Microfinance & Poverty Eradication

Strengthening Africa's Microfinance Institutions

Preface

Poverty eradication is an integral component of the United Nations' global mission, and microfinance is increasingly recognized as an effective strategy towards this goal. Certainly, poverty is a multidimensional phenomenon, and its solutions (like its causes) are as diverse as the people and places in which it is found. Consequently, microfinance is not presented here as a panacea for poverty. However, there is a fundamental linkage between microfinance and poverty eradication in that the latter depends on the poor gaining access to, and control over, economically productive resources, which includes financial resources. When properly harnessed and supported, microfinance can scale-up beyond the micro-level as an indispensable part of the process of economic empowerment by which the poor can lift themselves from poverty.

This publication highlights the potential of microfinance initiatives towards poverty eradication in Africa. It reflects the ongoing United Nations commitment towards poverty eradication, a key theme expressed in the United Nations New Agenda for the Development of Africa in the 1990s (UN-NADAF, GA 46/151), at the 1995 World Summit for Social Development in Copenhagen (A/CONF.166/9), and by the United Nations resolution (A/RES/50/107) proclaiming 1997-2006 as the First United Nations Decade for the Eradication of Poverty. It also takes into account and builds upon United Nations documents pertaining to microfinance in Africa, particularly document A/50/490 of 6 October 1995 on Advancing Financial Intermediation in Africa, and the final report of the *Africa Advocacy Forum: Microcredit and Poverty Eradication*.

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Executive Summary

Introduction

Over the last two decades microfinancing has emerged as an effective strategy for poverty eradication. Adapting tools and principles of traditional finance schemes to the mission and methodology of development finance schemes, microfinance can contribute to people's empowerment, expanding their livelihood opportunities. This includes providing the means to save, access credit, and start small businesses, as well as the potential for community development, and to influence local and national policy making. As microfinance becomes more widely accepted and moves into the mainstream, the supply of services to the poor may likewise increase, improving efficiency and lowering costs.

The increasing role of microfinance in development is due to several key factors:

- The poor need access to resources if they are to improve their condition, and appropriate financial services are a key resource.
- The provision of microfinance services to low-income people by the commercial sector has been and remains relatively limited, creating a high demand among the poor for credit and savings services that are appropriate to their needs - fast, friendly and fair.
- Contrary to popular perception, the poor can save, repay loans, and effectively utilize finances towards income-generation, when provided savings instruments that are accessible and appropriate to their needs.
- Microfinance can be viable and sustainable, achieving full cost recovery after a reasonable development period.

Microfinance is not a panacea for poverty and related development challenges, but it can play a critical role in poverty eradication. Owing to poverty's large scope, multidimensional character, and multiplicity of actors, there is no single guaranteed approach to its eradication. Poverty reduction is a complex mission and requires commitment, cooperation, and cohesion at all levels of development – individual, household, community, national, and global. While microfinance alone does not improve roads, housing, water supply, education and health services, when properly harnessed and supported, microfinance has made these and other sustainable contributions to the community. Perhaps the greatest contribution of microfinance is that it empowers people, providing them with confidence, self-esteem, and the financial means to play a larger role in their development. **The potential of microfinance far exceeds the micro-level, scaling-up to address macro-problems associated with poverty eradication**.

This study brings together eighty-five factsheets on microfinance initiatives, to extract, preserve, share, and learn from the various examples of microfinance in and for Africa. The majority of the factsheets (63) are examples of microfinance institutions (MFIs) and programmes in Africa. These factsheets highlight what is actually working (and not working) in the African context, ranging from local grassroots initiatives to regional initiatives encompassing more than one country. The next category of factsheets summarize MFIs from non-African countries (11) that offer lessons transferable to the African context. The remaining factsheets summarize MFIs and programmes from international organizations (11), providing a sampling of some ways the global community works with and supports African microfinance.

MFI selection criteria stressed the diversity among MFIs and programmes in geographic location, organization size, outreach, and activities and approaches. Wherever possible, factsheets were written to highlight pertinent lessons, whether they are successes or failures. Obviously, these factsheets are only a sampling of an extensive field, and the information presented in them was adapted primarily from programme descriptions, without field research or outside reviews. Factsheets are presented in the three above categories – African, Non-African, and International – and are organized alphabetically by country of operation, or by MFI/programme title when operating in more than one country or internationally.

The remainder of this Executive Summary is divided into two parts, each drawing upon and summarizing lessons from the factsheets. The first section summarizes some key contributions of microfinance for poverty eradication in Africa. The second section summarizes some key strategies for microfinance initiatives in Africa. Within this general overview, some (and certainly not all) examples from the factsheets have been used to illustrate points. Clearly, the topic of microfinance is extensive, and this study serves only as a brief overview of some of the key lessons extracted from and for the African context.

What can Microfinance do for Africa?

When properly harnessed, microfinance offers a variety of benefits to the African people. Foremost, microfinance initiatives can effectively address material poverty, the physical deprivation of goods, services, and the income to attain them. When properly guided, the material benefits of microfinancing can extend beyond the household into the community. At the personal level, microfinance can effectively address issues associated with "non-material" poverty, which includes social and psychological effects that prevent people from realizing their potential.

Material Benefits

Microfinance initiatives have a number of potential material benefits. MFIs can help people become more economically secure. This, in turn, has a multiplier effect on people's standard of living, enhancing basic household welfare, such as food security, nutrition, shelter, sanitation, health and education services. MFIs can help prevent and extricate people from debt. Oftentimes, they liberate low-income households from moneylenders with outrageous interest rates that often reach 100% annually. Savings and credit services can help people start or improve their own small businesses, providing income generation and employment for themselves and their families. Such services are vital for low-income Africans, especially the large number working in the informal sector and lacking financial services.

In many cases, without credit, low-income people work hard but remain materially poor due to the lack of opportunities and capital. Credit can be used as working capital so that clients' efforts become more productive; for example, clients can buy rice or grains in bulk at wholesale prices and resell it at retail prices or buy a refrigerator to keep produce fresh. As clients become more productive, their income increases and they are able to accumulate savings for other investments and emergencies. In Ghana, for example, TechnoServe uses financial inter-mediation with commercial banks so that farmers receive cash on credit and guarantee it with the harvested produce that is stored for better prices when demand is high. Farmers are able to repay post harvest debt, and during the lean season (April-June), when prices have risen to sometimes more than 200%, farmers sell their stored produce to repay their loans and for household consumption. Training in produce storage, crop management, and cash management is provided to reinforce the operation.

MFIs also provide crucial saving services to lower-income clients. Low-income people want to save, and have been saving in a variety of traditional ways, ranging from kinship networks to Revolving Savings and Credit Associations (ROSCAs) - (refer to the factsheets Informal Financial Practices in Guinea Bissau, and Indigenous Financial Practices by Farmers in Nigeria). Savings serve as reserves for important household expenditures (such as school fees and funeral or marriage arrangements), and as insurance against sudden crises (such as illness, natural disaster, or theft) that can otherwise result in destitution for people already living at the poverty line. MFIs can build upon Africa's traditional savings ethic to enhance outreach and quality of services. In Zimbabwe, for instance, the Self-Help Development Foundation focuses exclusively on savings for development. With over 10,000 savings clubs, it educates members on the responsibility of saving, promotes group solidarity and trust, and organizes training programmes into income generating projects.

Community Benefits

The benefits of microfinance initiatives are not limited to the household, but can be scaled-up with sustainable contributions for community development. Many of the African MFIs reviewed offer services that go beyond the household and directly serve the community:

- **The Agroforestry Project (MAP) of the Farmers Development Union (FADU)** seeks to control land degradation in Nigeria while creating income generating opportunities for project participants. It provides small loans with appropriate training for planting economic trees alongside arable crops.
- **The Women's Savings and Loan Network (CECF)** in Dakar, Senegal operates a Savings for Housing Project to purchase plots of land for housing development.
- **The Credit Guarantee Company's Health Care Providers Programme** in Egypt responds to the widening gap between modest public hospital services and the quality services offered by private hospitals. The Programme guarantees loans and credit facilities offered by banks to physicians, dentists, veterinarians, and pharmacists, encouraging quality private health care at reasonable costs for the majority of Egyptians who cannot afford private medical services.
- **The Community Foundation for the Western Region of Zimbabwe** uses co-financing to support community initiatives that extend far beyond the immediate individual benefits. The Foundation builds resources and collaboration between the communities and other sectors of society, including community agriculture and water access, access to and quality of primary education, creating opportunities for the youth, and empowering women.
- **The Small Industries Project** of Cairo promotes industrialization and innovation by establishing small-scale waste-recycling modules through the extension of small loans to private garbage collectors. The Project concentrated on waste management and the creation of income-generating opportunities in the settlement. Over half the loans extended went to recycling activities with the remainder to services.

The extension of microfinance benefits into the community has been experienced elsewhere in the Non-African context. Probably the most notable example of this is the Grameen Bank, which hosts a family of enterprises ranging from Grameen Energy (to supply renewable energy to unelectrified villages) to Grameen Telecom (to bring the information revolution to rural people). In Indonesia the Borromeus Credit Union has been helping staff at Borromeus Hospital to become homeowners since 1972.

Non-Material Benefits

Microfinance initiatives offer more than just material benefits; they can also individually and collectively empower people, especially women. A steady income, a savings account, training, and the discipline to honor loan repayments usually raise the self-esteem and status of clients, in societies where they are often treated as second-class citizens. Oftentimes, MFIs utilize microfinance groups, which receive training in financial management, their legal rights, business management, as well as other support-services. Principles of collective organization and solidarity have empowered people to bargain for higher wages, better work conditions, health services, child-care, and common forms of insurance to protect their lives and livelihoods. Participants, especially women, speak out more, assume leadership roles, and address issues beyond their workplace, such as domestic violence. Some participants become more active in community activities and planning. In Benin, six months after starting the first Women's Bank, some women began an adult literacy programme, which has had a multiplier effect among Bank members, improving their access to information, their management skills, and their potential to earn revenue.

The majority of African MFIs reviewed here targeted services at low-income women, for whom the empowerment potential is very high, particularly with those MFI's utilizing women's groups. For many women, the group is the first opportunity to meet formally with other women to discuss problems and develop joint action. The groups serve as a channel of information. For example, members may tell each other about counseling services that have been established for women victims of violence and drug and alcohol addicts. Many women's group participants experienced a change in their household and community status. Some experienced an increase in financial responsibilities when their husbands noticed that they are involved in lucrative activities. In Ethiopia, the Sidama Savings and Credit Scheme has helped to relieve domestic tension arising from the husband's inability to pay household expenses, and in many cases, an attitude change regarding the suitability of women engaging in trade has arisen, and some husbands keep their wives informed on profitable trading activities.

How can Microfinance Succeed in Africa?

African microfinance is as diverse as the continent itself. An array of approaches have been used, ranging from traditional group-based systems, to specialized lending by banks and funded by international non-governmental organizations (NGO) financial intermediaries. Consequently, examples of African microfinance offer an array of lessons of what works and doesn't work. Drawing from these lessons, and those from non-African examples as well, the following section summarizes some of the key strategies for MFIs to become more ideologically and institutionally sustainable, building the capacity for MFIs and programmes to better serve the poor while becoming financially viable and self-reliant. It is understood that there is no blueprint for microfinance initiatives; each initiative must adjust to the specific cultural, political, and economic setting in which it operates. For example, in some instances, an *income-generation approach* to credit has been successful, in which services are contingent upon entrepreneurial training to enhance income-generating activities. In other situations, a *minimalist approach* has been successful, based on the premise that it is better to give credit to any poor person who is able to repay the loan without dictating how and on what the loan should be used. Allowing for such diversity, what follows here is an overview of those strategies that repeatedly characterize effective MFIs and programmes in Africa and elsewhere.

Build upon Traditional Financial Schemes – Microfinance initiatives must recognize and utilize traditional and informal African savings and loan schemes. By building upon such concepts, microfinance initiatives are more culturally compatible and hence sustainable with the local community. People feel more familiar and comfortable with concepts that borrow from their own tradition; this, in turn, improves MFI acceptance and outreach. In Nigeria, African Traditional Responsive Banking (ATRB) is a unique loan scheme that draws from the best of African traditional microcredit practices but tempered by modern knowledge. At its core are the traditional *Esusu* and *Aajo* practices, combined with a community based institutional structure, training and advisory services, and a "social banking" model that is traditional and responsive. It successfully empowers poor and rural women economically, socially and politically, while creating a sense of belonging and ownership. In contrast, in Saõ Tome and Principe, the lack of village tradition and social structure in farm associations made lending activities risky, with a repayment rate as low as 72%.

Strive for Flexibility & Innovation – Microfinance must be built around people rather than people around microfinance. Adapting services to low-income clients is what differentiates MFIs from typical commercial financial services. MFIs must be flexible, innovative and responsive to the needs of the poor, willing to pioneer and test new ideas where orthodox approaches have failed. For example, in Burkino Faso, *Le Projet de promotion du petit crédit rural* (PPPCR) tailored its services for a highly illiterate rural population (an adult female illiteracy rate of 91%). As the rural people have an impressive oral tradition, PPPCR uses this to explain the terms and conditions of the loans in open town meetings, with village leaders intimately involved in the loan process as monitors, evaluators and motivational leaders. Bank officers are multi-lingual in order to communicate effectively with their clientele. Another innovative approach is that of *Les banquiers ambulants* in Togo-Benin, which offers financial services to disadvantaged peoples via itinerant bankers that travel on motorbikes to serve the clientele, assisting them to place loans and obtain credit.

Encourage Savings – Savings services not only provide a valuable financial assistance to low-income clients, but they also strengthen institutional self-sufficiency, membership commitment to microfinance initiatives, and build a sense of discipline, self-esteem, and wellbeing. When funds are internally generated rather than borrowed from or granted by external sources, MFI members become more invested and participatory in the prudential administration of savings towards credit and other MFI services. If priced correctly, savings instruments can contribute to capital mobilization and wider market coverage. The MicroSave-Africa programme is an international initiative premised on the African potential to save. Voluntary, open-access savings schemes that are flexible and responsive to client's needs can generate more net savings (thus greater capital for the MFI) than compulsory, locked in savings schemes. In South Africa, the Standard Bank's E-Plan introduced conveniently located E-Banks in high-traffic areas in colorful, well-designed, user-friendly kiosks. Offering single depository accounts with card-based ATM access for low-income clientele, within the fist year of operation, over 150,000 E-Bank accounts were open. As MFIs successfully generate internal savings, credit expands, enabling them to increase both the number and volume of loans to members.

Charge Interest Rates that Cover Operational Costs – MFIs should charge appropriate interest rates for credit services, enough to sustain the MFI operation without becoming dependent on outside funding, but less than what money lenders charge. The administration of many small loans, including processing and tracking services, is a costly operation. Consequently, MFIs need to charge higher interest rates than what commercial banks charge. In many instances, however, the higher interest is re-invested into the community via MFI community programmes and services. In The Gambia, the decision of the *Caisses villageoises d'épargne et de crédit* to stress indigenously mobilized deposits over external funding, resulted in annual interest rates no lower than 40%, and some rates reached as high as 60%. Villagers themselves meet in village assemblies to decide on these interest rates, the composition and responsibilities of credit committees, and the types of savings instruments. While credit interest rates are high, the village banks reward depositors at above-market savings rates between 20-30% interest per annum. Credit repayment rates are high; in 1991, the lowest repayment rate reported among the six village banks was 92%, and some registered rates of 97%.

Stress Participatory Approaches – MFIs must strive to actively involve their target population in the financial decisions and actions shaping their lives. As a result people become more invested in and committed to the sustainability of the microfinance initiatives, assume ownership and responsibility for their development, and become more self-reliant. In South Africa, Mulva Trust supports local decision-making, control of finances, and responsibility for operation, maintenance and repair of credit payments. The Trust's projects all have subsidy ceilings and a cost-sharing component, and in areas of project implementation where communities lack expertise communities are responsible for sub-contracting project implementation and training skills. At a larger scale, the African

Revitalization Programme uses regional, national, and continent-wide workshops to promote participants' learning from each other's microfinance experiences, disseminate information, and develop a sense of ownership of the process and product.

Target Women – Successful programmes make loans mostly to women, who tend to be more committed to using their loans for the benefit of their families, and generally have a stronger commitment to repay their loans in order to qualify for larger loans in the future. Economic empowerment of women has a dramatic impact on stabilizing the family unit, and women tend to be more effective agents of change than men. When additional income enters the household through women, children's diet, family's health and nutrition and the state of repair of the house receive the highest priority. Men, however, are more likely to spend extra income on self-gratifying consumptions. The Uganda Women's Finance Trust Ltd. (UWFT) restricts male membership to no more than 20%, and men cannot occupy leadership roles. Operating at the grassroots level, UWFT assists women in gaining greater control over their businesses, income, and assets. It has found that women are a much better credit-risk than men and more responsible managers of meager resources. However, the most compelling reason for MFIs to prioritize women is to assist the poorest first, who are disproportionately composed of women.

Utilize Group Solidarity – Collective groups can have several advantages, including improved loan repayment, educating and awareness building, networking and information dissemination, and collective bargaining. Mutual trust and peer pressure within savings and credit groups typically ensures participation and repayment in microcredit programmes. The strategy of the Foundation for International Community Assistance (FINCA) uses Village Banking groups consisting of 30 to 50 neighbors to guarantee each other's loans, administer group lending and savings activities, and provide mutual support. Village Banking prioritizes a participatory approach and clients organize their support groups, create their own bylaws, elect their own officers, keep their own books, manage all funds, and share a joint loan repayment guarantee. The maximum amount a client can borrow depends on the amount of accumulated savings, with loan amounts increasing with savings. Loans are made at a non-subsidized interest rate of 3-4% per month, which permits most FINCA programmes to fully cover operating and financial costs within three to four years. Participation is voluntary, and the average, on-time loan repayment rate is 95%. In the Non-African context, the Grameen Bank pioneered small group lending, with each person committing to guarantee the loan payment of the other group members. Regular weekly meetings are used to reinforce group solidarity, discipline, and consistent repayments, and small group size ensures that members genuinely know and trust each other.

Invest in Training – At the community level, training reinforces commitment to and sustainability of microfinance initiatives, empowering people to be more self-reliant and take initiative in their development. Financial and business training in savings and credit utilization, basic management, bookkeeping, and marketing ensure that clients effectively invest microfinance funds into productive income-generating initiatives. Training in literacy, health, and community development ensure that the benefits of MFIs extend beyond simply finances. In Ethiopia, the Africa Village Academy (AVA) developed a seven step training programme that guides participants through the process of creating a business plan. The training introduces participants to various types of financial institutions and instruments, examines local markets to identify potential microenterprises, verifies production and marketing costs, and discusses credit arrangements and requirements for business start-up, including principal, interest rate, savings rate, repayment schedule, and penalty for late payment.

At the institutional level, training provides MFIs with skills and information for capacity building. Training in business planning, accounting, financial management, loan tracking, delinquency management, the development of savings and credit methodologies, and computerized management information systems (MIS) generates efficient and effective operations, greater outreach, and eventual self-sufficiency. The Private Enterprise Support, Training, and Organizational Development Project (PRESTO) has developed four training courses for programme managers and staff in the African context, covering microfinance best practices, business planning, loan tracking, and basic accounting. In West Africa, the International Labour Organization (ILO) is working together with the Central Bank of West African States (BCEAO), the Consultative Group to Assist the Poorest (CGAP), and other partners to promote MFI capacity building through a Training of Trainers Programme, designed to strengthen the capacity of microfinance institutions to design, implement and evaluate training programmes for their staff and members.

Build Microfinance Networks – MFIs should create and reinforce microfinance networks to enhance MFI coordination, monitoring, advocacy, and outreach. Networks allow MFIs to integrate approaches to better consolidate and share and disseminate human and productive resources, including technical, traditional, and cultural knowledge. Such collaboration widens the group of stakeholders involved in the microfinance dialogue, and provides a legitimate and accountable vehicle for State and international actors to channel assistance. The Action Research on Sustainable Microfinance Institutions focuses on building networks for improved delivery of financial services to the poor in sub-Saharan Africa. Using national and subregional workshops, the programme creates and strengthens national networks of rural and microfinance institutions as a forum for mutual learning and dialogue.

Transform Public Structures – In many cases, an effective infrastructure for microfinance exists within public agencies, such as the postal system. Postal Savings Banks (PSBs) already exist in countries such as Uganda, Kenya, Tanzania, and Cameroon. PSBs have a comparative advantage to develop microfinance services on a large-scale basis. Their geographic coverage of both urban and rural national territory can offer effective outreach through preexisting networks. This potential, however, is contingent upon the proper restructuring, guidance, and monitoring of PBSs. The introduction of a commercial culture and the adoption of best practices are key for PBS success as a microfinance provider. Likewise, the transformation of PBSs into microfinance institutions will necessitate the introduction of appropriate technology and training. For example, manual transactions at counters are time consuming and costly, and the introduction of computers can reduce these transaction costs and overcome operational inefficiencies.

