriculture wanted to maintain an influential role in managing the new institution, CRG and its partners felt the government could be most effective as regulator and supervisor.

AFD used its political clout, local presence, and repeat visits by Paris-based staff to actively lobby government authorities for the transfer of assets. Although the government ultimately decided on a 15 percent equity participation in CRG, S.A., the institution and AFD viewed this as an acceptable compromise.

Figure 1. CRG structure



Looking Back

Support of CRG has been debated within AFD, especially in recent years. The French development agency allowed CRG to pursue a geographic growth strategy that focused on extending financial services to poor populations across the country. Considering that CRG serves over 130,000 clients in 109 communities, who previously had no access to financial services, the strategy has been successful. But it has been time-consuming and costly for AFD.

> *"There has been a very long learning curve with the CRG project. When the project began, AFD did not have a well-defined strategy for microfinance. We know now that institutionalization would have probably been quicker had AFD been more demanding of financial sustainability early on."*
>
> Laurence Rouget-Le Clech, task manager for CRG, AFD (1999–2002)

For people with experience in Guinée, it is no surprise that reaching the break-even point has taken much longer than for a typical, urban-based MFI. And while AFD's investment has been significant, Luc Lefèvre, former IRAM project manager for CRG, points out that rural development projects like CRG can be considerably less expensive than physical infrastructure projects.

Conclusion

With Crédit Rural de Guinée, AFD chose to support the formidable task of building from nothing a broad network of grassroots financial institutions to serve the rural poor. This decision required long-term commitment, extensive resources, and a willingness to forego financial viability in the medium term. Results have been significant in terms of building a nationwide, pro-poor institution that plays an important role in the country's local development. While proud of its contribution to CRG, AFD is unlikely to repeat such a long-term project in the same manner. The agency's new microfinance strategy gives priority to financial sustainability over geographic expansion, requires that exit strategies be defined early, and uses performance-based contracts.

> *"If you had the same level of commitment, creative management, ingenuity, and resources in a more favorable context, you'd have had a winner years ago, but in a context like Guinée, you need time."*
>
> Paul Rippey, PRIDE, Guinée (1991–96); currently Head, DFID Financial Sector Deepening Unit, Uganda

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IRAM: www.iram-fr.org

AFDB: www.afdb.org

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