Utilize Pre-Existing Support Organizations – Utilize pre-existing support organizations, such as the Special Unit for Microfinance (SUM), CGAP, and the World Council of Credit Unions (WOCCU), and establish linkages with other NGO networks, bankers' associations, and international groups. For example, United Sates Agency for International Development's (USAID) Microenterprise Innovation Project (MIP) provides exchange visits and exposure trips for policy makers and MFI senior officers to learn from Microenterprise Best Practice (MBP) models. Women's World Banking (WWB) affiliates leverage their successful experience in direct lending to microenterprise clients and expanding capital bases to negotiate credit lines with local banks, scaling-up their micro loan programmes. The African Development Fund's Microfinance Initiative for Africa (AMINA) is working with MFIs, host-country Governments, formal financial sector actors, and international organizations. Their goal is to engage in policy reform dialogue and build appropriate and transparent legal and regulatory structures that provide a conducive framework for the delivery of microfinance services.

Avoid External Dependency – As reflected in the UN/OSCAL/DESA publication, *Networking: Directory of African NGOs*, if MFIs are to make a lasting impact, they cannot remain dependent on donor funding, but must become self-sufficient. When MFIs do not heavily rely on donor funding, employers and clientele tend to be more invested in and committed to their services. Furthermore, MFIs that are not dependent on external funding are better able to maintain their identity, autonomy, and mission. Likewise, MFI staff is typically more sustainable when it employs local people who are not only more familiar and likely to remain in the target culture, but more affordable than the cost of employing outside assistance. Some of the most successful microfinance examples, such as the Grameen Bank, are designed so that ownership and control remain in the hands of the very people it serves. Appropriate interest rates, savings deposits, training, morale, and other microfinance tools can be used towards self-sustainability. For example, the Self-Managed Village Saving Banks of Pays Dogon, Mali, do not receive lines of credit or grants for on-lending from donors, but rely upon savings as their principal financial resource. Villagers must become members of the village banks to benefit from the savings and loans services, which entails paying a membership fee, and opening one of three available savings accounts. In contrast, the Maradi Microenterprise Development Project of Niger depends completely on external funding for its credit pool. Without a local source of funding via savings deposits, Niger government subscription of capital or sale of shares, the project can never become an independent, self-sustaining institution.

Develop Standards & Assessment Tools – MFIs need to develop performance standards to help define and govern the microfinance industry towards greater outreach and sustainability. Microfinance standards include organizational, operating, financial and reporting standards that will lead to the recognition of microfinance as a legitimate sector in the financial services industry. In the Philippines, the Coalition for Microfinance Standards was formed specifically to develop and promote standards for MFIs. A complementary goal to setting standards is the development of credible and reliable mechanisms to monitor and evaluate MFI standards. Reliable assessment tools for MFI standards foster accountability, raise the investment attractiveness of MFIs, and encourage MFIs to improve institutional efficiency and effectiveness. Pact, an international NGO, designed a tool (MicroAssess) that guides microfinance institutions through a self-assessment process to identify and quantify an organization's relative strengths and weaknesses. The findings generated by this participatory process inform and structure Pact's training and mentoring programmes. In Uganda, the Life in Africa Foundation is assisting the Ugandan Microfinance Union (UMU) in the design and implementation of an internal assessment tool to better track the impact of credit and savings services on clients as they graduate to higher loan amounts. This will allow for the generation of systematic information to identify and address weaknesses in their services and management systems, streamline procedures, and improve the user-friendliness of their programmes.

Confront Problems – Problems are inevitable, but, ideally, proper planning and infrastructure development (i.e. training) can prevent or defuse problems before they become serious. This entails developing performance standards, monitoring tools, and institutional integrity to identify and address weaknesses and problems in their infancy. However, when a problem does escalate, it is imperative to identify it and respond immediately. Challenges associated with scaling-up operations often create problems for MFIs. For BancoSol in Bolivia, scaling-up operations from an NGO to a commercial bank was accompanied by increasing financial pressures and changing demands on management, which eventually led to restructuring management and loan services. Similarly, the Columbian NGO Finansol encountered major performance deterioration when it scaled up services from an NGO to a commercial finance company that was eventually resolved by a rigorous and uncompromising return to microfinance basics, institutional restructuring, and recapitalization of its portfolio. In the African context, the Get Ahead Foundation (GAF) of South Africa spread itself too thin trying to impress USAID and other donors with the expanded outreach. Severe operational and sustainability problems, including a portfolio risk of 60%, forced GAF to conduct a major critical review of its operations, which resulted in major institutional restructuring, including improved staff training, lending methodology, customer service, and outreach.

Women, Microcredit and Poverty Eradication in Africa
UN/OSCAL - UNDP - AVA

Background

Women, microcredit and poverty eradication is an activity that is included in the programme budget of the Office of the Special Coordinator for Africa and the Least Developed Countries (OSCAL) for the biennium 1998-1999, for which funding has been obtained by the Government of Japan through the UNDP - Gender in Development Programme. This activity has taken the form of a project administered by UN/OPS - Africa under the number GLO/99/315/A/11/31. The ultimate objective of the project, which consists of three phases, is to strengthen African microfinance systems.

The first phase of the project consists in a study bringing together over 80 fact sheets on microfinance institutions mainly in Africa in order to extract pertinent lessons applicable to the African region. The second phase consists of three observation missions (Ethiopia, Nigeria, Cameroon), during which three systems/practices from three different regions of Africa, with three different languages, different population distributions and management skills will be closely examined. The third phase will be an international meeting involving participants from Asia and Africa, at which an African microcredit concept will be elaborated.

First Joint UN/OSCAL/UNDP Observation Mission

In July 1999, the Office of the Special Coordinator for Africa and the Least Developed Countries (UN/OSCAL) and the United Nations Development Programme (UNDP) joined together for the first observation mission. A meeting was held with 45 grassroot members of the Africa Village Academy (AVA), in Addis Ababa, Ethiopia (for more information on AVA, refer to factsheet). The meeting allowed AVA members to share and learn from their various experiences with microfinance. It also allowed UN/OSCAL and UNDP representatives to extract and highlight pertinent lessons that influence local, national and international policy making, and in so doing, strengthen African indigenous microfinance systems.

Targeting Women's Needs

The First Meeting was based on the premise that economic empowerment of women has a dramatic impact on stabilizing the family unit, as women tend to be effective agents of change. Consequently, all 45 AVA participants in the Meeting were women from the informal sector, with at least one child, and an average of five children per woman. The Meeting sought to identify and address women's needs:

- **Children's Education**: The women typically did not earn enough to regularly pay for their children's school fees, which averaged 100 Birr (US $ 12.5) per year for tuition, uniforms, and books in public schools. As a result, many children did not attend school regularly and in many cases failed when they returned to school.
- **Family Health Care**: Several of the women had health problems in their family but could not earn enough to pay for the medical card that enables them to see a doctor in a public medical center or to purchase needed medications. Health expenses were estimated to be 90 Birr (US $ 11.25) minimum per year per person.

Microfinance Projects

The Meeting identified two categories of projects. The first category consists of projects to address Income Generation, based on the methodology of bulk purchasing. The second category consists of projects to address Income Use, focusing on health and education. These projects are supported by seed funds of US $24,000 provided by the Government of Japan.

Four Individual Credit Projects for Income Generation

These projects are essentially based on bulk purchasing, a methodology that works with organized groups of producers and retailers to collectively purchase material they need for their businesses. The advantages of bulk purchasing include collective support and organization, time efficiency, and cost reduction. The groups organize themselves, elect a chairperson, treasurer and secretary, draw up their bylaws and form a purchasing committee. The committee is responsible to take orders from clients, collect money, purchase material, transport and distribute to members. The bulk purchasing methodology was applied to the following four areas:

1. **Purchasing Corrugated Iron for Kitchen Roof Repair**: Of the 32 women in the food business of mainly enjera and breadmaking, 26 women were unable to make enjera and bread during the three months of the rainy season due to leaking roofs that flood their kitchen work areas. Access to corrugated iron to repair roofs helped to reduce the costly loss of enjera and bread production due to leaking roofs.

2. **Bulk Purchasing of Grains**: All 32 women that made enjera, bread, powdered pepper and shero (made from chickpeas) had purchased the raw material individually from retailers. Bulk purchasing of grains helped to conserve time among the women and reduce cost as they no longer paid high retail prices.

3. **Bulk Purchasing of Charcoal**: As with grains, the bulk purchase of charcoal for household production helped to conserve time and save costs.

4. **Bulk Purchasing of Vegetables**: Typically, those women who wholesale vegetables purchased individual small, unharvested quantities from farmers that they harvest, wash, pack, and deliver themselves to retailers. Bulk purchasing allows groups of women to buy larger quantities of land and work as a team, thus saving valuable time and money among themselves.

Community Soft Loan Project for Income Use

This project starts with a loan portfolio of US $12,000, US $6,000 of which is used as initial seed money for an education project and US $6,000 for a health project. The women collectively replenish these funds through regular contributions, based upon the Ethiopian traditional system of *Ekub*. Throughout the process, they are encouraged to take action themselves to solve their problems. The women are encouraged to team up in solidarity, promote dialogue, and to establish rules to guide the distribution of loans, monitoring of implementation, and loan repayment. Training and assistance is provided by the African Village Academy (AVA) and the African Village Financial Services (AVFS).

Conclusions

In addition to the actual Four individual Credit Projects and the Community Soft Loan Project, the First Meeting reinforced that group solidarity is an important strategy towards identifying and implementing community development initiatives. Women were encouraged to engage in different activities rather than concentrating in enjera production, where competition is high. The Meeting also underscored that although microfinance is not a panacea, it is a powerful impetus that involves people to take ownership for their own development rather than becoming dependent on external sources. When assisting grassroots microfinance organizations, it is important not to flood them with external funds, but to lessen their repayment burden. Training in organization and management is an important tool towards empowering women in microfinance.

Source/Contact*: United Nations Office of the Special Coordinator for Africa and the Least Developed Countries (UN/OSCAL), 1 United Nations Plaza, New York, NY, 10017, USA. Tel: (212) 963-4780, Fax: (212) 963-3892.*

Women, Microcredit and Poverty Eradication in Africa
UN/OSCAL - UNDP / GICPAB
Africa

Second Joint UN/OSCAL/UNDP Observation Mission

In February 2000, the Office of the Special Coordinator for Africa and the Least Developed Countries (UN/OSCAL) and the United Nations Development Programme (UNDP) joined together in a second observation mission, as part of the second phase of the project "Women, Microcredit and Poverty Eradication in Africa". The mission sought to learn from the microfinance experiences of the members of the Group of Common Initiative of the Women Farmers of Bogso (GICPAB), a Cameroon grassroots organization. The mission identified pertinent lessons from GICPAB members, and drew upon the experiences of another group, the African Village Academy (AVA) in Ethiopia (refer to factsheet), to strengthen the GICPAB microfinance system.

***Yum* - Utilizing Group Solidarity**

The meeting was attended by 55 members of GICPAB. These members practice the *Yum* community system, focusing primarily on cassava production. The *Yum* is a methodology that enables individuals and the group to work together to save time, reduce costs, and to share resources, common infrastructure, and knowledge. Through the *Yum*, the workload of the individual is reduced as it is spread throughout its members. The system is applicable to communal activities such as farm work, transportation of farm produce, village sanitation, school and library construction, establishing a village market, and running a school canteen. In short, the *Yum* addresses a range of problems that confront the villagers.

Microfinance - Building Around People's Needs

The mission identified two groups of projects. The first group of projects seek to mobilize resources to increase production and income, including the purchase of a motorized cultivator, packaging material, a non-revolving grant for marketing, and loans to increase productivity through bulk purchasing, group transport and buying of small equipment. The second group of projects seek to address poverty eradication through a range of education and health care initiatives. Both groups of projects are supported by seed funds of US $ 24,000 provided by the Government of Japan. Of that amount, 73 per cent will be allocated to the first category, and 27 per cent to the second group.

Microfinance Initiatives to Mobilize Resources

1. **Revolving Grant**: A grant of about US $7,200 will be used to buy a motorized cultivator to mechanically harvest the cassava. A rental fee will be charged for cultivator to build up capital to maintain the cultivator, purchase spare parts, etc. Rental fee capital will also go towards packaging material for cassava products with the name and address of GICPAB. The Group has established a committee for creating the guidelines pertaining to the cultivator, including usage policies, maintenance, replacement, and the necessary training of a GICPAB member in cultivator use.

2. **Non-revolving Grant**: An amount of US $5,520 will be allocated for marketing initiatives, including a copyright for modern cassava products created by GICPAB, certification standards for the quality of cassava products, the itemization of ingredients, nutritional information, market research, and publicity via radio and printed brochures targeting major hotels and embassies.

3. **Productivity Loans:** A credit line of US $4,800 has been secured for bulk purchasing

of items that are used in the village and that will be resold to purchase small equipment, such as wheelbarrows for group transport of the cassava products.

Microfinance Initiatives to Improve the Community's Social Standard

1. **Schooling**: A credit line of US $5,520 has been earmarked for school education. Each GICPAB member with a child or grandchild registered at the local school can obtain a loan for school fees, school books, school meals, and other schools needs to ensure that within three years all children in the village attend primary school.
2. **Health**: Presently, the credit line for primary health care is US $960. If and when primary school becomes free of school fees, the credit line for school education will be reduced in favor of a credit line for health.

Pertinent Lessons Learned

- Traditional microfinance schemes can help the community solve major poverty related problems in the areas of education, health and economic production only if the organization and management of such schemes are improved upon and adapted to the changing cultural and economic environment.
- Collective work such as the *Yum* can save time and financial resources for both the individual and the community, sharing key material and non-material resources, especially knowledge and experience.
- Marketing of community products, including product development, promotion, and distribution are essential factors to consider in a community product initiative.
- Training in organizational skills, management, and marketing is an important tool toward empowering a community, especially when individuals pool their various training experiences to train each other.
- Microfinance does not only mean lending, but it is also a powerful strategy for solving local problems towards poverty eradication.
- A strong partnership between UN entities and local government bodies is a precondition for future collaboration, creating a sound foundation to expand initiatives such as the *Yum* system to other parts of the Cameroon.

***Source/Contact**: United Nations Office of the Special Coordinator for Africa and the Least Developed Countries (UN/OSCAL), 1 United Nations Plaza, New York, N.Y. 10017, USA. Tel: (212) 963-4780, Fax: (212) 963-3892.*

Action Research
Building Networks for Improved Delivery of Financial Services to the Poor Africa

Background

Since 1995, the team for Action Research on Sustainable Microfinance Institutions in Africa has assisted local rural and micro-finance institutions to improve their delivery of financial services to the poor in rural and urban areas. Supported by Swiss Trust Funds, the programme covers six countries in Sub-Saharan Africa: Ghana, Cameroon, Kenya, Ethiopia, Mozambique and Zambia. The programme's emphasis is on capacity building at the national level through distilling and disseminating "best practices" and strengthening local networks of rural and microfinance providers. The five-year programme has the following objectives:

- Documenting current practices of financial service providers in rural areas, and assessing the effectiveness of innovative techniques.
- Creating and strengthening national networks of rural and micro-finance institutions as a forum for mutual learning and dialogue.
- Improving the capabilities of institutions to deliver financial services to the poor on a sustainable basis.
- Establishing a mechanism for World Bank staff as well as donors to support effective, innovative institutions that reach the poor.

Participatory Approach

A participatory approach has been adopted to develop a sense of ownership of the process and product, and promote participants' learning from each other's experiences. Leading rural and microfinance institutions, typically NGOs, oversee the process through a core group, the "champion," which is often the coordinating agency. In Phase 1 of the programme, diagnostic studies of practices in two or three selected institutions are conducted and discussed at a national workshop. The workshop identifies critical areas of weakness and suggests how best to remedy them. The "champion" team is normally tasked with follow-up actions. Subregional workshops in the fourth and fifth years facilitate cross-border sharing and Africa-wide networking.

During Phase 2, the network may opt for more in-depth studies as in Phase 1, it may favor a focused study of one issue/delivery mechanism drawn from four or more institutions, or it may concentrate on developing modules for improving the performance of its members for more effective outreach. These are discussed at a second national workshop.

Phase 1 of Programme

The first case studies were carried out in 1995 in Kenya and Ghana. Phase 1 workshops have been held in Ghana and Kenya and national networks have been formed in all six countries. Diagnostic studies are currently under way in Cameroon, Ethiopia and Zambia. Mozambique is about to embark on its diagnostic studies and network activities. The results of Phase 1 operations, including the performance of the networks, were shared in a Building Networks workshop sponsored by the World Bank in February 1996.

The programme provides support for a newsletter and periodic meetings of the networks to encourage wider participation, dissemination of regional as well as international "best practices," further sharing of experiences, the development of guidelines, and the opening of policy dialogue with the Government. At the end of three years, networks are expected to become self-supporting.

Key Lessons for Building Networks

The studies are yielding several common lessons to be integrated into the Action Research programme to assist participating countries at different stages of the programme, as well as those countries that are not a part of Action Research but where networks are already established and functioning:

- **Increase Quality and Access to Services**: Services should be identified by members and not by donors. This is necessary to achieve sustainability. The guiding principle must be added value, to enhance members' operational capacities and resources.

- **Common vision, objectives and transparent structure**: Networks must have a common vision and standards leading to a common code of conduct. An openness of dialogue between members must be encouraged, keeping in mind the role and functions of government agencies and regulatory authorities.

- **Capacity building through technical assistance and training**: Qualified staff need to be attracted and retained through adequate pay, appropriate training and levels of responsibility that they could not achieve elsewhere.

- **Establish a national nucleus**: In terms of structure and organization, permanent secretariats need to be established at the national level in each country, moving away from the model present in many participating countries where an NGO, a private third party, or a donor houses the administrative nucleus of the network.

- **Mobilization of resources to become self-sustaining**: Networks can generate operating resources from the collection of membership fees, external funding for specific network programmes and for organizing workshops, and mobilizing savings. In this regard it is important that the respective national banking and business codes be adapted to permit mobilization and banking of deposits by microfinance institutions.

- **Develop linkages**: Networks must establish a common policy and reporting standards to attract donor funds and must speak with one voice to influence policymakers.

- **Acquire new members**: It must be recognized that small "players" may have something of value to teach, while learning from others. It is important to engage them in dialogue and encourage their activities.

Essential Steps for Networks

Results from the Building Networks workshop suggest that networks need to have a clear vision and work programme that should include information sharing and influencing government policy through advocacy. Outreach and member acquisition activities need to be promoted and financial sustainability needs to be achieved through dues. The involvement of government or donor agencies in the networks is to be encouraged provided this does not constrain the sharing of members' experiences.

To build on the foundations laid by the microfinance institutions in six countries and elsewhere, the Action Research Teams will continue to facilitate the sharing of experiences in networking, the dissemination of network strategies, widening the group of stake holders involved in the microfinance dialogue; and expanding the national networks to operate on the subregional, regional and international levels.

***Source/Contact**: Adapted from the World Bank, Findings Africa Region, #98, November 1997. For further information please contact Shimwaayi Muntemba, Email: Smuntemba@worldbank.org, or Alex Amuah, Email address Aamuah@worldbank.org*

African Confederation of Cooperative and Savings and Credit Associations (ACCOSCA)
Africa

Background

In 1968, the national associations from thirteen countries became the charter members of the African Confederation of Cooperative and Savings and Credit Associations (ACCOSCA), the first pan-African credit union organization. Its founding mission was to promote the formation of new credit unions and provide assistance in the development of credit unions. By the 1990s, ACCOSCA comprises national credit union movements from 28 countries in sub-Saharan Africa. These national movements represent more than 20,000 local credit unions, with a combined membership of over 5.6 million, a 1,200% increase since 1973.

ACCOSCA is an important source of support for many African credit unions. For example, in 1994 the West African Monetary Union and the Central African Monetary Area were both on the verge of adopting legislation that would have undermined the uniqueness of credit unions by treating them like commercial banks. ACCOSCA, however, along with the World Council of Credit Unions (WOCCU), negotiated with the two organizations and the African credit union leaders to develop more supportive draft legislation.

ACCOSCA's New Course

For over 25 years ACCOSCA obtained about 90% of its funding from donors. However, by the mid-1990s, major ACCOSCA donors decided that a new strategy of grassroots development emphasizing self-sufficiency rather than reliance on external funding must replace existing institutional support. For example, funding from donors such as WOCCU, the Canadian Cooperative Association, and the Konrad Adenauer Foundation, has focused more on technical support for the credit union base, rather than direct support for ACCOSCA's operations. **ACCOSCA's response to these changing conditions has been to completely review its operations and move many of its existing activities into fee-paying services**. ACCOSCA and the national associations charge fees for technical support contracts. A programme funded by the US Agency for International Development (USAID) is to provide over $4.1 million over a five-year period to ACCOSCA and WOCCU to work with ten credit unions in eight African countries. The 80 model projects are to provide a model for other credit unions in their countries and elsewhere in the continent, highlighting exemplary financial performance, followed by member-driven growth.

The effort to re-structure ACCOSCA into an income-earning association will be a lengthy and difficult task. The 1990s have been a challenging decade for ACCOSCA as it makes hard choices about the allocation of reduced resources. As donors increasingly provide funds directly to local credit unions, and demand self-sufficiency at the national and continental level, ACCOSCA will have to chart itself a new course for continued African credit union support into the new millenium.

Source*: Adapted from, Thompson, D. J. 1996. "Credit at the Grassroots; African Credit Unions Spur Development," African Recovery Briefing Paper 10: 1-8.*

African Development Fund's Microfinance Initiative for Africa (AMINA) Africa

Background

The African Development Fund's Microfinance Initiative for Africa (AMINA) is an innovative programme seeking to increasing the capacity of existing microfinance institutions to deliver an appropriate range of financial services to microentrepreneurs. The African Development Fund (ADF) approved AMINA in 1997 to help address poverty, recognizing that financial services is an effective means of assisting microentrepreneurs, especially women. During its two-year pilot phase, AMINA seeks to deliver an integrated microfinance support programme throughout Africa.

Capacity Building

AMINA seeks to assist its partners, including national and international NGOs, credit union federations, village banks and other formal institutions, with a range of services designed to enhance the financial services and sustainability. Support includes the development of credit policies, operational procedures and management structures; training activities, including credit analysis, portfolio management, and delinquency control; and the development of a computerized Management Information Systems. AMINA also seeks to identify an educational or training institution in each country selected for implementation during the pilot phase and to enhance its capacity to deliver training in microfinance-related issues.

Policy Dialogue, Donor Coordination and Information Dissemination

An important objective of AMINA is the building of appropriate and transparent legal and regulatory structures that provide a conducive framework for the delivery of microfinance services. AMINA aims to work with host-country Governments, formal financial sector actors, other donors and microfinance practitioners to engage in policy reform dialogue. It will also coordinate microfinance support activities with host-country Governments and other donors. AMINA will support the collection and dissemination of information relevant to microfinance to enhance the sharing of new techniques, common concerns, and lessons learned among African microfinance practitioners.

Selection of Countries and Partner Microfinance Institutions

AMINA will initially prioritize ADF countries where poverty is most serious; countries with active microfinance institutions; countries with an enabling environment conducive to the goals of the AMINA program; countries with formal financial institutions receptive to collaborating with microenterprises either directly or through agreements with MFIs; and countries with decentralized decision-making and allowing a participatory approach to poverty reduction.

To qualify for capacity-building grants, eligible microfinance institutions must demonstrate a proven track record serving the poor, women microentrepreneurs and other disadvantaged groups; be legally-registered and have a business plan to reach clients; offer credit and savings products at market rates of interest; and have a sufficient and appropriately trained staff to handle their operations.

Source*: Adapted from the African Development Bank, http://www.aftb.org/about/amina-overview.html*

Africa Revitalization Programme
Africa

Background

The African Revitalization Programme is a pilot project from November 1994 to October 1999 in Kenya, Swaziland, Ghana, and Senegal. The focus of this project is to develop a package of market-based policies, products and services for individual African credit unions that will render them more competitive in the financial marketplace, and thus able to enjoy rapid growth. These policies, products and services will then be made available to a selection of the strongest and most progressive credit unions in Africa. Ten leading credit unions have been selected in each of the four African countries for receiving intense support with the intention that these credit unions will successfully expand and become models for emulation by other credit unions throughout Africa.

Participating organizations include: Ghana Cooperative Credit Union Association, Ltd. (CUA), Kenya Union of Savings & Credit Cooperatives Ltd. (KUSCCO), *Conseil national pour la promotion et le développement des caisses populaires au Sénégal* (CONACAP), Swaziland Association of Savings & Credit Cooperatives (SASCCO), Credit Union National Association (CUNA), U.S. Agency for International Development (USAID), and the World Council of Credit Unions (WOCCU). USAID is providing $4,100,000 in project assistance.

Project Description

The African credit union system is comprised of four levels: individual members, credit unions, national associations, and the African Confederation of Cooperative and Savings and Credit Associations (ACCOSCA). A market-based model of credit union system operation requires that resources and services be exchanged between the different levels of the system and that each level be self-sufficient. Transactions between the levels take place when services are demanded at one level and are then successfully supplied by another.

The project initially focused its resources and services directly on individual credit unions to reorient their operating approach and to enhance their procedures, policies and practices. The goal was to bring them in line with the market model. These credit unions then become more responsive to members' needs and are able to attract new members through the provision of high-quality, reasonably priced financial services. This will lead to a strong membership base and strong credit unions, which can, in turn, demand and pay for services from the national associations. ACCOSCA provides services to these associations that are required to meet the needs of their member credit unions. This project only seeks to assist those leagues and credit unions that are serious about change, innovation and growth and that are willing to commit to this programme.

A key element of programme implementation is the development of a technical assistance package used to transform individual credit unions into prototype, market-based models of financial service providers. This technical assistance package includes a "tool kit" or series of resource materials that are used to identify and develop solutions for overcoming obstacles. It also includes a loan delinquency policy and loan collection programme, which can be tailored to meet specific country conditions and legal requirements.

Project Methodology

- **Regional workshops are held** in order to present and discuss the changes necessary to effect growth and development at the credit union level. Each national league that is in good standing with ACCOSCA is invited to send its board of directors and manager to one of these workshops, although attendance is voluntary. These participants learn the steps required to effect changes in their national movements and receive the necessary information to decide whether their country's movement should participate in the programme.

- **ACCOSCA grades and ranks all of its national associations** based on an institutional analysis of each and follow-up work to the previous assistance programme carried out by ACCOSCA. National associations are selected for possible participation in this programme based on their high rankings and attendance at a regional workshop. The associations that are invited to participate in the programme receive training.

- **Participating national associations select ten credit unions to participate in the programme**. The national associations provide technical advice and assistance to the credit unions on a fee-for-service basis. The boards and managers of these pilot credit unions are then invited to a similar in-country workshop.

- **Selected credit unions within participating countries attend a workshop** similar to those the national associations have already attended. At the conclusion of these workshops, the credit unions are asked to consider whether they will adopt and implement the new approaches presented during the workshop. If they agree to participate in the programme, they sign an agreement with ACCOSCA and their national association in which they formally commit to adopting the programme package. In return, ACCOSCA and the association provide technical assistance and ongoing technical support for the life of the project.

- **Participating credit unions must meet specific growth and performance targets** established under the programme according to an established timetable. If a credit union fails to comply with the conditions of the agreement, it is dropped from the programme. Another credit union is then brought in to replace it.

- **Once the national associations and credit unions have been identified, two sets of diagnostics are performed**. The first identifies appropriate growth and performance indicators at the credit union level. Then a follow up to the institutional analysis performed on the national association by ACCOSCA during the previous project is conducted to evaluate its current status. The second diagnostic is a membership survey designed to learn the needs of members and potential members at the individual credit unions. The results of these surveys are used to identify new products and services that the credit union could provide. The survey results also serve as the basis for a strategic business plan for the credit union.

- **Annual national and continent-wide workshops are held** to share experiences, successes and techniques developed among the participating organizations.

Expected Results

It is expected that credit unions will enjoy annual membership and savings growth from 5% to 30%, influencing other credit unions to convert to a market-based approach. Leadership and staff in most ACCOSCA-affiliated national associations have adopted or will adopt the new approaches, products, and services to promote to their membership. It is also expected that improved financial management and operating margins introduced through this project will increase the contribution by credit unions through dues and fees toward the costs of national association operations. This, in turn, will allow at least 50% of ACCOSCA's affiliated national associations to become financially self-sufficient.

***Source/Contact**: Adapted from programme description provided by the World Council of Credit Unions, Inc., P.O. Box 2982, Madison, WI, 53701-2982 USA. Tel: 608-231-7130, Fax: 608-238-802*

COFINA Club 17 Programme
Africa (Central & Western)

Background

COFINA Club 17 is a programme initiated and funded by COFINA RK Inc., an investment promotion organization operating in Abidjan, Cote d'Ivoire, Conakry, Guinea, and Cameroon. COFINA Club 17 focuses on business development in the informal sector as a method of poverty eradication. The objective is to strengthen the capacity of individuals and organizations to improve life conditions for the poorest segments of the population.

It is not a microcredit organization in the usual sense as lending is only one of its many services. Through the experience of its members, COFINA Club 17 provides extensive business training for its members, identifies appropriate business enterprises based on their skills and knowledge, and provides any necessary funding for the startup of microenterprises.

Organizational Structure

Members of COFINA Club 17 are recruited from unemployed young graduates in the cities of Conakry and Abidjan, with 17 of these graduates forming the executive office of the Club. Members receive initial training in enterprise management techniques, modern methods of selection of entrepreneurs, project analysis, constitution of loan files, and the ability to follow-up on enterprises. These members then assume the responsibility of training subsequent members of the Club and are sent into the field to identify individuals (promoters) with development potential. Promoters are selected via interviews and careful analysis of their project, with members examining their financial capacity and technical management skills. Club members help determine the promoter's needs.

Selected promoters are trained by COFINA Club 17 members on the basic techniques of enterprise management. They are also encouraged to save at least $2/day during the project. After the training period, COFINA Club 17 grants a loan to the promoter and designates a Club member as project manager to assist the promoter in the start of the business. The Club member continues the on-the-job training of the promoter and ensures follow-up of the project and repayment of the loan.

Micro-Loan Programme

COFINA Club 17 has CFA 5,000,000 (US $10,000) available for lending. It is made clear to the promoters that loans are expected to be paid back and that their failure to repay loans is unfair to other borrowers who suffer if loan privileges are abused. Repayment becomes an important part of the promoter's self esteem, and the support and trust developed over several months with members of the Club and other promoters encourages repayment. Borrowers internalize the key training of COFINA Club 17, displaying positive attitudes, priorities, self-discipline, the ability to save, and a viable business plan.

Typical loans are US $50 - US $1,000 at an interest rate of 5% and a term of 3-6 months. These financial terms are low compared to the informal loan sector, and comparable to formal bank loans. Formal bank loans are generally unavailable to COFINA Club 17 beneficiaries. **The success of the micro-loan programme is not measured by the amount of funds disbursed, but by how little is disbursed in relation to the individual economic success achieved**. Interest paid on the loans supports the maintenance of the fund.

Performance

At higher levels of achievement, some members later become official COFINA Club 17 trainers. The ultimate success of the training is based on one-on-one contact, the relevance of the training, and the focus on character and positive motivation. It tries to preserve the unique needs of the individual. Initially, building a group of internally trained trainers takes time and resources and outside assistance is provided by COFINA's parent organization. Eventually, COFINA Club's expenses are low enough that members can pay them without large-scale external support.

The COFINA approach is particularly well suited for areas with a large informal economy. In Guinea an estimated 95% of economic activity is in the informal sector and in Cote d'Ivoire it is 55%. COFINA Club 17 has been able to provide support to the informal and small-scale private sector in a cost-effective manner.

Source*: Adapted from "Poverty Eradication in Africa: Selected Country Experiences," UN/OSCAL, New York, 1998.* ***Contact****: COFINA, B.P. 1313, Conakry, Guinea, Tel/Fax: 224-411085, 224-442513. COFINA, B.P. 2338 Doula,Cameroon. Tel/Fax: 237-42-50-86.*

PRIDE Africa
Africa

Background

Inspired by the Grameen Bank's model of solidarity lending, the Promotion of Rural Initiatives and Development Enterprises (PRIDE) opened its first branch as an NGO in Kenya in 1989. PRIDE provides financial services and training throughout Africa towards poverty alleviation and community development. In less than a decade, it has established programmes in Kenya, Tanzania, Uganda, and Zambia, and partnerships with an array of African and international organizations.

PRIDE's Credit Model

The strength of the PRIDE Credit Model stems from its simplicity. While PRIDE's loans are monitored by sophisticated software and highly trained personnel, they are delivered with the simplest of administration procedures, relying solely on client discipline to guarantee their repayment. The success of PRIDE's Tanzanian operation shows the concept of mutual trust does work; no branch has recorded an overall repayment rate below 98%. PRIDE's credit model relies on free-market principles, letting the market decide who can graduate to a larger loan. Its clients are usually established rural microentrepreneurs seeking short-term loans of between $50 and $1,000. Throughout the loan process, the power remains in the hands of the borrowers.

It typically takes about two months to set up a PRIDE branch. A PRIDE credit officer usually hosts a *baraza* (community meeting), at which groups of five people are formed into Enterprise Groups (EGs), selecting a chairman and secretary. Ten EGs can apply for registration as a Market Enterprise Committee (MEC). The EG chairmen and secretaries together form their MEC's executive committee, which elects a management committee of three people to work with PRIDE's credit officer.

A week after registration, each client starts paying US $2 a week into a Loan Insurance Fund (LIF), which is held as security until they leave the scheme. Eight weeks after registration, the first loans – usually $100 each – are made to two members of each EG. Four weeks later, the next two members likewise receive loans. The EG chairmen are the last to receive their loans, sixteen weeks after registration. Fixed repayments, including principal, interest, and LIF contributions, are made each week until the loan is repaid, at which time the borrowers are eligible for larger loans.

PRIDE's clients can graduate to higher loans as long as they are guaranteed. Loans increase according to how fast the previous one has been paid off. The initial loan has a ceiling of $100, which must be repaid within 25 weeks; the second must be paid within 50 weeks, and each successive loan lasts 100 weeks, although the time frame can be reduced if for particularly responsible borrowers. After nine months of successful repayments, the EG chairmen take over all financial transactions, and the frequency of the MEC meetings is reduced to once a month.

Keys to Success

PRIDE's experience has shown its system to be very effective in instilling a sense of individual responsibility in its borrowers. Each member is responsible for his or her loan, while the EG chairmen monitor all the loans in their group; placing the chairmen last instills a strong sense of commitment within the groups. Branch staff work in their communities, a system which minimizes borrower transaction costs and promotes a real sense of trust between borrower and lender. The strict discipline involved applies not only to clients but also to the PRIDE branches themselves; within 18 months, the average branch is expected to become financially self-sufficient. The simplicity of the loan system allows for easy replication, just as with franchises the world over.

SunLink

PRIDE's SunLink project seeks to address the twin challenges of introducing commercial banks to small enterprise lending and increasing entrepreneurs' access to financial services as their needs and capacity grow. Through Sunlink, financial intermediaries establish their own Service Centres to channel lines of credit, savings, and loan requests between microcredit borrowers and banks. While their traditional clients have access to substantial business loans, commercial banks are provided with a new pool of customers for whom all banking transactions have been completed outside the commercial bank's branches; thus SunLink provides "virtual" customers.

Doing business through SunLink effectively eliminates high transaction processing costs that deter most commercial banks from serving small-scale borrowers. SunLink's Service Centres is equipped with management information and performance reporting systems to enable it to negotiate lines of credit with banks for "on-lending" to clients, and credit referencing systems for helping clients apply for larger loans. SunLink's first intermediary is PRIDE itself, which plans to launch three service centers in Arusha, Mbarara and Nairobi.

Microfinance Training

PRIDE's Tanzania-based training division, the Regional Enterprise Development Institute (REDI), is committed not only to providing PRIDE staff with the highest level of training, but to helping other institutions develop their own training programmes, ultimately establishing continent-wide standards for all microfinance personnel. Its five-week training programme covers everything from accounting and auditing to client recruitment and loan management. Specially designed computer programmes offer sophisticated interactive simulations, while REDI's location enables its students to experience on-the-job training and "field situations" at PRIDE's local branches

Within two years of its 1994 launch, REDI had trained more than fifty PRIDE credit officers, as well as senior and branch managers. It has also trained managers from other microfinance organizations, including Tanzania's oldest credit institution, the Small Industrial Development Organization, a selection of Tanzanian and Kenyan women's groups, and the Kenya Freedom from Hunger Council. REDI now offers the expertise to design and implement individual credit programmes for projects undertaken by other NGOs or foreign Governments, or for an entire country. During the next five years, it expects to train 240 credit officers and 120 personnel in the Uganda Village Bank programme.

REDI has developed links with several other training institutes, which will soon be delivering its training programmes through liaison officers in regional countries. The scope of REDI's training has, in particular, been broadened by its collaboration with the Eastern and Southern Africa Management Institute (ESAMI), which has a strong reputation for training senior microfinance personnel. The World Bank's Consultative Group to Assist the Poorest (CGAP) has recently commissioned the REDI to develop a series of training programmes for senior microfinance personnel to be offered throughout the region.

Source/Contact*: Adapted from programme description, PRIDE Africa, PO Box 39320, Nairobi, Kenya. Tel: 254-2-749511, Fax: 254-2-745363, Email: pride@africaonline.co.ke, http://africaonline.co.ke/prideafrica*

FECECAM
Fédération mutualiste des caisses d'épargnes et de crédit agricole mutuel
Benin

Background

FECECAM is a credit union network operating in Benin for over two decades. Designed to provide financial services to rural farmers, FECECAM is increasingly providing services to a more diversified clientele, i.e. urban residents. As of 1996, FECAM had over 165,600 members, more than four times its total 1992 membership; the recent growth in membership is due to a restoration of confidence and a gradual loosening of credit policy in FECECAM. Membership distribution consisted of farmers, breeders, and fishermen (47%), business and sales people (41%), and artisans (7%). Women accounted for 45% of the network's total borrowers.

Structure

FECECAM is structured in a pyramid-like, three-tier organization.

1. **At the bottom are 62 local credit unions called CLCAMs** (*Caisses locales de crédit agricole mutuel*), which deliver financial services to their members. Each CLCAM has a Board of Directors and a Board of Supervisors comprised of village members. The Board of Directors analyzes loan applications, budget activities, makes decisions regarding the CLCAM general management, and raises awareness of CLCAM services in the community. The Board of Supervisors monitors daily operations, oversees policies, and verifies expenses.
2. **The CLCAMs are supported by seven Regional Unions**. Each Regional Union (with an average staff of fifteen) typically supports nine CLCAMs and is responsible for inspecting and monitoring their accounts and operations.
3. **At the top of the structure is the Federation**, which was established in 1993. Consisting of 33 employees, the Federation carries out national policies for the network, develops accounting and financial procedures, prepares accounting manuals, inspects CLCAMs and Regional Unions, and develops new products.

Loan Services

Loans are awarded according to the local requirements of each CLCAM. They are generally character-based, but collateral is required. Interest rates vary according to the product and the CLCAM, but typically fall between 15% and 18%. The maximum individual loan size as of 1997 was CFAF 2 mil. (US $4,000). In general, members must deposit savings in their CLCAM for at least six months, and the loan amount is based on the number of shares held and the volume of savings. Four types of loans are typically available.

1. **Short-term loans** of up to one year are paid in one installment at the end of the loan term.
2. **"Very small loans to women"** (TPCF – *Tout petit crédit aux femmes*) range from US $40 to US $120 and are granted to women belonging to a solidarity group. Each group loan is divided among its members, with a six month term. Typically after three loans, women are asked to become CLCAM members and deposit savings themselves.
3. **Extended short-term loans** were introduced in 1995 to finance commercial activities that carry inventory; they have a two-year duration paid back in regular installments.
4. **Medium-term loans** have a maximum duration of three years and are used to finance investments in agriculture

Deposit Services

CLCAMs offer three types of deposit services to member and non-member clients: passport accounts that receive an annual 3% interest rate, term deposits that receive an interest rate varying between 3.5% and 4.5% a year according to the CLCAM, and current accounts that do not receive interest and are used mostly by NGOs or firms. Each type of deposit requires a minimum of CFAF 5,000 (US $10), and the interest rate on deposits is generally low. The amount of deposits available for funding loans in 1997 was 85% of the total outstanding deposits, remaining in compliance with the regulations of the West African Economic and Monetary Union (UEMOA) countries.

Factors of Success

- **The motivation and commitment of its members, staff, and directors has built up trust among members and attracted new members.** In the late 1980s, the network structure underwent a major rehabilitation, culminating in the 1993 creation of the Federation to oversee national operations. This critical transition for FECECAM was made possible due to the network's main participants – elected directors and members – who spend long hours on the job. Staff is highly motivated and accessible to clients, particularly in the CLCAMS, despite modest salaries. With equivalent education and responsibilities, they could expect compensation five to eight times higher in a private bank of certain NGOs.

- **FECECAM is able to transcend the classic credit union model by introducing innovations and flexibility**. For example, while most credit unions focus primarily on savings mobilization and tend to be risk-adverse with loan disbursement, in FECECAM the culture of savings in not dominant. It offers very timely responses to the financial needs of its members by rapidly increasing the percentage of deposits outstanding available for onlending, and by developing attractive credit products. FECECAM has been able to develop into an original network that takes into account local situations and concerns. Uniformity of procedures and rules is not imposed and decisions and resources are not centralized. Each CLCAM sets its own credit policies and is free to test new approaches and products according to its clientele.

- **FECECAM has maintained its own autonomy** by not accepting too many subsidized credit lines from donors, and it has never agreed to lower interest rates to the levels sought by the Government as this would have prevented the network from reaching financial self-sufficiency.

- **FECECAM's high quality of internal controls, has enabled the network to curtail the level of embezzlement and fraud**. Boards of supervisors at each of FECECAM's three structural levels closely monitor operations, including the work of paid staff and elected directors. In addition, in 1993 a five-point chain of control was created to guarantee that accounts and financial records are reliable and complete. The five points of control are: the local accountants serving CLCAMs; the chief accountant of each Regional Union, the internal controller of each Regional Union; the internal controller of FECECAM; and the external auditors.

Source: *Adapted from Fruman, C.*
The World Bank Group, Case Studies in Microfinance, "Benin: FECECAM." http://www-esd.worldbank.org/sbp

Low-Income Women's Banking
Benin

Background

The Women's Bank (*Banques des femmes*) serves low-income women in Cotonou, a sub-urban region in Benin. The system started in 1992 with only fifteen women. Four years later, in March 1996, over 2,000 lower-income women are members of a set of fifteen savings & credit groups, called *Banques des femmes*. More than 1,200 small businesses of low-income women had been financed, with a total of 23,000,000 CFAF (US $46,000). The rate of loan reimbursement was 99%, and savings were 10,200,000 CFAF (US $20,400). Originally, the main objective of the women was economic. However, social returns are probably bigger than the economic ones.

Organizational Structure

The Women's Bank is a member-run system supervised by the development programme, *Programme d'appui à l'association des femmes* (PAASF). PAASF, a programme created by *Programme d'appui au développement à la base* (PADEB) collaborates with member women at every level of the bank's institutional organization. The institutional structure consists of a General Assembly, which elects and controls all of the other organs; a Board of Directors, which oversees both the trustees and the accountant; and a Board of Trustees, which manages the daily operation of the banks, accounting, and other operational aspects. Credit decisions are made by the Board of Trustees. Each bank employs a member as cashier and accountant; after a voluntary period, about 10 months, this person receives money deducted from the bank's profit.

Economic Benefits

The Women's Bank programme provides women with credit that is much more desirable to purchasing products on credit – which can cost up to double of a cash purchase. Prior to the programme, and besides the *Sou* (a traditional financial scheme), poor people could only obtain credit from the usury system at a rate between 20% and 50% a month. Even access to this expensive system was difficult because of the numerous requirements of the practitioners. With the Women's Banks, monthly interest rates vary between 2% and 2.5%. The short cycle of their businesses makes that rate applicable. In contrast to the traditional system, they can withdraw money from their savings when they need it, during the working days of the Bank. The deposit also is more liberalized than within the *Sou*, (although the liberalization of deposit - amount and frequencies - could have both advantages and disadvantages.) Owing to the procedure of credit allocation, members critically analyze the economic impacts of their activities and become more careful when choosing a small business.

Social Benefits

Many women participants experienced a change in their household and community status. Some women experienced an increase in financial responsibilities when their husbands noticed that they were involved in lucrative activities. **Some women have become more active in community activities and planning**. Six months after starting the first bank, the women began an adult literacy programme taught by twelve previously trained members (who each earned an important part of their livelihood from teaching.) The literacy programme has had a multiplier effect among the women, improving their access to information, their management skills, and their potential to earn revenue.

***Source**: Adapted from Mongbo, M. S. programme description, The Virtual Library on Microcredit, http://www.soc.titech.ac.jp/icm/icm-peoplebanks.html*

Benin Rural Savings and Loan Network
Benin

Background

Rural savings and loan associations were originally established in 1975, emphasizing local ownership and a democratic, bottom-up system of regional and national groupings. However, the Government's decision to put the network under the jurisdiction of a public Agricultural Development Bank undermined the collective principles, shifting decision-making from elected members to Government-appointed management. A disproportionate share of clients tended to be those who were not so poor. The Bank channeled savings from the network to public enterprises, but poor management and lack of rigorous credit appraisals led to the Bank's collapse in 1990. As the Bank was restructured in 1990, the World Bank-assisted Rural Savings and Loan Project was also designed to restructure the Rural Savings and Loans Network to better serve the rural poor.

Rehabilitation of the Rural Savings and Loans Network

The rehabilitation programme launched in 1990 was designed with the following principles to serve the poor:

- Savings is as important as credit, for precautionary purposes and for safe placement of assets.
- Financial discipline tends to be greater when local savings are the main source of credit funds.
- Personal reputation, group lending and peer pressure are effective collateral substitutes.
- Convenient access to savings and credit services is more important than interest rates.
- Short-term savings and credit are generally preferable to meet immediate needs and opportunities.
- Prudential policies, regulation and supervision are important to identify problems and ensure sustainability.

Loans Services

Loans are provided to members after six months of savings, and cannot exceed double the amount on deposit. A decentralized decision-making structure helps reduce the screening, monitoring and enforcement costs of lending, and empowers members to both take decisions and help ensure repayment. Under the new structure, banking services are provided only by local cooperative banks, which are grouped into regional unions and federated in a national governing body. Regional unions provide technical assistance to local banks. The national federation provides institutional support and liquidity management. Although interest rates to borrowers are not subsidized, the revenues generated are not yet sufficient to cover these capacity-building costs. These have been treated as development expenditures under the project, accompanied by a monitorable plan to reach financial sustainability as portfolio size expands.

Outcome

Between 1990-1995, membership increased by 360% to 127,000 (an additional 100,000 depositors), share capital by 160%, deposits by 240%, and loans by 2300%. Growth is accelerating, with loans more than doubling in 1995 and deposits and share capital rising by half. Loans account for 64% of deposits, and the recovery rate has risen to above 98%.

The training of local members and empowerment of their elected officials has led to differences of opinion with the government technocrats. There is also some concern that accelerating expansion through external lines of credit (often attached with specific objectives) could undermine the savings mobilization and autonomy that motivates the network.

Source*: Adapted from Mosele, L. for the World Bank, The Virtual Library on Microcredit, http://www.soc.titech.ac.jp/icm*

Le Projet de promotion du petit crédit rural (PPPCR)
Burkina Faso

Background

Le Projet de promotion du petit crédit rural (PPPCR) was founded in 1988, adopting a Grameen Bank style model for Burkina Faso. PPPCR emerged in a difficult climate for microfinance institutions, including negative real interest rates, rigid policies, and a restrictive legal structure. The villages PPPCR serve depend on agriculture and small industries that are particularly susceptible to droughts, threatening economic security. Numerous attempts to provide credit to these regions have failed in the past due to low repayment, credit offerings with no emphasis on repayment, misguided targeting of economic activities, and inappropriate terms and conditions.

PPPCR was spearheaded by Dr. Konrad Ellsasser, with support from the French research organization, *Centre de coopération internationale en recherche agronomique pour le développement* (CIRAD) and the principal French aid agency, *Caisse française de développement* (CFD). Initially, 30 trial loans were granted in the villages of Banh and Ziga in northern Yatenga. 100% of these loans were repaid and CFD subsequently granted CFAF 3 million (US $6,000) to start a full scale lending operation with PPPCR as the operations branch for loan distribution and Sahel Action as the administrative unit. In turn, this unit collaborates with the principal agricultural development bank in Burkina Faso, *Caisse nationale de crédit agricole* (CNCA) and the Burkina Faso office of CIRAD. CFD provides interest free credit lines to CNCA, which in turn lends it to PPPCR at a 9% interest rate.

PPPCR was created specifically to provide credit to the poorest segments of the population in the drought prone areas of Burkina Faso. Operations are managed largely by local personnel, with CIRAD in a support-role, sponsoring feasibility studies, training, and management information systems. PPPCR operations are overseen by a committee of members from Sahel Action, CNCA and CFD.

Project Evolution & Outreach

In the early 1990's PPPCR began the transition from an experimental program to a financial institution, gradually increasing local control of its operations. Local staff favored a decentralized lending system while new management favored a centralized system as a form of internal control and unification. There was also a question raised of converting PPPCR from an NGO to a financial intermediary to improve profitability. In 1995 and 1996 these questions were resolved; PPPCR would remain an NGO for the immediate future as a change in legal status was seen as premature, and staff agreed on the organizational structure of the institution. Accountability was enhanced through written regulations on accounting, procedures, training and standards for all four regional branches and specific objectives of financial self-sufficiency.

Since 1988 PPPCR has expanded operations to the provinces of Tapoa, Ganzourgou and Soum. In 1991 it expanded to urban and peri-urban areas by providing credit to the women of the city of Ouahigouya. It has increasingly served urban and semi-rural areas; in 1995, 37% of clients were urban, 29% semi-rural, and 29% in isolated rural areas. As of 1995, PPPCR has approximately 25,000 clients with an average loan size of CFAF 29,613 (US $ 59), which is 20% of per capita GNP. This is well below the 35% of per capita GNP for loans by microfinance institutions in West Africa, a good indication that these loans are reaching an economically marginalized clientele. Its arrears rate is relatively low and has gotten even lower in recent years, going from 10.2% in 1992 to 2.3% in 1995.

Building on the Grameen Model

PPPCR has several parallels with the Grameen Bank (of Bangladesh) as it seeks to provide poverty eradication through a group lending approach, targeting the poor excluded from the formal banking system. Lending to groups increases outreach, since groups can reach a wider number of clients. PPPCR also stresses "credit-first strategies" as opposed to "savings-first strategies" relying upon external funding sources rather than local savings. PPPCR and the Grameen Bank also rely upon group solidarity and peer pressure to encourage loan repayment and serve as collateral substitutes. PPPCR has emulated the Grameen credit group of five members, which is large enough to reduce bank transaction costs and small enough to preserve group solidarity and encourage favorable repayment rates. PPPCR also uses sectoral liability as a form of group pressure to ensure loan repayment; this means that no group in the entire village can receive new loans if another group has defaulted. Lastly, PPPCR follows the lead of the Grameen Bank by directing a large portion of its loans to strictly female groups; 98% of PPPCR's clients are women. This is due to several reasons: the role of women as household income contributors has increased since the 1984 drought, women clients tend to be perceived as more accepting of the rules regarding loans, and women are shouldering the additional burden of agricultural and household duties as well as commercial activities as men migrate as laborers to neighboring Ghana and the Ivory Coast.

Adapting to the People's Needs

PPPCR has had an ability to evolve and adapt to the different conditions in Burkina Faso, as opposed to merely being a replication of the Grameen Bank model. During its initial phase, many different types of loans were tested: group loans vs. individual loans, loans to men vs. women, different group sizes, loan sizes, loan types and terms. Loans for small market activity are commonly given to women, with weekly payments based on modest, regular revenue. The sector leader is given a great deal of discretion in judging the value of any proposed market activities and the weekly repayment schedule is convenient as the money is not held at home where it is at risk of being used by other household members.

There is also a mandatory non-interest bearing savings program in which clients contribute to a common fund to be used as an emergency fund or for groups in the village that default from their loans. Savings are collected on a daily basis from clients, although the expense of daily transactions as well as their role is not well established. Clearly, the ability and willingness of low-income people to save is often underestimated in rural finance.

PPPCR has also tailored its services for the highly illiterate target population. In 1990 the adult female illiteracy rate was 91%, with rural rates even higher, excluding many from formal banks where literacy is a requirement. Many of these rural areas have an impressive oral tradition, and PPPCR uses this to explain the terms and conditions of the loans in an open town meeting, with village leaders intimately involved in the loan process as monitors, evaluators and motivational leaders. Bank officers are multi-lingual in order to communicate effectively with their clientele.

Source: *Adapted from Praxton, J. The World Bank Group, Case Studies in Microfinance, "Burkino Faso. Le Project de promotion du petit crédit rural" http://www-esd.worldbank.org/sbp/*

The Support Association for Women Entrepreneurs (ASAFE)
Association pour le soutien à la femme entrepreneur
Cameroon

Background

The Support Association for Women Entrepreneurs (ASAFE) was established in 1989 with the objective to fight poverty and the exclusion of women from entrepreneurship. In 1993, ASAFE initiated the Women's Credit and Savings (Femme-Crédit-Epargne, FCE) programme for women lacking access to bank credit. The programme is essentially directed to disadvantaged women from urban areas with tight connections to rural areas.

Methods of Credit

Credit is awarded for short periods, ranging from six months to one year, and is monthly redeemable. Maximum loan amounts are CFAF 150,000 (US $250). To benefit from a loan at the ASAFE, candidates organize into solidarity groups of a least five people. Group membership is based on honesty and integrity. Members also need to contribute financially, have a fixed address, and participate in social activities undertaken by the group, i.e. assist sick people, or families in case of death. Allocation of credit is determined according to the needs of each member and the amount of credit needed. The organization of the groups is based on mutual understanding and consensus; each group follows its own reasoning and respects its own rules. Outstanding payments are as high as 96.8% of the credits, and are auto-financed for 36.6% through interests made on loans and security deposits.

Methods of Savings

In addition to a savings plan, ASAFE utilizes insurance funds to reduce risks. In this arrangement, a contingency fund with a fixed rate at CFAF 5000 (US $9) per member serves to guarantee member's debt. Another type of savings offered by ASAFE is a scholar's saving at a variable rate that is released at the start of each new school year.

Additional Services

Financial, as well as emotional, assistance is offered to members in case of misfortune. Weekly support groups serve recovering members, and credit is extended 5000 CFAF (US $9) per member. Any member failing to reimburse this sum is automatically removed from their support group. ASAFE also provides training courses on basic business techniques and regularly assists groups by facilitating the marketing of members' products. Two other programmes launched by ASAFE is the programme ALAJI, through which members save fixed amount of money per day (varying from CFAF 200 to 5000) and collect mobilized saving at the end of the month, and the Youth and Development programme. ASAFE also publishes newsmagazines in which women and youth can freely express themselves, creating a community of support and shared experience.

Source*: Adapted from program description provided to UN/OSCAL.* ***Contact****: ASAFE, B.P. 5213, Douala, Cameroon. Tel/Fax: (237) 422970.*

Cameroon Cooperative Credit Union (CAMCCUL)
Cameroon

Growth through Partnership

Between 1981 and 1993, the number of credit unions affiliated with the Cameroon Cooperative Credit Union (CAMCCUL) grew from approximately 204 to 263, while membership grew 75%, from 44,778 to 78,686. During the same period, savings increased 270%, from US $ 9.8 mil to 36.3 mil, with the average savings more than doubling to US $ 461. Based on savings deposits, the Cameroon credit union movement is now the third largest in Africa. During the same period, loans increased 208%, to $20.5 mil, with loans per member rising from $151 to $260. The loans are used to finance a variety of entrepreneurial activities, ranging from grocery and clothing stores to taxis, carpentry, and agricultural production. The growth of CAMCCUL to better serve Cameroon citizens is largely due to the successful partnership of local leadership, and the support of NGOs and external donors. For example, with the support of the United States Agency for International Development (USAID), the World Council of Credit Unions (WOCCU) established three projects between 1976 and 1992 that provided technical assistance to CAMCCUL.

Democratic Principles

The growth of CAMCCUL occurred despite a period of major political and financial upheavals. For example, in 1991 it was able to survive the civil and economic unrest of a national general strike; CAMCCUL staff had to operate behind closed doors, unable to travel to provide training and support to member unions, and some banks froze CAMCCUL assets. Nevertheless, CAMCCUL demonstrated remarkable institutional resilience during such political and economic turmoil. Much of this resilience is attributed to its excellent management and high degree of membership confidence in the CAMCCUL staff and leadership, which stem from CAMCCUL's democratic principles. As CAMCCUL's former manager, Abraham Ndofor, expresses, "The democratic nature of the movement, where members feel attached to and in control of their credit union, is critical. Members must be able, on a regular basis, to elect competent leadership, appoint efficient staff, and remove people who are incompetent." The same principles earned the respect and support of the international NGO community, as they felt an investment into CAMCCUL would trickle down into results. As results got more effective, more resources were brought to help build the capacity of credit unions. The Government also adopted a supportive stance and did not attempt to interfere with the daily management of the credit unions.

Credit Union Services

CAMCCUL has used outside resources to scale-up its services to local credit unions, including technical assistance grants to provide education and training for staff, leadership, and members. CAMCUUL services also include periodic inspections on credit union activities, culminating in a publicized annual audit. CAMCCUL has also installed a computerized data base and electronic monitoring and reporting of operating statistics, working with the National Federation of Credit Unions of Togo to adapt its management information system software.

Source*: Adapted from, Thompson, D. J. 1996. "Credit at the Grassroots; African Credit Unions Spur Development," African Recovery Briefing Paper 10: 1-8.*

Microfinance & Development (MIFED)
Cameroon

Background

In order to match the liberalization of CREDIT distribution in rural areas, the Government of Cameroon, with the financial and technical support of the French Development Agency and the International Development and Research Center, established the **Decentralized Rural Credit Pilot Project**. In its three-year phase, beginning 1 April 1995, the Pilot Project's goals included:

- Test five regions representative of the Cameroon rural economy, focusing on decentralized microfinance networks adapted to the rural setting.
- Establish a support scheme (a National Cell) with the goal of establishing microfinance institutions at the same time as forming non-governmental organizations.
- Work with banking institutions interested in the development of rural credit and savings.

In November, 1998, the second phase, called **Decentralized Rural Credit Project**, began with the objective to strengthen the achievements of the Pilot Project, institutionally reorganize the Project, and to extend the operations to three additional zones.

MIFED

Microfinance and Development (MIFED) is a private institution created under Cameroon law by all partners of the Decentralized Rural Credit Pilot Project. It was created to speed up the transfer of microfinance methodology to private Cameroon structures. MIFED seeks to initiate, promote and directly or indirectly implement microfinance activities in Cameroon and Africa in general. It is an association of private individuals consisting of paid professionals, resource persons competent in development and finance, and morally and technically recognized individuals that support the association. MIFED has nine founding members, three of whom are professionals of the Decentralized Rural Credit Project.

MIFED Achievements

As of June 1999, MIFED supported seven networks of Self-managed Village Savings and Credit Banks (CVECA). Support was provided through five Cameroon non-governmental organization (NGOs) created by MIFED. There are a total of 72 banks with 13,729 members, of whom 37% are women. The Banks have mobilized savings of 500 million CFAF (US $ 765,696) and have distributed credits amounting to 760 million CFAF (US $1,163,859). In 1999, the average credit amount is 62,000 CFAF (US $95), with a reimbursement rate of 99%.

MIFED Management Guidance

MIFED offers professional management and guidance to all interested support groups. Cameroon NGOs involved in the project have been trained and are monitored in the methodology of Self-managed Village Savings and Credit Banks (CVECA). Each NGO provides a professional to MIFED, through which CVECA methodology is transferred. MIFED has helped to address poor management practices among village leaders and support groups, through better transparency and control systems to encourage accountability and avoid management crises.

***Source/Contact**: MIFED - Microfinance et Développement, B.P. 4340, Yaoundé, Cameroon. Tel/Fax: (237) 205486, Email: cidr@iccnet.cm*

The Alexander Business Association (ABA) Small and Micro Enterprise (SME) Project Egypt

Background

The Alexander Business Association (ABA) began its activities in 1983 as an economic committee of the Alexandria Chamber of Commerce to provide support for the private sector, promote the interests of businessmen, and provide networking opportunities. This concept soon developed beyond advocacy to encompass community service. ABA members began to help construct and upgrade hospitals, schools, and other social institutions in poor areas of Alexandria. These additional activities necessitated the formation of an independent entity, and accordingly ABA was registered in 1988 as a private non-profit NGO with a 15 member managing board elected by the 300 member association.

Impressed by the focus and direction of ABA, the United States Agency for International Development (USAID) entered into a formal relationship with ABA in 1989 to implement the Small and Micro Enterprise (SME) Project in metropolitan Alexandria. The SME Project was initiated in 1990 and achieved operational self-sufficiency by 1992, two years earlier than expected. The programme continues to cover all of its costs, while scaling-up its operation.

Provisions of Microcredit

The SME Project provides short term successive loans to the same enterprise ranging from L.E. 1,000 to L.E. 25,000 (US $300 - US $7,500). The project is tailored towards the particular needs of SMEs. Loans are offered with few prerequisites, flexible repayment conditions, and hands-on technical assistance. The Project delivers loans within 14 days for first-time borrowers and within 72 hours for repeat borrowers. More than 2,000 loans are extended per month. Between 1990 and 1999, the Project lent over 108,403 loans totaling over US $94.82 mil. to over 37,330 clients (the average loan size was US $875.) Loan releases are made on scheduled days, with two new and four repeat loans released per month. Clients are served by 120 loan officers assigned to 10 branch offices. The current borrower growth rate is about 140% and the delinquency rate is less than 1%.

Training

Established by the SME Project, the Alexandria Small Business Center (ASBC) performs as a complementary function to the credit delivery scheme. It is a technical support facility designed to address the non-financial needs of SMEs by upgrading managerial and technical skills. It provides training in areas such as: cost/benefit analysis, book keeping, social security, production planning, quality improvement, marketing, and business administration.

Scaling-Up its Operations

In 1997, ABA expanded its activities to provide credit in another region of Egypt, the Kafr El Sheikh Governorate, where an additional two ABA branches were opened. This expansion is part of ABA's efforts towards developing decentralized operations at a national scale. ABA is also initiating a microcredit programme specifically designed for urban-based female microentrepreneurs in Alexandria.

Source*: Adapted from ABA programme description, Microfinance Network,*
http://www.bellanet.org/partners/mfn/aba.html
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The Credit Guarantee Company (CGC) for Small Scale Enterprises Egypt

Background

The Credit Guarantee Company (CGC) is an Egyptian Joint Stock Company, private sector, established in 1989 according to the statutes of Law 159/1981, and with cooperation between the Ministry of International Cooperation (MIC) and the United States Agency for International Development (USAID). Shareholders of CGC are drawn from Egyptian public and private sectors, joint venture banks, and one insurance company. CGC was established to guarantee loans and credit facilities offered by banks to small scale enterprises that lack sufficient collateral for expanding existing activities and outreach. CGC has several programmes towards its mission to improve the welfare of Egyptian citizens.

Small Scale Enterprises

The Small Scale Enterprise project provides services to any entrepreneur seeking to establish or expand an enterprise, as long as he/she adheres to CGC terms and conditions. A small scale enterprise has to be a legal entity. CGC guarantees up to 50% of loans and credit facilities offered by banks to small scale enterprises in all economic sectors, including education, tourism, transportation, services, contracting, agriculture, food processing, and mining. CGC guarantees are offered to finance fixed asset and/or working capital. The minimum guarantee to a bank or credit facility for any entrepreneur is LE 10,000 (US $2940), and the maximum is LE 700,000 (US $205,882). This allows qualifying small scale enterprises to acquire loans from a bank ranging from LE 20,000 to LE 1,400,000 (US $5,882 to US $411,764). CGC collects an annual guarantee commission against the issuance of a Letter of Guarantee amounting to 1% of the outstanding loan amount.

Health Care Providers Programme

In response to the widening gap between the modest public hospital services and the quality services offered by private hospitals, the CGC Health Care Providers Programme seeks to assist medical practitioners in providing quality services at reasonable costs for the majority of Egyptians who cannot afford private medical service. The Programme aims to guarantee loans and credit facilities offered by banks to physicians, dentists, veterinarians, pharmacists, etc. **to encourage the private health care sector to provide quality medical services at a reasonable quality and cost**.

The Programme prioritizes female practitioners, social medical centres, basic health services, and members of the medical union and small medical establishments serving under- and non-served regions. Practitioners should be registered at the doctor’s syndicate and the Ministry of Health, must have practiced for at least three years, and must have a sound professional and ethical reputation. CGC guaranteed amounts should not exceed LE 700,000 (US $205,882) per practitioner or medical establishment.

Loan/credit may be used for purchasing or furnishing a clinic, purchasing medical equipment, and expanding outreach. One major criterion is the clients must contribute between 20%-35% of the project’s financing. Recipients pay the prevailing banking interest rate, and an annual commission is charged between 0.5% to 1% of the balance of the guaranteed loan/credit. CGC has formed a team of experts in different fields to assist health care providers in the Programme with preparation of application forms, financial planning, repayment scheduling, and the investment selection of appropriate services and equipment to upgrade service.

The Social Fund for Development (SFD)

The Social Fund for Development (SFD) is an autonomous governmental agency designed to protect and improve the status of vulnerable groups during periods of economic transition. Job opportunities are created by promoting income and employment generating activities, and by investing in physical infrastructure and public services. SFD loans are awarded based on the economic feasibility of the project to be developed. Beneficiaries of SFD loans must have a minimum level of education for proper management of a project, previous experience in the project field or a similar setting, seed money to implement the project, and the ability to introduce creative ideas to implement the project and train employees. The debt/equity ratio must range between 3:7. Loans range from LE 50,000 to LE 200,000 (US $14705 to $58823) and are guaranteed the same as the Small Scale Enterprise Programme. New entities receiving SFD loans enjoy a tax holiday for five years.

Business and Technology Incubators

The incubator is basically a microfacility providing an integrated and affordable package of advisory support service and shared facilities to help entrepreneurs start up new businesses with small, trained, motivated management staff. The programme seeks to overcome the difficulties and delays small entrepreneurs confront by carefully nurturing fledgling firms until they grow into healthy viable businesses. In addition to credit guarantees (which operated the same as the Small Scale Enterprise Programme), the incubator programme is comprised of different activities to support self-owned businesses, disperse economic activity to non-metropolitan towns and rural areas, involve women and youth, and bridge the cultural gap between universities, research centres, and private and state enterprises.

Sources*: Adapted from "Africa Advocacy Forum: Microcredit and Poverty Eradication: Report of a One-Day Briefing," UN/OSCAL, New York, 1997, and "Poverty Eradication in Africa: Selected Country Experiences," UN/OSCAL, New York, 1998.*

The Small Industries Project (SIP) of Zabaleen Settlement Egypt

Background

The Small Industries Project of Cairo was launched in 1983 as a key component in the broader community development programme in the settlement. The extension of small loans played a key role in the project, which sought to assist upgrading the solid management system in Cairo.

Responsibility for the management of the solid waste system in Cairo is shared between the Cairo Cleaning and Beautification Authority (CCBA) and a traditional private-sector waste collection system that has evolved over the last fifty years. This system consists of the *Wahia* (people of the oasis) serving as brokers and administrators, and the *Zabbaleen* or the actual garbage collectors. Although this system worked well for some time, by the 1970s a fragmented work force and the informal operational structure prevented it from expanding to meet the growing community needs. The garbage collectors (*Zabbaleen*) were forced to rapidly upgrade their service to survive. Effort was effected to the conceptual and legal changes leading to the incorporation of the *Zabbaleen* into a formal waste management system, with the assistance of the Zabbaleen Environmental and Development Program. In the 1980s, the Manshiet Nasser Zabbaleeen settlement, which housed 50% of Cairo's garbage collectors, went through a massive upgrading initiative.

The Small Industries Project

In 1983, the Small Industries Project began to promote industrialization and innovation by establishing small-scale waste-recycling modules through the extension of small loans. Garbage collectors were encouraged to undertake individual projects using personal sources of finance. The Project concentrated on waste management and the creation of income-generating opportunities in the settlement. Over half the loans extended went to recycling activities with the remainder going to services.

Outcome

The project has transformed the formerly semi-rural squatter settlement into a low-income urban community with a more diversified economy featuring recycling and manufacturing industries using recycled goods. It has raised the living standards of the residents by improving access to basic services such as water, sewage disposal, electricity,, and paved roads. In 1981, there was no infrastructure whatsoever. Today, 80% of the roads are leveled and 8% are macadamized. An estimated 85% of the households no longer need to buy water, and 41% of them are connected to the main sewage network.

***Source**: Adapted from Neamatalla (Urban Management Programme, Arab States) in "Sustaining Financing Strategies for Housing and Urban Development," United Nations Centre for Human Settlements (Habitat), 1996.*

Africa Village Academy (AVA)
Savings and Credit for Enterprise Development (SCED)
Ethiopia

Background

The African Village Academy (AVA) is an indigenous, nongovernmental development organization committed to working in partnership with individuals, families, and Governments towards establishing needed socioeconomic infrastructure for poverty eradication. AVA supports self-sustaining development activities that involve people as agents of their own development, stressing self-sufficiency and self-reliance. Initiated in 1993, the Savings and Credit for Enterprise Development (SCED) is one of AVA's key programs, designed to provide credit, encourage savings, and understand its clients and their needs. SCED provides credit for clients who utilize self-selected group membership as collateral, are credit worthy, or (on occasions where training has been provided) know a responsible person with sufficient salary and assets to be used as collateral. Special emphasis is placed on increasing the access of credit to women to address their social and economic disadvantages and discrimination within the formal banking system. Credit and savings are used to finance the development of micro- and small-scale enterprises.

Seven Step Training

Training is a central component of SCED, including skills such as savings and credit utilization, basic management, bookkeeping, and marketing. Training is broken down into seven key steps. **Step one** introduces various types of financial institutions and instruments, including commercial banks, money lenders, and traditional revolving savings and credit mechanisms, such as *Ekub* and *Eder*. In general, *Eder* is used by 100% of the clients, *Ekub* by 70%, money lenders by 25%, and commercial banks by less than 1%. Clients prefer to avoid banks as they feel unwelcome and seldom receive proper attention. **Step two** encourages clients to actively participate in discussion, examining themselves and their marketable skills. Each client is given homework to visit the market place and identify some activities they would like to engage in and determine the initial capital to start such an enterprise. In **step three**, clients discuss in detail their market findings and potential enterprises, verifying raw material costs, packaging of products and services, and marketing challenges. During this stage, the clients also examine group collateral, what it means, and how it can serve them. They are also asked to find additional members to join, forming groups of typically four to five people.

Step four elaborates the purpose of group formulation, stressing the responsibility of group collateral. As clients are not yet in the position to come up with regular collateral, they themselves can become the guarantors for their group. While AVA encourages group collateral, in urban centres it prefers to graduate clients from group collateral to individual credit based on credit worthiness because micro enterprise in the urban setting is not as stable as rural life. Discussion at this stage also covers basic business plans, with specific plans for each group expressed on paper, specifying the type of business undertakings, the market place for the product or service, necessary raw materials and tools, and the basic budget. In **step five**, clients introduce the members of their groups, with up to ten groups from the same area forming a unit. Emphasis is placed on knowing the unit members, how to support each other, and the benefits of mutual support. At this stage groups also discuss the actual credit arrangements and requirements: principal, interest rate, savings rate, repayment schedule, and penalty for late payment. The collective decision on the interest rate has to follow the rate set by the State so that clients are better able to later receive credit from a bank. It is also made clear that SCED credit is not free money and requires interest charges, and that AVA has a service charge of 5% taken from the initial credit awarded to clients.

In **step six** group members present their basic plans, which needs to be approved by the other groups in the unit. Group members need to be prepared to support other proposals with their own credit. Knowledge, skills, and experience among the clients are shared to enhance group proposals, and proposals are changed and improved based on the feedback. Only group approved plans qualify for credit. In the final stage, **step seven**, all steps are reviewed and leading questions are asked to reinforce understanding of the programme. Business contracts are read one final time before each member signs the contract as collateral and guarantors for the SCED credit. In most cases, groups give the first credit allotments to those members who have the greatest need.

Weekly Meetings

After the seven step training sessions are completed, the units continue to meet in their groups weekly, along with AVA's credit agent. Groups come together to make weekly payments and inform each other. AVA has sought to cultivate a family feeling at the weekly meetings with coffee, ceremonies, bread and food sharing, etc., strengthening the community and support for the program. Awards are sometimes given to the best paying clients.

The Role of Savings

AVA strives to reinforce the culture of savings and the values of capital accumulation among the poor for financing micro-enterprises. Savings is a requirement for obtaining credit. During the seven step training, clients decide on the amount of savings per week that they plan to undertake. If clients continue to receive an additional round of credit, they cannot use the pre-existing savings; thus, clients can use their savings only after all the credit has been paid back and they have left the programme. All the clients' savings are placed in commercial banks under their individual names, but bank books are kept with AVA so that clients are not tempted to use their savings while still in the programme. Typically, clients save at least 10% of their earnings.

Legal Considerations

AVA has advocated for legal status as a provider of credit and for the State to legally recognize financial intermediaries and microfinance services. It took over three years for a microfinance proclamation to be made and regulations set. The major setback in this process is that the interest rate ceiling at 12% is unsustainable for microcredit providers. AVA cautiously recommends that credit providers start microfinance institutions and show the State that sustainable development among the poor cannot be realized unless a reasonable rate of interest is set by the National Bank. AVA strives for a legal arrangement that recognizes that any credit provided to clients under the proclamation is under contracts respected by clients and enforced by the law. Such a legal arrangement will strengthen not only the credit provider, but also the creditor and his/her enterprise.

Source*: Adapted from "Poverty Eradication in Africa: Selected Country Experiences," UN/OSCAL, New York, 1998.* ***Contact****: AVA, P.O. Box 70099, Addis Ababa, Ethiopia. Tel: 251-1-71 or 59/201683. Fax: 251-1-65 2280. Email: avfs@telecom.net.et*

Redd Barna/Save the Children-Norway
Ethiopia

Background

Redd Barna, also known as Save the Children-Norway, is an international NGO operating in Ethiopia since 1969. It focuses on child welfare and health, education, agriculture, and income generation. The objective of these programmes is poverty alleviation. Income generation activities were introduced to Redd Barna programmes in 1988 via their savings and credit cooperatives (SACC). These initiatives are considered to be particularly important in rural areas, which are poorly serviced by formal financial institutions. Credit to the poor is in the form of grants and agricultural inputs, with women being the primary target population of these programmes.

Structure of the Microfinance Programme

SACCs are established through the formation of associations in urban areas, and informal self-help women's groups in rural areas. A group or association desiring to start an SACC must come up with the minimal starting capital from membership and registration fees and periodic savings. Saving is an integral and complementary obligation, ensuring the financial sustainability of the SACCs and increasing the commitment of participating members.

Redd Barna provides SACCs with basic starting capital or a grant to strengthen their loan disbursement abilities and support their sustainability efforts. SACCs are also given technical support in group formation and management, basic accounting skills, savings and credit procedures and record keeping.

Targeting and Financial Performance

The World Bank Action Research Programme recently examined an urban SACC in Addis Ababa and a rural SACC in the Wolayita zone in the south. The Action Research Programme facilitates the exchange of information on innovations and experiences of microfinance institutions to facilitate learning from mistakes and to replicate best practices. Their findings are summarized below.

The Addis Ababa SACC was established in 1990 to assist the patients of a leprosy research and treatment center. By 1997 it had received a grant of Birr 81,000 (US $12,090) from Redd Barna and had amassed Birr 83,206 (US $12,420) in savings, Birr 9,240 (US $1,380) in membership fees, and Birr 12,424 (US $1,854) in retained earnings.

The Wolayita SACC was started after the 1984-1985 drought in response to a government appeal for intervention. Having participated in previous drought relief efforts, Redd Barna was particularly concerned with assisting with long term development needs. The Wolayita Women's Self-Help Scheme has been involved in agricultural production and marketing, and has an impressive financial performance. It received a grant of Birr 66,000 (US $9,850) from Redd Barna and has accumulated savings of Birr 66,390 (US $9,908) and retail earnings of Birr 86,408 (US $12,896).

Impact

Many clients were very positive about the SACCs, especially women who were able to transform and expand their businesses. Mutual trust among SACC members has been critical to assuring the regular repayment of loans. Clients indicated that the savings and credit programmes have helped improve their livelihoods and had a positive impact on the lives of their children, with considerable improvement in their nutritional status.

***Source**: Adapted from the World Bank, Findings Africa Region. Number 133, April 1999. "Ethiopia: Two Microfinance Delivery Programs."*

Sidama Development Corporation (SDC)
Ethiopia

Background

Irish Aid, the development cooperation organization of the Irish Government, began supporting community development programmes in Ethiopia in 1994, following the signing of a technical cooperation agreement. It supports development programmes in Eastern Tigray – Adigrat, Gurage, and the Sidama zones of the Southern Ethiopia Peoples Region (SEPR), and the Jimma Health Institute. The focus is on health, education, agriculture, infrastructure, institutional development, and the provision of credit to rural poor women.

The Sidama Integrated Rural Development programme is the largest Irish Aid sponsored programme in terms of coverage and funding. Projects are implemented directly by the appropriate Government sector ministries or by the Sidama Development Corporation (SDC).

Sidama's Microfinance Programme

The Sidama Savings and Credit Scheme started in 1995 and operates in eight of the nine *weredas* (districts) in the Sidama zone. It follows the existing Government structure based on the *kebele* (village) and *wereda*, working closely with the Bureau of Agriculture. It draws from the Grameen Bank of Bangladesh's microfinancing model, stressing collective group principles.

By the end of 1996 the Sidama Savings and Credit Scheme had individual savings of Birr 138,000 (US $205,970), group savings of Birr 34,500 (US $5,149), and center savings of Birr 36,000 (US $5,373). It disbursed a total of 3,380 loans and was able to handle the loan requirements of their most needy members. The loan repayment rate was 97%.

Three rural sites in the Sidama Savings and Credit Scheme were selected for the World Bank's Action Research programme. This Programme facilitates the exchange of information on innovations and experiences of microfinance institutions to facilitate learning from mistakes and to replicate best practices.

Benefiting Women

The clients of the microcredit schemes are all women, who comprise 48% of the population in the Sidama zone. The average number of children per woman in the Sidama zone is very high, about 6.25 children per woman. The economic pressure on the breadwinner to maintain the family is intense. In the Sidama region and in Ethiopia in general, women have limited or no access or control over resources such as farm produce, property, cash, land, cattle or other assets. The Sidama region has a polygamous society where the mother is responsible for the food needs and general welfare of her husband.

According to the clients interviewed from the three rural sites, the Sidama SACC has provided liberation from moneylenders, who used to be the sole providers of credit. Clients formerly had to agree to 100% interest during the following harvest season to receive any credit. It has relieved domestic tension arising from the husband's inability to pay household expenses and enabled many clients to send their children to school.

Husbands were initially reluctant to allow their wives to participate in the Sidama SACC, as many Ethiopian societies do not allow women to engage in trade. An attitude change regarding the suitability of women engaging in trade has arisen, and some husbands keep their wives informed on profitable trading activities.

***Source**: Adapted from the World Bank, Findings Africa Region. Number 133. April 1999. "Ethiopia: Two Microfinance Delivery Programs."*

Caisses villageoises d'épargne et de crédit
The Gambia

Background

The *Caisses villageoises d'épargne et de crédit* programme started in 1988 under the tutelage of the *Centre international de développement et de recherche* (CIDR) with support from *Kreditantstalt für Wiederaufbau* (KfW). The objective of the *Caisses villageoises d'épargne et de crédit* is to create village banks (*caisses*) that can mobilize local capital as savings and re-inject it as credits to finance productive activities.

Savings First

Most village banks rely initially on savings, and then after a couple of years, they begin lending, sometimes obtaining refinancing from a commercial bank, a development bank, or the central bank to leverage its funds.

High Interest Rates

In part as a result of the programme's decision to stress indigenously mobilized deposits over external funding, annual interest rates tend to be rather high. Of the six individual village banks offering financing services in the southern part of The Gambia, none charged annual interest rates lower than 40%, and some rates reach as high as 60%. The village banks also rewarded depositors at above market rates as savings earn 20-30% interest per annum. Interestingly, these high interest rates are not set by foreign practitioners concerned with sustainability. Village assemblies meet and decide on the composition and responsibilities of credit committees, the interest rates, and the types of savings instruments. The alternative source of credit for microentrepreneurs is moneylenders, and villagers reportedly are willing to borrow at annual interest rates as high as 40-60%.

Loans & Repayment

Loans are quite small. The maximum loan size is set at US $300, and the average loan size is between US $20 and US $40. In 1991, the six village banks made 621 loans for 240,000 Dalasis (US $24,000) with an average maturity of 5.6 months. They mobilized CFAF 3.2 million (US $10,700) in savings.

Repayment rates are high. In 1991, the lowest repayment rate reported among the six village banks was 92%, and some registered rates of 97%.

High Quality Service & Performance

Although the programme of the *Caisses villageoises* operates on a moderately small scale, the quality of service appears to be high. Unlike in many other Gambian microcredit programmes, there is no targeting of loans in terms of their use; repayment rates are high; interest rates are above the commercial level, and collateral substitutes are used efficiently and effectively to enforce contracts. This programme illustrates clearly that the fundamental constraint in financial services for microenterprises is not the high price of credit, but rather access to loans.

***Source**: Adapted from Esim, S. in "The Informal Sector and Micro-Finance Institutions in West Africa," L. Webster and P. Fidler (Eds.). The World Bank. 1995.*

Citi Savings and Loans Company Ltd., Ghana

Background

Founded in 1992 by two commercial bankers, Citi Savings & Loans Co. Ltd., offers financial services to the micro and small business sector. Citi S&L built its first office in a market complex and opened its doors to the general public in August 1993. Now it has three branches in or near market centers in Accra. It is licensed by the Bank of Ghana as a non-bank financial institution (NBFI). The creation of this unique financial institution was in response to the acute problem of inadequate financing for micro and small-scale entrepreneurs, and was made possible by a new law governing the operations of NBFIs.

Target Group

Citi S&L specifically targets female entrepreneurs because it is convinced that if women have economic power and the ability to engage in meaningful income-generating activities, they will improve their social status. The focus is on working through recognized groups, product/trade/market associations and clubs located in the market, commercial and residential neighborhoods. Innovative lending schemes also involve traditional *Susu* clubs and collectors, NGOs, and credit unions. Clients' occupations vary: producers and processors of agricultural products, traditional caterers, butchers, seamstresses and tailors, batik artisans, handicraft workers, carpenters, masons, painters, plumbers, taxi/bus drivers, small hotel operators, etc.

Savings and Loans Operation

Citi encourages its clients to open two accounts, a current account and a savings account. Many clients pay their daily earnings into their current account and place a portion of their net earnings into their savings account, which provides interest and something to fall back on if the need arises. Loans ranging from \$20 to \$5,000 are available for groups and clubs that engage in rotation savings for short loan terms. **A savings balance is the only collateral a borrower is required to be considered for a loan**. All accounts are computerized and fast electronic cash counting services are offered to serve the large clientele. Citi recognizes the importance of flexibility of operations for the convenience of its customers and offers extended banking hours.

Outcome

At the end of 1997, Citi S&L had approximately 13,000 clients, 70% of whom were women. Members of the *susu*/trade product groups have been especially successful with repayment rates of up to 98%. Citi recently developed a strategic plan in which they committed to increase staff productivity and profitability in the future. Citi S&L has identified considerable interest in export-oriented activities among its clients and is encouraging the export of traditional products, including pineapples, yams, coconuts, spices, cola, woodwork, and embroidered clothes. It offers advice on export packaging and is constantly searching for additional export markets for clients.

***Source**: Adapted from "Profile of Citi Savings and Loans Company Ltd." Accra, Ghana, 1995. And ABA programme description, Microfinance Network, http://www.bellanet.org/partners/mfn/*
***Contact**: Watson House, P.O. Box 353, Accra, Ghana. Email: citisl@africaonline.com.gh*

Enhancing Opportunities for Women in Development (ENOWID) Ghana

Background

The project on Enhancing Opportunities for Women in Development (ENOWID) was initiated in 1990 to address poverty and to empower poor and marginalized rural women. ENOWID seeks to enhance women's capacity to increase their incomes through provision of credit, training, improved marketing facilities and simple and appropriate technologies. This is achieved by linking their increased income to improved family welfare, organizing low-income rural women for technical inputs, and diversifying their economic activities.

ENOWID is a collaborative effort between the Government of Ghana, UNIFEM/UNDP, UNFPA, CIDA and USAID. The implementing agency is the Department of Community Development (DCD). The project covers Volta, Western and Brong-Ahafo regions.

Credit Scheme

The credit and savings method used by ENOWID is modeled on that used by the Grameen Bank, stressing a collective group structure. Loan collateral consists of a group guarantee. Group members carry out individual businesses, but oversee the loan as a collective group, including assessment of a member's loan requirements, monitoring progress, and collection of membership dues. Peer pressure works to ensure loan repayment to ENOWID.

The loan cycle is six to eight months. Loans are awarded with a minimum of ¢200,000 (US $ 80) and a maximum of ¢500,000 (US $200) per woman as determined by the group members. The interest rate on loans is 45% and on time recovery rate is 98%. Moneylenders in these regions typically charge between 20-30% per month with a processing fee of ¢5,000 (US $2) to ¢10,000 (US $4).

The credit scheme has a revolving fund from various donors of ¢780 million (US $312,000) with an infusion of over ¢600 million (US $240,000) from UNDP since 1996.

Empowering Women

An evaluation report done in July 1997 by a Community Development Consultant indicates that the 7,000 women through groups have mobilized ¢80 million (US $32,000) and have established improved systems of credit delivery and savings mobilization.

ENOWID has had a positive social impact, empowering women by creating additional sources of income and thus reducing their economic dependency. It has brought women together into groups, creating supportive relationships to combat social problems and enhance community development. The project has also created a greater degree of credit awareness among its women clientele, cultivating a business-like attitude and an understanding of how to use banks and loans towards their empowerment.

The project has strong leadership and encourages a participatory methodology. It is working hard to transform to become a membership-based institution, preferably a trust. The formal approval has not been obtained from the Government.

***Source**: Adapted from Mbai, B. and J. Akwasi-Kuma. 1997. "UNDP Microfinance Assessment Report for Ghana (Prepared as a component of the MicroStart Feasibility Mission)."*

Garu Rural Bank
Ghana

Background

The Garu Rural Bank was set up in 1983 under Ghana's Rural Banking legislation to support community development in rural Ghana. The legislation aimed to create banks that would serve populations otherwise marginalized from financial services. Each bank was to serve an area with a radius of about twenty miles as a unit bank, operating relatively autonomously.

Overcoming Problems

In 1991, the Garu Bank was near collapse as a result of embezzlement and bad loans. The local people of Garu had come to value the Bank's services, and in response to the predicament they persuaded a member of their own community who was working with Accra to return to the area and manage the Bank. Share capital for the Bank was provided by the local community, the Catholic Mission, the local Agricultural Station and a Disabled Rehabilitation Centre. Alongside an additional capital injection of US $30,000 received from oversees donors via the Catholic Mission in 1992, the recruited manager has been able to turn the bank around and in 1995 it turned in a profit for the first time.

Outreach

The Garu Bank has a range of clients, including local salaried workers such as teachers and government employees. Such clients have proven good business for the Bank because they take loans that are easily recoverable as deductions from their regular salaries. The Bank also provides services to over 300 farmers groups. Some of these groups stemmed from traditional groups existing in the area. Others were formed by the local Agricultural Station and the Catholic Mission, many of which purchased shares in the Bank when it was established and have had proven accounts for some time. Group solidarity has proven useful in ensuring that individual members honor their repayments.

Loan Criteria

The manager has established specific criteria for a farming group to receive a loan. First, the group should have been operating for at least six months. They must also show regularity of savings as an indicator of group cohesiveness, with savings balances of at least 10% of the loan amount. Loans must be repaid on time to qualify for a new loan the following year.

Lesson Learned

The manager's restructuring of the Bank's administration and operations was successful, illustrating how the dynamic input of one individual can enhance a programme. The manager personally went out to meet farming groups and other clients to discuss and understand their needs, as well as the Bank's needs. Consequently, the manager was better able to devise an approach that served both the community and the Bank. Of course, the support of the community that recruited the manager also played a key role in successfully rebuilding the Bank.

***Source**: Adapted from Johnson, S. and B. Rogaly, "Microfinance and Poverty Reduction," Oxfam in collaboration with ACTIONAID. The Virtual Library on Microcredit, http://www.soc.titech.ac.jp/ic*

TechnoServe
Ghana

Background

Established in Ghana in 1971, TechnoServe was one of the first NGOs to work with microfinance in Ghana's agricultural sector. TechnoServe's mission is to assist rural communities in technical training and management of finances to achieve poverty reduction through increased productivity and incomes, and employment creation. Although TechnoServe believed that savings is the key to financing small community-based enterprises, it eventually became convinced that credit was also necessary and has consequently developed a financial mediation strategy with innovative mechanisms for microenterprise financing.

TechnoServe's Approach

TechnoServe identifies groups interested in managing rural enterprises and provides training in group formation, leadership skills, and basic business management. This approach was designed to build community commitment and ownership of the enterprises. In 1995, TechnoServe assisted approximately 60 community-based enterprises, which benefited about 25% of the total population of the communities in which they operate. Basically, TechnoServe helps to ensure bankers that the enterprises they lend to are well designed and managed, economically viable and closely supervised, and therefore creditworthy.

TechnoServe's financial inter-mediation strategy incorporates a number of practices that have evolved from experience. It focuses on post-harvest activities rather than agricultural production to reduce the risk of loan default. Farmers receive cash on credit and guarantee it with the harvested produce that is stored for better prices when demand is high. Groups use group lending with mandatory savings. Loans are obtained from commercial banks with financial collateral from TechnoServe and the farmers' stored produce. Training in produce storage, crop management, and cash management is provided to reinforce the operation.

Maize as Inventory Credit

Due to the large supply of maize during the harvest period (September-October), TechnoServe and the Ministry of Food and Agriculture assist small farmers to shell, dry, fumigate, and store their harvested maize. Using the stored maize as collateral at local banks (sometimes with TechnoServe as a guarantor), farmers are able to repay post harvest debt. During the lean season (April-June), when prices have risen to sometimes more than 200%, farmers sell their stored maize to repay their loans and for household consumption. In its linkage with the African Development Bank (ADB), TechnoServe sometimes provides 100% coverage for the funds lent to client groups, but once trust is established between the clients and the banks, then TechnoServe opts out.

Outcome

Between 1990 and 1994, TechnoServe mobilized a total of US $17,407 in savings among members. Average loan sizes per beneficiary were: US $39 for cereal inventory, US $55 for agricultural input loans, and US $2079 for palm oil processing groups. Beneficiaries of the inventory credit programme averaged net incremental benefits from storing produce of between 58% and 90%, and post-harvest losses were reduced to an average of 5% compared with and estimated national average of 30%.

***Source**: Adapted from the World Bank's "Findings, Africa Region. Number 110. May 1998," and the UNDP's "Microfinance Assessment Report for Ghana," September 1997.*

Informal Financial Services
Guinea Bissau

Background

Economic reform following structural adjustments in the 1980s has brought considerable increase in retail and service activity in Guinea Bissau. Informal sector products, including cloth, processed food, wooden tools and furniture items, have increasingly appeared in local markets. According to a 1990 survey of 605 enterprises, most informal sector activities were concentrated in Bissau, with 30% in industry, 25% in commerce, 43% in services, and 2% in agriculture. Over 65% of these activities were started with an investment of US $750 or less, of which less than 2% came from the banking system. Access to financial services is largely absent from Guinea-Bissau and consequently informal financial services play an important role. Informal savings and credit institutions are generally either bilateral relationships between two unequal partners or informal guilds involving two or more relatively equal partners.

Bilateral Relationships

Bilateral relationships involve an informal written or oral contract between two unequal parties in which one party agrees to transfer capital to another for a fixed time period.

- **Kin-based credit** is the more common form of lending among relatives, neighbours, friends, and acquaintances. The terms will vary greatly depending on whether the loan is seen as a form of benefaction, reciprocity, or money lending. Kin-based loans tend to have little or no interest, no guarantees or collateral, and indefinite or flexible repayment schedules. Interest can be disguised by calculating higher barter rates for in-kind loans.

- **Client-oriented credit** consists of an advance of cash, goods, and services from a money lender to a borrower. These contracts are usually oral, and have terms of two to six weeks with some exceptions (perishables are lent for one day to one week). This type of credit is secured by one of three types of collateral: a guarantor who vouches for the borrower, a pledge or *penhor* in which jewelry or some article of greater or equal value is given to the creditor, or the possession of a license or *alvara*.

Informal Guilds

Informal guilds are of three types: blocs, buyer and/or vendor associations, and savings associations.

1. **Blocs** are cartels (mostly Mauritanians) organized into several distinct groups that promote members' interests and are guided by sanctionable codes or behavior. They procure consumer goods at wholesale rates from importers with the objective of establishing a monopoly for particular commodities. Each member contributes a fixed sum to a common pool used to purchase all or most of the available supply of a selected commodity.

2. **Buyer and vendor associations** are based on kinship and friendship and divided into smaller groups. A member will purchase a commodity and distribute it to each member according to the funds contributed. The commodity is sold at one vending table, with each member deriving earnings based on individual sales.

3. **Savings associations** or *abota* are commonly seen in small-scale marketing systems. In an *abota*, several marketing agents, usually of a similar social or professional status or occupying adjacent stalls in a marketplace, will contribute a fixed sum of daily, weekly, or monthly earnings to a common fund. This fund is

given to each member of the association in succession. *Abotas* usually consist of five to thirty individuals of similar age, gender, ethnic, and occupational status. They may only form seasonally in keeping with crop or labor cycles. Some *abotas* serve as emergency funds, while others are oriented specifically towards the purchase of expensive, durable equipment.

Religious security funds are sometimes established by communities or churches as emergency funds to assist members during personal or community crisis.

Professional security associations have been developed by some employees of high-risk informal professions. The most notable examples are locataire associations in which roughly 15 members contribute into a common fund kept by one of the dues collectors.

Source*: Adapted from Crowely, E. 1993. "Informal Financial Services in Guinea Bissau," in "The Informal Sector and Micro-Finance Institutions in West Africa," L. Webster and P. Fidler (Eds.). The World Bank. 1995.*

Kenyan Rural Enterprise Programme (K-REP)
Kenya

Background

The Kenyan Rural Enterprise Programme (K-REP) was established in 1984 initially as an intermediary NGO supporting the microfinance sector, and has evolved into a private microfinance institution registered as a Company Limited by Guarantee. Its mission is to facilitate poverty alleviation by developing systems and institutions to financially support disadvantaged people. K-REP has developed strong relationships with many international donors, as well as other Kenyan and African development organizations. K-REP was founded with funding from USAID, and has also received substantial funding from the Ford Foundation. Its equity has largely been based on donor grants through 1994 and retained earnings since that time. However, as an NGO, K-REP does not have owners who share in profits or expect a return on equity; all profits are reinvested.

Organizational Structure

K-REP has been successful in building an efficient organization through a well-defined organizational structure, a decentralized branch network favoring client proximity, evolving management information systems tools, and personnel policies that encourage productivity and accountability. A Board of Directors governs the NGO, providing direction and leadership, and formulating operational and organizational policies, such as credit policies, fund raising, and capital formulation policies. The executive management consists of the Managing Director, and two Deputy Managing Directors who head the Non-Financial Services Division (which oversees research and evaluation, training, and documentation and information of small enterprises) and the Financial Services Division. The Financial Services Division (FSD) is divided into an Eastern and Western region, with a total of five Area Offices. Each Area Office (AO), in turn, has between two and six field offices, which may be located as far as 100 kilometers away from the AO and are managed by credit officers. This structure facilitates geographical outreach. In 1995, an estimated 98,000 small- and microenterprises received formal credit from K-REP.

Financial Services

K-REP operates two loan programs for small and microenterprises, *Juhudi* and *Chikola*.

1. **The *Juhudi*** was initiated in 1989 and is based on the methodology used by the Grameen Bank. *Juhudi* involves larger groups (called *Kiwa)* that act as an administrative and legal entity through which loan transactions are made to four to seven small groups (called *Wantano)*, each consisting of three to eight individuals. Loans are lent out in a sequence of three rounds (a maximum total of US $2430) in which recipients graduate to a bigger loan as long as they save at least 20% of the loan amount requested. Each *Kiwa* develops its own operating procedures and systems, provides a guarantee of repayment of individual member loans, and stands to forfeit group savings in case a member defaults. Some *Kiwas* require that members provide personal assets as collateral for loans.

2. **The *Chikola* programme** was initiated in 1991 and works through existing rotating savings and credit associations (RoSCAs) that are comprised of individual microentrepreneurs. Under this programme, K-REP provides a single loan to an established group (average membership of 20 persons) that retails the loan to its individual members. The loan limit is about US $450 per member for the first loan with subsequent loans varying in size according

to the needs of the group and its individual members.

Loans for the *Juhudi* and *Chikola* have an annual nominal interest rate of 35%, with a 1% loan application fee. Loans are normally paid over a 12 month period for the first loan and 18-24 months for subsequent loans.

Outreach

As of 1996, K-REP had provided US $4.4 million in loans to over 12,451 clients. In 1995, the five Area Offices had a client base of 576 *Juhudi* and *Chikola* groups, with the latter accounting for 65% of the total groups and 70% of the borrowers. Member savings in 1995 totaled US $989,300, with over 15,014 active savers. K-REP estimates that their services created over 13,000 jobs and sustained over 14,000 jobs. Women account for about 46% of the total number of active clients.

Formation of a Commercial Bank

While K-REP has relied on donor grants to cover expenses and provide loan capital, in 1995 it began to convert its Financial Services Department to a commercial bank – K-REP Bank Ltd. – to assume its microfinance operations. Four reasons informed this conversion: the need to find alternative ways to fund its expanding loan portfolio by mobilizing savings; an increasing demand from clients for full-scale financial service; the need to establish a market-led institution to extend microfinance services to a larger number of poor people; and the ability for the Bank to provide larger credit amounts and more sophisticated products to those borrowers that grow beyond the standard microcredit products. The Bank's owners include K-REP, the International Finance Corporation (IFC), the Shorebank Corporation, The Netherlands Development Finance Corporation (FMO), Triodos Doen, and the African Development Bank. The K-REP Bank and NGO function as completely separate institutions, although the NGO can provide services to the Bank on a contractual basis for research on impact assessment, staff training, or consulting projects.

Innovation and Flexibility

K-REP demonstrates that innovations in structure, products, and services can better serve its target population. For example, the *Juhudi* programme initially stressed an integrated approach to microenterprise development, but switched to a more minimalist credit approach without such an emphasis on training and other social service. This, in turn, resulted in greater outreach. Likewise, the adoption of the group-based lending approach to *Chikola* groups supports existing entrepreneur groups rather than excluding them, thus increasing outreach. Furthermore, K-REP has transferred and greatly reduced its administrative and transaction costs as the distribution of loans and collection of repayments are borne by the *Chikola* groups. The creation of the K-REP Bank Ltd. also illustrates the organization's innovation to scale-up its operational outreach.

***Source**: Adapted from K-REP programme description, Microfinance Network, http://www.bellanet.org/partners/mfn, and from Charitonenko, S., C. Fruman, and G. Pederson, The World Bank Group, Case Studies in Microfinance, "Kenya Rual Enterprise Program." http://www.esd.worldbank.org/sbp/*
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Kenya Women Finance Trust (KWFT)
Kenya

Background

Kenya Women Finance Trust (KWFT) was established in 1981, as an affiliate of Women's World Banking (WWB), to strengthen women's participation in the economic mainstream. By 1990, poor performance, in the form of mismanagement and a high number of non-performing loans, caused operations to be largely curtailed and the loss of donor funds. KWFT was restructured with a new board of directors of professional women, a management team and staff, and it adapted a focused group-based credit methodology.

The 1990s have seen increased support to KWFT and the informal finance sector. The Government of Kenya has provided support to sustain growth and generate employment opportunities, enacting policies and channeling resources to improve the infrastructure and flow of credit to the informal sector. External funding has also increased, with KWFT receiving financial support from the Ford Foundation, the Kenya Rural Enterprise Programme, the International Fund for Agricultural Development (IFAD), the Belgian-Survival Fund, Barclays Bank of Kenya, the Kenya Gatsby Charitable Trust, and the Netherlands Ministry for Development Cooperation.

Serving Women's Needs

KWFT has developed a reputation among Kenyan women as a reliable and quick source of credit. It has increased the level of entrepreneurship in the coastal towns of Kwale, Kilifi, and Malindi. Through its collaborative arrangement with Barclays Bank of Kenya, KWFT has also been able to provide larger loans to individual women, with the loans partially guaranteed by KWFT and by collateral provided by the client. This has produced lasting social impact, empowering women through the creation of additional sources of income, reducing their economic dependency. It has also brought women together into groups, creating long lasting, collective relationships to combat social problems in Kenyan society. KWFT has succeeded in creating a greater degree of credit awareness among its women clientele, a business-like attitude and a reduction of fear towards banks and loans.

As of December 1995, KWFT had granted over 5,000 loans to women entrepreneurs. Between 1991-1995, a total of Ksh 70 million (US $1,166,666) was disbursed. Group savings have increased from Ksh 49,500 (US $825) in 1992 to Ksh 13.9 million (US $231,666) in 1995. In 1995 KWFT had seven branches and plans to increase to eight branches between 1995 and 1999. It also expects to disburse a total of 15,590 loans totaling Ksh 1.6 billion (US $26,666,666) and receive external funding of Ksh 1.2 billion (US $ 20,000,000) from donors and banks.

Learning from the Past

KWFT tries to be innovative and flexible, making changes based on the socioeconomic environment and client feedback. It works to identify problems early and assess the impact of programmes. During 1991-1994, KWFT focused sharply on group lending and adopted the Biashara Scheme in 1992, a group based model of inter-mediation adopted by the Kenya Rural Enterprise Programme. In 1993, KWFT adopted the Uaminifu Scheme, which wholesales a unit loan to existing groups, which in turn offer retail loans to their members. This approach eliminates some of the expenses of group formation and loan administration, allowing for greater outreach.

Flexibility is another key asset. Changes have been made in group size, loan repayment period, frequency of meetings, loan review process and frequency of savings transactions. This has eased administrative efforts and increased efficiency.

KWFT has set targets and strategies on a yearly basis, with assistance from WWB, to better manage and evaluate their credit programme. There is no universal strategy, but there is a focus to keep administrative costs down and link growth in lending to the availability of funds. In order to be sustainable KWFT must charge competitive interest rates, lend to a large number of women, and maintain a high repayment rate.

Plans for the Future

As part of its capacity building strategy, KWFT has sought capital funds to cover operational costs, fund innovations and leverage its activities with other institutions. It plans a review of its physical facilities, staff policies, financial products and services, business strategies and procedures, and sustainability issues. KWFT continues its alliance with formal financial institutions as a basis for local mobilization of resources.

Ongoing training of personnel and improvements in KWFT's management information system are ongoing. These policies largely determine KWFT's ability to sustain a financial services programme through its retention of qualified staff.

While KWFT expects the credit programme to be sustainable fairly soon, non-financial services such as client training will require support for a long time. It has begun collaborating with other organizations to provide these services. An example is the Small Enterprise Professional Service Organization to train larger clients under Barclays Bank Guarantee Scheme. It has also developed a "best practice learning and market linkage" programme where successful women entrepreneurs act as mentors to new businesswomen.

***Source**: Adapted from Kiiru, K. and G. D. Pederson. 1996. "Kenya Women Finance Trust: Case Study of a Micro-Finance Scheme." Africa Region, World Bank, Washington, D.C.*

Microfinance Expansion Programme (MEP)
Kenya

Background

Since the Memorandum of Understanding was signed by the Government of Kenya in September 1998, the Microfinance Expansion Programme (M.E.P.) has concentrated on working directly with savings and credit cooperative societies (SACCOS). The Kenyan Union of Savings and Credit Cooperatives (KUSCCO) and the World Council of Credit Unions (WOCCU) have conducted a series of countrywide workshops to formally announce the programme and recruit SACCOS. They have collaborated with the Co-operative Bank of Kenya, the Ministry of Co-operative Development, the Kenya Union of Savings and Credit Co-operatives Limited, and other microfinance organizations in Kenya to facilitate implementation of MEP.

Programme Activities

- **Programme Workshops**: A series of five regional workshops were held in October and November 1998. Their purpose was to describe in detail the M.E.P. to SACCOS and to Ministry of Co-operative Development staff; to discuss the reforms that are needed in the movement; to determine which SACCOS would be interested in joining the programme; and to collect preliminary information from SACCOS that would help WOCCU determine where diagnostic visits should take place. Attendees included 435 officials representing 107 SACCOS. Of those present, 95 SACCOS (89%) formally expressed an interest in the M.E.P.
- **SACCOS Candidate Diagnostics**: Since November 1998, WOCCU has completed in-depth diagnostics of 25 SACCOS. Ten SACCOS have been accepted in the M.E.P., and four are still under consideration. In addition to in-depth diagnostics, WOCCU performed cursory reviews of other SACCOS interested in joining the programme.
- **Participant Signing Ceremonies**: All ten SACCOS in the MEP were presented with programme "Certificates of Participation" at formal ceremonies held around Kenya, receiving significant press coverage.

Programme Participants

The ten SACCOS selected for MEP are geographically disbursed across the center of the country, from the western province to the coast. The smallest SACCOS have 175 members, the largest has 11,500 members, and the average membership size is 3,800. 60% of the SACCOS are primarily employee-based and have payroll deduction (check-off systems), 30% are trader-based SACCOS with 100% of their activity microenterprise-related, and one SACCOS (10% of total) is agricultural-based. The average asset size is about US $2.2 million (Ksh 60 to US $1). One half of the participating SAACOS offer withdrawal savings (all which are new programmes). Five SACCOS charge loan interest rates greater than 12%, with the highest at 26.6%. The average asset growth rate in 1998 was 23.86%, loans grew by 26.10%, share capital increased by 26.69%, and savings deposits went up by almost 5,000%. At the same time, external credit decreased by over 43%. Delinquency in employee-based SACCOS is low, but currently high in trader-based SACCOS.

WOCCU's Contribution

WOCCU has worked closely with KUSCCO and SACCOS to assist with the implementation of the MEP. Important contributions include:

- Conducted member surveys to determine the types of products needed by microentrepreneurs.
- Designed a new loan product to meet members' needs and to be priced close to the market rate.

- Drafted a model set of by-laws to complement the new Co-operative Act and strengthen SACCOS's governance.
- Developed tools for SACCOS in planning, delinquency reporting, and credit granting.
- Provided technical assistance to SACCOS' participants in the areas of financial management, credit administration, marketing and governance.
- Conducted a search for a reliable and effective computerization system (30% of the participating SACCOS are already computerized to some extent).
- Provided technical assistance to SACCOS relating to computer Y2K issues.

Future Initiatives

Currently, WOCCU-Kenya has a fully staffed office, and has hosted a number of consultancies. Moving forward, WOCCU/K plans include:

- Building SACCOS' institutional capital.
- Completing its work on the design and implementation of new loan and savings products.
- Lowering the delinquency of non-payroll-based SACCOS.
- Solidifying a computerization strategy.
- Improving accounting systems to better reflect financial performance.
- Finalizing financial and non-financial standards for MEP.
- Facilitating the adoption of recently developed model by-laws.
- Training SACCOS in financial management.

Source/Contact*: Adapted from programme description provided by the World Council of Credit Unions, Inc., P.O. Box 2982, Madison, WI, 53701-2982 USA. Tel: 608-231-7130, Fax: 608-238-8020*

ADEFI (*Association pour le développement et le financement*) Madagascar

Background

ADEFI (*Association pour le développement et le financement*) was established in 1995 to provide credit services in urban Madagascar. ADEFI forms the largest element of a three-part programme funded by the Coopération française; the other two parts are financial training for micro-entrepreneurs and an information-sharing network. ADEFI operates in urban areas notably in the city of Antsirabe south of the capital. It expanded its operations to the capital in 1997, and aims to be operational in all major urban centers within the next five years. Their target clientele is on the larger side of the micro-entrepreneur spectrum.

Credit Services

ADEFI focuses on credit delivery and does not offer savings services. The programme's loan methodology is relatively novel in Madagascar. Loans are granted on an individual basis, with minimal assets acting as guarantee (i.e. television, furniture, bicycle). Repetitive loans are granted to credit worthy clients.

In 1997 the programme had 650 active clients representing US $200,000 in outstanding loans. It maintains a good portfolio, with payments past due more than 45 days only 1% of the outstanding portfolio, and payments past due one week only 4% of the outstanding portfolio. Information supplied by the programme shows a 100% cost recovery of operational costs.

Operational Management

The programme is managed by an expatriate who has developed ADEFI's methodology by drawing on Latin American experiences in the field of micro-finance. He is assisted by an independent consultant that has been associated with the programme from its inception. Costs are kept low due to the urban context of operations, the competitive salary structure, and the lack of presence of highly paid local managers. The latter is made possible due to the pivotal role of the expatriate that is managing the programme. ADEFI is one of the few microfinance programmes in Madagascar that has installed a computerized MIS system (management information system). ADEFI has also developed a local, computerized loan tracking system, as well as a computerized accounting system.

ADEFI plans on becoming a Credit Union even though it does not have a typical cooperative structure; there are no local "caisses" or unions to manage activities and all clients are individually responsible for their loans. Managers are not perfectly happy with the cooperative institutional structure, but feel it is the most cost-effective option available to them within the proposed laws governing finance activities. The possibility of becoming a public limited company is considered too expensive given the lack of tax exemptions and the large (and yet undefined) capital requirements.

Challenges

ADEFI faces two main challenges in the short term. On the one hand, they need to make the cooperative institutional structure work for them, and on the other hand they need to put in place adequate local management capacity to take over management from expatriate staff.

Source*: Adapted from Mamari, R. and R. Rasoamanarivo. 1997. "UNDP Microfinance Assessment Report for Madagascar (Prepared as a component of the MicroStar).*

Savings and Loans Associations
Madagascar

Background

The first savings and loan associations (SLAs) were established in Madagascar in 1993 under a pilot project supported by the World Bank. By the time the project closed in December 1997, 54 SLAs had been established in four regions, Toamasina, Lac Alaotra, Fianarantsoa and Haute-Mania, and they had started to group themselves into regional unions.

Savings & Loans Impact

As of September 1997, total membership was 11,289, 37% of which were women. Deposits totaled around US $280,000 and the average deposit size was US $25. Total credit outstanding was approximately US $81,000, all of which were short-term loans primarily for agriculture activities and trade. The average loan size was about US $132 (about half of Gross Domestic Product per capita). Repayment rates were high, ranging from 96% to 97%.

The outstanding loan portfolio of SLAs accounted for 29% of members' savings. This, combined with low savings levels, resulted in a pent-up demand for credit that was partially alleviated by external lines of credit. To foster linkages with the banking sector and strengthen their capital funds, the SLAs entered into tripartite contracts with donors who extended lines of credit and with BTM, the national agricultural bank, which intermediated the lines of credit for a small fee. The whole process was tightly managed.

Key Lessons Learned

- The primary lesson is that it takes more effort to maintain and develop microfinance institutions (MFIs) than to create them.
- After the passing of the initial legislation creating a favorable environment for SLAs, the Government must quickly approve follow-up decrees regulating the creation and activities of all categories of MFIs.
- Donor enthusiasm to assist microfinance and the lack of readiness of the Government to accommodate this assistance resulted in duplications and contradictions. These can be avoided by a well-defined national strategy on microfinance.
- It is unrealistic to expect MFIs to grow overnight into established microfinance institutions. An appropriate and consistent training program for all stakeholders (bank supervisors, managers and salaried staff at MFIs, and beneficiaries) backed by an adequate budget is critical for the consistent development of the MFIs.
- Until the financial management of SLAs has been more thoroughly understood, a cautious approach must be taken towards granting credit.
- To progress towards self-sustainability, MFIs must also move into urban areas where population density reduce the costs of delivering financial services and where savings can be more readily mobilized to support growth.
- The preliminary success of the SLA networks was due to the following factors: equal focus on credit extension and deposit mobilization; decentralized decision-making; a simple and flexible approach adapted to local specificities; and closely supervised use of external lines of credit.
- Improvements are needed in several areas, including: standardized accounting systems, financial reporting, internal and external auditing, appropriate and consistent training for stakeholders at all levels, outreach to people in remote areas; and information campaigns throughout the country.

***Source/Contact**: Adapted from the World Bank, Findings Africa Region. For more information contact Ms. Chau Minh Duong, J4-140, World Bank, 1818 H Street NW, Washington, D.C. 20433. Tel: (202) 4584390; Email: cduong@worldbank.org*

Malawi Union of Savings and Credit Cooperatives (MUSSCO)
Technical Assistance Programme
Malawi

Background

The Malawi Union of Savings and Credit Cooperatives (MUSSCO) has evolved from a small promotional and training association into a central financial intermediary for a national network of savings and credit cooperatives. The Technical Assistance Programme began in 1991 to assist MUSSCO with its growth and then extension of savings and credit cooperative societies (SACCOs) into rural areas, mobilizing savings into capital pools that are then used to make loans for economic and social development by the members. In addition to MUSSCO, organizations participating in the programme include the Credit Union National Association (CUNA), the U.S. Agency for International Development (USAID), and the World Council of Credit Unions (WOCCU). USAID has provided $4,613,741 in project assistance.

Phase One:
Enhancing Management Capacity

The first phase of the project assisted MUSSCO in the development of its management capacity so that it could handle rapid expansion among SACCOs. MUSSCO had outgrown the knowledge and abilities of some of its key management staff and the training of these staff members and recruitment of more highly educated and experienced people was undertaken. The project provided critical technical support during this period, including corporate planning, management and board training, formation of organizational structure, risk management, and financial planning (including budgeting, monitoring and control). Directors have been trained, a Technical Committee put in place, an Audit Committee defined and formed, and a Chief Accountant and Manager of Human Resources and Administration were recruited and hired. Also, an Operations and Procedures Manual has been written and approved, and a control system was implemented, including a Management Information System. The restructuring includes internal monitoring and evaluation towards an economically viable and sustainable system.

Phase Two: Expanding Savings & Credit

The second phase of the project began in 1996 to expand savings and credit services to smallholder burley tobacco producers through utilizing existing SACCOs and the creation of model SACCOs in rural areas. These SACCOs were then expanded to serve larger segments of the community, thus providing more stability for loans. Net savers help carry the load of the net borrowers, and the various needs of the membership for credit are spread out over the entire year, instead of being concentrated at the beginning of one growing season. Strong financial management and tight fiscal controls are encouraged towards economically viable and self-sustaining local units and the self-sufficiency of the entire system. An audit programme was streamlined and upgraded for the SACCOs, and an internal audit programme was developed for MUSSCO. Also, a new Field Services Manager was hired and trained and the Field Services Department has placed renewed emphasis on efficiency and maximizing productivity in the delivery of services throughout the organization. The range of products offered to attract savings and deposits, both at the SACCO and membership levels, has been increased and diversified, and an incentive programme has been implemented. Finally, special training and promotion programmes for women have been developed to increase their leadership roles at both the SACCO and MUSSCO level.

Source/Contact*: Adapted from programme description provided by the World Council of Credit Unions, Inc., P.O. Box 2982, Madison, WI, 53701-2982 USA. Tel: 608-231-7130, Fax: 608-238-8020*

Self-Managed Village Savings Banks of Pay Dogon
Caisses villageoises d'épargne et de crédit autogérées du Pays Dogon
Mali

Background

The concept of self-managed village savings and loans banks (CVECAs) was developed by the International Center for Development and Research (CIDR), a French NGO specializing in economic development projects. The CVECAs were designed to serve as financial instruments for villages, supporting self-development and self-organization. **CVECAs operate on the premise that villagers can become less dependent on outside assistance and less vulnerable to climatic and economic contingencies by learning to rely upon their savings capacity and management skills**.

Expansion of CVECA Concept

Initially tested in Burkino Faso in the early 1980s, the first phase of CVECA in Mali began in 1986 in the Sahelian region of Pays Dogon – an isolated and traditional area with pre-existing savings capacity, markets, and entrepreneurial spirit despite the low income levels. The success of the CVECA approach in Mali is evident in its rapid expansion from an initial fifteen banks in the Pays Dogon network in 1986 to 131 banks serving a total of four networks in Mali in 1996. As of 1996, the CVECA banks served as many as 45,478 members (35% women), equivalent to an estimated 28% of the total microfinance clientele in Mali.

The CVECA concept has also spread to other African countries, including Burkina Faso, Madagascar, Sao Tomé, the Gambia, and Cameroon, with a 1996 total count of 260 banks in Africa serving 67,500 members, including 25,800 women. CVECA networks continue to draw inspiration from the Pays Dogon model.

Establishing a CVECA

In 1996, there were 52 CVECAs serving the Pays Dogon region. Surveys were conducted to identify villages that most fully met the criteria of size (no fewer than 500 inhabitants), social cohesion, economic vitality (market proximity), and organizational vibrancy (the existence of groups). General assemblies were then held in selected villages to assess the motivation level, which was high. **Villagers accepted and understood the concept of the banks because it closely mirrored the functions of existing traditional groups**. Following the general assembly, villagers typically select literate individuals to assume responsibility for management. Due to the low literacy rate, training activities are often required to transfer necessary skills.

CVECA Structure

All banks have one to three bank managers responsible for transactions and record keeping, and about 60% of the banks have a village controller to regularly inspect records. A management committee of six to twelve people representing the whole village meets on a weekly basis to monitor the bank managers, hold general assemblies, and oversee other bank operations. General assemblies meet at least once a year and are composed of all village members. All villagers in attendance participate in deciding how the profits should be applied to the following categories: Service Unit fees, compensation of the managers and management committee, reserves, and a capital increase of investment for the bank.

Open Membership

Any villager may become a bank member, as well as individuals residing in surrounding villages. However, restrictions prevent villagers from extending their credit with other independent bank accounts. In 1996, the CVECA network in Pays Dogon had 21,495 members, approximately 17% of the total adult population for the region, and about 67% of the adult population for villages where banks are located. An estimated 81% of the members are farmers and 65% have a second occupation. Only 8.5% are literate in French and 14% in Dogon. Women make up 29% of the members, as most new members come from surrounding villages and tend to be men. In 1996, only 11,000 members (51%) were active, i.e. involved in at least one bank transaction. This can be explained by the existence of traditional savings schemes that compete with CVECA.

CVECA Savings – the Key to Financial Independence

Savings constitute the principal resource of the CVECAs, as they do not receive lines of credit or grants for onlending from donors. Villagers must become members to benefit from the savings and loans services, which entails paying a membership fee (which varies among villages, ranging from US $0.5 to US $10). The CVECAs offer three types of savings accounts: **Current Accounts** that do not earn interest and have no upper or lower limit; **Term Deposits** for three to twelve months, earning a yearly interest averaging at 20%; and **Savings Plans**, which exist in certain banks to encourage regular savings, particularly among women who prefer small regular deposits, with a 10% yearly interest rate. In 1996 about 60% of the accounts were in amounts greater than US $463, and more than 75% of the deposits were term deposits.

CVECA Loans – Tailored for its Members

The credit amount that an individual is entitled does not depend on their individual savings, i.e. a member who has never made a deposit before can still obtain a loan. However, collateral is required for each loan and is generally in the form of bicycles, guns, radios, plows, carts, etc. There are three types of loan products. **Short-Term Loans** are most popular, granted for ongoing economic activities in amounts ranging from US $5 to US $930 for terms of one to twelve months, and interest rates between 35% and 45%, depending on the bank.

Loans for Entrepreneurs are for new activities and sizable amounts (generally more than US $1,850), and require a feasibility study. These loans are short- or medium-term and usually carry the same interest rate as the short-term loans, unless the feasibility study shows that the activity can not be profitable without a reduced interest rate. **Medium-Term Loans** for two to three years are offered by some banks with lower interest rates for agricultural equipment, artisan activities, and other large investments. CVECA's do not impose fees or charges on loans, and all interest rates are set by the villagers themselves and are comparable to the rates applied by traditional village self-help groups.

Inter-Bank Associations – Collectively Responsing to Crises

In 1988, an invasion of locust in Pays Dogon destroyed the millet harvest, and villagers withdrew their savings and applied for sizable loans. In response, the individual banks collectively came together, forming inter-bank associations, to negotiate loans from the National Agriculture Development Bank (BNDA). There are currently three inter-bank associations with 10 to 15 members that oversee financial relations with the BNDA, enhancing the CVECA network.

Source: *Adapted from Fruman, C.*
The World Bank Group, Case Studies in Microfinance, "Mali. Self-Managed Village Savings and Loan Banks in the Pays Dogon Region of Mali."
http://www-esd.worldbank.org/sbp/

Le Crédit-épargne au profit des femmes maliennes en milieu urbain
Mali

Background

In Mali, insufficient credit for urban women is a primary cause of poverty. The principles of tontines (annuities shared by subscribers to a loan that increase until a specified time when proceeds are then shared) are not always appropriate for the urban setting; they are often created and dismantled without promoting durable job expansion and small enterprise growth. In response, two credit & savings schemes have been promoted in Bamako, drawing upon the concepts of the Tontine but integrating modern financial instruments to better adapt to the urban setting.

Women of Banankabougou

In this credit & savings programme, 195 women are divided into 39 small groups of five women each, with each group saving about CFAF 400 (US $ 0.80) a month. Individual loans are granted in amounts of CFAF 15,000, 20,000, and 30,000 (US $30, $40, & $60) according to the needs and intended activities of the members. A weekly meeting is held every Thursday to settle 3% of the total individual loans, and within ten months loans are reimbursed. The international NGO, Oxfam, has contributed CFAF 2 mil. (US $4,000) to the programme.

Women of Sabalibougou

Created over ten years ago, the Banan Women's programme is comprised of eighty women, utilizing the same loan mechanism as in Banankabougou. Each loan is increased at a savings rate of 10% (5% for collective saving and 5% repayable to the borrower), and reimbursement is completed after four months. The programme has struggled with issues of reimbursement, further aggravated by the negative impact of the global economy on the ability of women to sell their goods.

Advantages of the Two Systems

Both systems have enabled women to purchase in cash and thus better negotiate prices offered by traders, and they are no longer obliged to approach salesmen for debt. Members are better able to diversify their activities, and to buy and sell according to demand. These credit & savings programmes offer more security than the tontine schemes that are often disbanded before all the participants receive the returns on the money they contributed. They also enhance group solidarity, and the participating women often contribute to the community with social and education services.

Challenges for the Two Systems

There is difficulty in yielding profit out of the loans because profits are used on a daily basis. The small loan amounts also restrict the creation of a profit margin to generate activities towards financial autonomy. While women want to increase their capital base and thus benefit from more loans, they do not want to see the membership base increase because this would reduce the amount of available loans disbursed. Furthermore, women often do not invest together. The distances between different areas was an impediment to loan reimbursement

***Source**: Adapted from program description provided to UN/OSCAL.*

Caisses popularies d'épargne et de crédit (CPEC)
Niger

Background

Caisses populaires d'épargne et de crédit (CPEC) is a network of credit unions founded in 1990 by USAID and the World Council of Credit Unions (WOCCU), targeting lower middle and lower income groups. The credit union model promoted by WOCCU fits well into the new view of microfinance of the early 1990s, emphasizing financial sustainability, local participation, and a variety of financial services including lending and savings.

Eleven CPECs were started in the district of Zinder and later expanded to other districts in the second phase of development, starting in 1992. However a coup d'etat in 1996 caused the departure of USAID, CPEC's principal external funding source, and caused some CPECs to be liquidated. Nevertheless, many CPECs are still running on a solid foundation and are working towards long term sustainability.

A rapid phase of growth in CPECs occurred between 1990 to 1995. By 1997, there were 65 CPECs with 12,700 members. CPEC management has subsequently focused on financial sustainability, sound banking practices and managed growth. There are plans to liquidate the poorly managed CPECs and merge smaller CPECs with healthier ones.

Organizational Structure

CPECs are member-owned, member-operated, and non-profit, cooperative financial institutions. Ultimate control belongs to the general assembly of member-owners, with a one-person, one-vote philosophy. Membership in the CPECs is open to all community members with the majority serving as open-bond organizations, with members from the same community, village or residence area. A few CPECs are closed-bond organizations where members belong to the same profession or business.

A management committee of eleven members and one salaried manager oversees each CPEC, with a board of directors, a credit committee, a loan monitoring committee and a training and marketing committee. The credit committee analyzes all loan requests and makes the final decision on all loans, except large loan requests (greater than CFAF 200,000 or US $500), which are referred to the board of directors for final approval. On average, one-third of the management committee members are women.

Client Profile and Outreach

Most CPECs are in rural areas and the target population remains the economically active poor. CPECs serve a predominantly male clientele, with men constituting 67% of membership and loans granted. Average male loan size is 1.5 times greater than the average female loan size. Women typically request smaller loan amounts and engage in activities requiring smaller investments. 85% of the members reside in rural areas and the literacy rate for members is 45% (the national rate is 14%). According to a 1995 CPEC survey, a typical rural CPEC member is a male farmer or microentrepreneur, head of household, with an average annual income of CFAF 756,356 (US $1,512) in Zinder and CFAF 1.8 million (US $3,600) in Maradi.

Loan and Savings Products

Loans average about US $220 with an interest rate of 2% per month and an average term of 5 months. In the first year of operation a CPEC has general credit policies that it must follow, but it may later revise its policies. Typically loan requirements are: a minimum deposit of CFAF 5000 (US $10), at least three months membership, loan amounts limited to twice the member's savings amount, and a cosignor to the loan with sufficient savings to cover the loan. Generally, older CPECs relax these requirements by allowing members to take out loans up to three times the amount of their savings and accepting collateral in lieu of a cosignor.

Initially, non-interest-bearing savings accounts were available, with the average savings account equal to US $35 in 1996. Starting in 1995, savings account members received a dividend from annual profits proportional to the amount in savings. Recently interest-bearing accounts have been introduced.

Sustainability and Performance

The CPEC network is progressing towards sustainability despite the 1994 devaluation of the CFAF. By 1996, the CPECs had attained an operational self-sufficiency (ratio of operating income over operating costs and loan loss provisions) of 134% and financial self sufficiency (ratio of operating income over operating costs, loss provisions and financing costs) of 132.8%. The increase in sustainability measures is due to the economies of scale reached during program expansion, increased mobilization of internal funds, and cost effectiveness measures. Sustainability in the future will depend on internal management, repayment rates and CPEC solvency, as external funding sources decrease.

The CPEC movement illustrates how quickly credit unions can become financially viable. CPECs have continued to function successfully despite the unanticipated pullout of USAID funds in 1996. If the CPECs had not focused so heavily on sustainability from their inception, emphasizing financial transparency and internal mobilization of funds, the withdrawal of USAID and WOCCU funds would have led to an immediate collapse of the CPEC network. **Existing external funds have been used for training, education, regulatory reforms and network creation, rather than for the provision of network services**. Given the strong foundation of the CPEC network, continued viability remains good.

***Source**: Adapted from Ouattara, M, et. al. The World Bank Group, Case Studies in Microfinance, "Building an African Credit Union. From the Ground Up: Lessons from the Caisses populaires d'épargne et de crédit in Niger." http://www-esd.worldbank.org/sbp/*

Maradi Microenterprise Development Project
Niger

Background

The Maradi Microenterprise Development Project was part of USAID's Small Enterprise Activities Development Project and was sponsored by CARE/Niger. Phase I, between July 1988 and June 1991, offered loans and training to 813 microenterprises. In Phase II, which ran until 1996, the Project expanded its credit programme and narrowed its training focus to specific vocational needs to increase productive capacity. Phase I had a budget of US $2.4 million, supplied by USAID and Phase II had a budget of US $7.6 million, with US $2.9 million as loan capital. The programme aimed to transform microenterprises into self-sustaining independent institutions by delegation of responsibility to local microenterprises, a focus on profitability, minimization of bureaucratic procedures, centralization of financial controls, and systematic repayment collection.

Loan Services to Microenterprises

The project made individual (20%) and group loans (80%) to microenterprises for any legal purpose. Traditional loan analysis was minimized, with a reliance on the agent's personal assessment of the client and the client's pledge of repayment taking the place of collateral. Agents had a budget of CFAF 5 million (US $10,000) per month and determined the amount and terms of loans in consultation with clients. The 18% interest rate covered loan-operating costs, including an amount for losses. The cost of capital itself was entirely subsidized by the donors. By March 1992, 1,716 new microenterprises and 2,344 new jobs were created, and 4,548 loans were disbursed, with a loan repayment rate of 95%.

Technical Training Seminars

Technical training or vocational seminars were offered, lasting four to eight months. These seminars were available to everyone, regardless of educational background and experience. Subjects included auto mechanics, tailoring, radio repair, mill repair, wood and metal working, and electrical and construction wiring. Seminars varied according to the town's needs, with a fee of CFAF 8,000 - 12,000 (US $16 to $24) per course. Completion of the training seminars did not automatically entitle students to loans, but enhanced their consideration for loans.

Higher Training Fees Improved Enrollment

In 1994, seminar fees covered 35% of the training programme's costs. CARE/Niger raised the prices for its training seminars, resulting in increases in enrollment and interest. It discovered that making students pay more for courses encouraged greater participation and feedback for enhancing the curriculum. Seminars were revised for greater efficiency and simplification, and to recover a greater proportion of training costs.

Dependence on External Funding

The loan programme depended completely on external funding for its credit pool. Without a local source of funding via savings deposits, or a Niger government subscription of capital or sale of shares, the project can never become an independent, self-sustaining institution. In 1994, Niger had a 0% or negative inflation rate that helped preserve the capital in the loan fund, but this situation could easily be reversed in the future if the CFAF ever depreciated.

Source*: Adapted from Colleye P-O. in "The Informal Sector and Micro-Finance Institutions in West Africa," L. Webster and P. Fidler (Eds.). The World Bank, 1995.*

Country Women's Association of Nigeria (COWAN)
African Traditional Responsive Banking (ATRB)
Nigeria

Background

The Country Women's Association of Nigeria (COWAN) is a national grassroots NGO established in 1982. Cowan seeks to mobilize the traditional strengths of Nigerian rural women, promote their participation in the development of human and natural resources for sustainable livelihoods, and advocate their economic, social, and political empowerment. It began in Ondo State and now operates in twenty six Nigerian states.

Microenterprises are particularly important to COWAN members, but it was apparent that its revolving loan system did not provide members with sufficient credit, constraining their enterprise development and socioeconomic empowerment. COWAN was faced with the challenge of delivering credit to members in a way that recognized their values, traditions, and needs. COWAN set up a rural banking system called the African Traditional Responsive Banking (ATRB), a merging of traditional and other practices.

What is ATRB?

ATRB is a unique loan scheme that draws from the best of African traditional microcredit practices but tempered by modern knowledge. At its core are the *Esusu* and *Aajo* practices, combined with a community based institutional structure, training and advisory services, and a "social banking" model that is traditional and responsive.

It seeks to empower poor and rural women economically, socially and politically, while creating a sense of belonging and ownership. ATRB's underlying principles are: to unite with common goals, interests and understanding; share ideas; contribute to a common savings pool to create wealth; to enter into co-shareholder rather than lender-debtor relationships; share mutual respect, trust and a sense of belonging for a common goal; use teamwork; and create people who are actively interested in the success of ATRB.

ATRB Structure and Operations

ATRB is participatory with every member of the community contributing. Its structure is similar to COWAN's five level structure: society, community, zonal/local government, state, and national. At the national level ATRB has a divisional head that oversees ATRB's operation, provides a quarterly report to the executive councils, and reports to COWAN's executive director. There are three categories of staff in ATRB: voluntary staff who monitor, inspect and mobilize ATRB members and funds; programme officers who collect savings from clients and deliver them to the COWAN account; and professional officers who focus on general bookkeeping and accounting for ATRB.

Group formation in any village or community can be initiated by any community member or COWAN staff member by speaking to the relevant traditional or community leaders about COWAN's mission and programmes, including ATRB. A meeting is then held with prospective COWAN members, where COWAN and ATRB objectives and procedures are discussed. At the next meeting the group deposits their first savings to establish ATRB in the community and becomes registered with COWAN. The involvement of community and traditional leaders at the early stages is important for the success of ATRB as these leaders often act as arbitrators and watchdogs.

Loan Approval & Disbursement

Loans are approved through a four step process. Staff from headquarters first inspect the projects, followed by state coordinators, who submit their decisions to the board. Loans are then approved at the joint meeting of the board of directors, the national coordinator, and the executive council. After a loan is granted to a state, the state coordinator, along with the rural women's president and the chairperson, sign the loan bond as guarantors. A witnessing team consisting of the state coordinator, rural president, facilitator and a national staff member disburse the loan for the village to the traditional or community leader. It is guaranteed by the members of the five groups, the primary society president and the secretary.

Loans are monitored at each level of ATRB. At the society level each president monitors the use of loans and the collection of savings, attempting to resolve any problems. At the community level, the facilitator ensures that all leaders collect their daily savings and bring them to the community meetings. At the state level, members of the state executive council visit the approved loan projects monthly and handle any necessary problems. At the national level, staff regularly visit and monitor the savings and loans schemes.

Monitoring Savings

The basic tenet is that membership in ATRB is based on savings. COWAN asks its members to save an amount greater than their loan. There have been no loan defaults. Arbitration bodies such as the traditional ruler or community leader may send out staff to visit the defaulters, and since it is forbidden for staff of a traditional ruler to stay outside the palace overnight, the neighbors usually help the defaulter find the money to pay. Taboos are also used, under a similar logic.

As one of the final steps of the loan process, COWAN evaluated ATRB's procedures and microcredit activities annually. It also administered a comprehensive external evaluation with a five member team of national and international consultants. The evaluation supported a continuous internal participatory method of evaluation as the key to any people centered microcredit system.

ATRB Achievements

ATRB has become a training ground based on people's knowledge. Training stresses traditional skills, methods, and techniques including: enterprise training in agriculture, technology and youth skills; organization and management procedures including ATRB management and fundraising, leadership and rural development; and partnership and networking with community and regional leaders.

ATRB has succeeded on a number of fronts in its first five years. Savings mobilization has increased by 100%. The loan fund portfolio has increased by 50% between year one to year three. Loans were made to 10,000 groups by the fifth year. Savings and loans programmes are operational in at least 65% of the target communities. Loan repayments remain at 98%. What has been one of the most notable achievements is seeing members removed from the state of poverty; typically by the end of the third year members are able to meet basic needs. The microenterprises that have been developed by COWAN members are now beginning to attract national and international interest, and many members have been able to successfully diversify within the past five years.

***Source**: Adapted from "Poverty Eradication in Africa: Selected Country Experiences," UN/OSCAL, New York, 1998. **Contact**: COWAN-ATRB, No. 2, Afunbiowo St., P.M. 809, Akure, Ondo State, Nigeria*

Farmers Development Union (FADU)
Nigeria

Background

Established in 1989, the Farmers Development Union (FADU) is a rural microcredit and microenterprise development organization seeking to improve the businesses of low-income entrepreneurial Nigerians through training and small credit. Beneficiaries include farmers, fisher-folks, fish farmers, livestock farmers, food processors, petty traders, artisans, etc. FADU is owned, directed, governed, and financed by its own members – about 500,000 rural Nigerians. FADU relates only with groups, of which members must belong. It is supported by donors such as the Ford Foundation, EZE, and EEC.

The guiding principles in FADU's programme activities include community participation and responsibility, social and economic sustainability of project, group cost recovery and financial capacity building, project cost recovery and operational efficiency, human resource development, poverty alleviation, and rural productive activities. Since its formation, FADU has mobilized, trained, and financially and technically assisted over 50,000 productive rural network groups, mostly women (87%), in villages and semi-urban localities across 28 states in Nigeria. It has created over 500,000 new jobs, and has also built a network of 159 replicates – community based organizations (CBOs) that receive FADU training and technical assistance.

Loan Scheme

The essence of FADU's credit scheme is to open credit access to the lowest income entrepreneurs in rural Nigeria, especially in the informal sector. Targeting the rural poor is aimed at neutralizing the urban-based focus of successive macro-economic policies in Nigeria. FADU adapts elements of traditional models for rotating savings and credit common among low-income groups in Nigeria, providing financial services that will be mutually beneficial to its clients as well as the sustainability of the FADU system for loan procurement and repayment.

Target beneficiaries must be FADU members, drawn from the lowest class of active entrepreneurs, able to repay market based loans, use the loan proceeds to increase income and living standard, and actively contribute to shaping their communities. Credit is approached as a business, although accruing interest goes back into the program to become self-sustaining. The credit scheme is designed to facilitate member's empowerment to access bank loans after successive three years of assistance. Savings in the credit scheme is compulsory. Training is provided in record keeping, group management, savings and credit administration, leadership skills, marketing skills, and of elements of business administration. The credit scheme receives regular monitoring and periodic evaluations of its performance, as well as training to upgrade staff's technical competence and commitment.

Association Structure

The association structure forms the grassroots institutional base for successful savings mobilization, loan recovery, and sustainability of the credit scheme. The structure is divided into four levels. The **Group** consists of five people, electing its own leaders. Its responsibilities include project identification, loan processing for members, monitoring loan utilization and repayment, responsibility for loan default of members, overseeing member welfare. A **Society** consists of two Groups, meets twice a week, and forms a Management Committee consisting of an elected president, secretary, treasurer, and whip. The Society facilitates training to upgrade production skills, provides social collateral for production loans, monitors member's loan utilization and repayment, and assumes responsibility for loan default by its members. It also facilitates social programme delivery to its members (i.e. health and literacy), coordinates and supervises joint production ventures, and plans for program welfare of members.

A **District** is made up of at least ten Societies. It gives orientation training to the new societies, recommends and guarantees loans to Societies, assumes responsibility for the repayment of loan default by societies, creates a forum for experience sharing, and receives and discusses monitoring or evaluation reports of Societies. It also sponsors and organizes relevant workshops to upgrade operational and production efficiency, resolves conflicts and ensures discipline within and between Societies, and expels Societies that refuse to observe operational rules. A **Zone** is made up of at least two Districts with elected District officers serving as representatives in the Zonal Assembly, which meets every two months. The Zone creates new Districts, assures each District adheres to FADU's principles, arbitrates in cases of loan default that is unmanageable to the District, articulates members' interests in the zone, designs appropriate marketing options for the products of the members, and organizes workshops and training for the infrastructural advancement of the Zone.

Mixed Agroforestry Project (MAP)

MAP seeks to control the increasing land degradation in Nigeria, and in the process create opportunities for sustainable income generation for project participants. It involves planting economic trees alongside arable crops on the same farm plots, allowing farmers to choose the type of trees that will be most profitable to plant, i.e. citrus, oil palm tree, date palm, locust bean, mango, cashew, cocoa, coffee. MAP is targeted at preexisting farm groups that show promise to improve their farm income and to repay loans on schedule. Small loans are provided along with appropriate training. For plant nursery producers, loans are used to obtain seeds, plant nursery materials, and the maintenance of nurseries. For small farmers, loans are used to finance the purchase of seedlings and seeds for both tree and arable farming.

Sustainable Fisheries Project (SFP)

SAP is designed to facilitate small-scale and environmentally friendly fishing practices that are affordable to low-resourced fishing folks, offering training and credit for artisanal fishing, fish-farming, fish processing, and fish marketing. The project also seeks to encourage fish farming in manageable and low-cost fish ponds for family and group income generation. SFP is targeted at preexisting farm groups that show promise to improve their farm income and to repay loans on schedule. Small loans are awarded to groups that have been assessed competent to use training skills for the development of their groups and fishing business. Loans are used to obtain boats, out-board engines, fishing nets, and other fishing equipment for artisan fisher folks, to finance pond construction and the purchase of fish-fingerlings production for fish farmers, to improve fish processing equipment for fish processors, and to purchase and market fish for the fish marketers.

***Source**: Adapted from program description provided by FADU.* ***Contact**: FADU, 12 Adelabu Road, Iyaganku GRA, P.M.B. 5297, Ibadan, Nigeria*
Tel: 234-2-2315891, Fax: 234-1-2315484, Email: fadu@skannet.com.ng

Indigenous Financial Practices by Farmers
Nigeria

Background

With no access to formal credit for improving their soci-economic well being, farmers among the Igalas in Nigeria rely heavily on their indigenous systems of resource mobilization, the major advantage of which is that they provide financial and material relief on favorable terms. A study conducted between August and December, 1990, in the community of Egabada in Kogi State inhabited by Igalas, found that most farmers depend almost exclusively on indigenous credit systems, due to the lack of institutionalized credit sources in the community.

The *Esusu*

The *esusu* is the most common indigenous savings and credit system in Nigeria; these are voluntary mutual aid associations in which members pool their individual savings and have access to credit. *Esusus* unite the local people, encouraging them to identify their needs and mobilize resources. Their widespread use makes it important to examine their major features.

Types of Associations

The two main types of indigenous savings and credit associations are rotating and non-rotating.

1. **In Revolving Savings and Credit Associations (ROSCAs)**, which make up 45% of indigenous associations, contributions are collected at regular intervals and immediately distributed to members in rotation by a predefined sequence.
2. **In the non-rotating association**, contributions are also collected at regular intervals but are deposited with the treasurer and returned to members at the end of a predetermined cycle. In over half of the non-rotating associations, members do not accrue interest from their lending activities. There is a need to save at regular intervals, and all activities are based on an indigenous system of lending and local sanctions.

Organizational Framework and Membership

Indigenous associations have a formal organizational hierarchy, typically led by a chairman (*onu*), secretary (*omale*) and treasurer (*emaji*), and sometimes a vice chairman (*orone-onu*). Leaders generally do not receive any cash compensation for their activities. The membership can be restricted or unrestricted, cutting across age, sex, occupational or socioeconomic status. More than 70% of the associations were restricted, predominantly farmer associations.

Resource Mobilization and Use of Funds

Member contributions are made on meeting days, usually on a Sunday or market day. The frequency of contribution varies from monthly (60%), weekly (30%), or every eight days (10%). The size of contributions ranged from N .50 to N 15.00 (US $0.005 to $0.16), with an average of N 7.50 (US $0.08). In almost half of the associations, members are allowed to make multiple contributions and withdrawals. In 1989 the average individual contribution was N 224.06 and N 5,870.35 (US $2.50 and $65) by association. These are higher contributions than those to cooperative societies or development projects on Igala land. In 1989 a total of 39 loans of N 4,058.00 (US $45) were made. Although the lending rate was 45%, this was better than loans available from village money lenders or institutionalized sources. These loans were primarily for agricultural farm labor, children's education fees, and hospital bills.

Lesson: Recognize and Utilize Indigenous Financial Services

Despite the strength and resilience of indigenous systems of savings and credit, policy makers and formal financial institutions have largely ignored them. While indigenous financial systems provide an important service to the community, they do not provide sufficient credit to their members, calling for the need for additional financial services. Although attempts have been made to bridge the credit gap through the establishment of agricultural credit schemes, small-scale farmers are unable to access institutionalized credit. This is largely due to the fact that rural capital mobilization programmes implemented by the government have not worked in conjunction with indigenous savings and credit systems. It is crucial to establish partnerships between indigenous associations and formal financial institutions.

Source*: Adapted from Nweze, N. J. 1994. "Indigenous Financial Practices among Farmers in Nigeria."*

People's Bank of Nigeria
Nigeria

Background

The People's Bank of Nigeria was established in 1989 by the Federal Government of Nigeria to improve access to banking and financial services to the large segment of the economy excluded from or inadequately provided with such services. The People's Bank reflects the Government's priority towards poverty eradication and has been established with other interventionist institutions to assist the poor, such as the National Directorate of Employment, the National Economic Reconstruction Fund, and funding for Community Banks that serve communities throughout the country.

The People's Bank is an alternative banking scheme providing basic credit requirements for underprivileged Nigerians who are involved in legitimate economic activity in both rural and urban areas and who are normally excluded for the services of orthodox banking systems due to their lack of acceptable collateral and the small loan sizes. Savings are also deposited for clients in short-term deposits that earn interest with commercial and merchant banks. As banking is taken to the doorsteps of the people, it is fast becoming a viable and effective financial intermediary in the nation's economy.

Bank Operation

Between 1989 and 1996, the Bank established 174 Branches, becoming the largest micro-credit lender with the widest branch network in Nigeria. The federal Government has invested over N 850 mil. (US $9,400,000) into this project, with about N 320 mil. (US $3,500,000) directed towards loans to disadvantaged Nigerians. About 2,000 micro-credit/loan officials operate for the Bank, imparting to and tailor banking practices for the poor. Specific banking products are designed to serve the poor and illiterate target groups, such as a Banking for Health Scheme, project loan financing, savings accounts, and flexible banking hours. In addition, community participation has evolved through Rural Credit Committees in villages. An important aspect of the Bank's activities is the mobilization of idle funds from rural areas for investment in urban areas while at the same time generating employment at the grassroots, thereby stemming rural-urban migration.

Challenges and Responses

As a new concept in Nigerian banking, the People's Bank has confronted major challenges, especially with outreach; with a population of 88.8 million, more people demand services than can be reached. The high demand and wide area of coverage has also resulted in high operation costs and lowered efficiency. This is compounded by additional costs, such as those associated with training staff and the provision of facilities. In response, the Bank management has embarked upon a technical, operational, and administrative restructuring to improve operations. This includes the partial commercialization of urban branches to cover the cost of operations and cushion losses in rural areas. The Bank also plans to improve loan monitoring, particularly with the application of funds, to improve business growth and loan recovery. Also, the Bank is considering the creation of a Multi-Agency approach to poverty eradication that allows agencies to collaborate with the People's Bank to educate, re-orientate, and impart skills to the rural poor.

Source*: Adapted from H. Imam, Managing Director, People's Bank of Nigeria.*

Cooperative League of the United States of America (CLUSA)
Saõ Tome and Principe

Background

The Cooperative League of the United States of America (CLUSA) is a United States Assistance for International Development (USAID) funded programme to help increase rural, private sector productivity and to reduce credit constraints encountered by microentrepreneurs in the Democratic Republic of Saõ Tome and Principe. The risks associated with managing one's own rural microenterprise without technical services, appropriate information and adequate financing are great, and in 1989, USAID authorized US $1.5 million for the CLUSA to assist such microenterprises. As the Government implemented its land reform programme in the 1990s, CLUSA assumed an important role, working with the United Nations International Fund for Agricultural Development (IFAD) to create new cooperatives.

Promoting a National Cooperative Movement

The organization has sought to accomplish its goals by promoting the establishment of a national cooperative movement. The programme started by assisting six pilot cooperatives formed to facilitate the attainment of land titles. By the end of 1993, the programme had expanded its network to assist fifty cooperatives in the areas of small business management and training. Thirty of these cooperatives were agricultural associations, fifteen were fishing village cooperatives, and four were women's trader groups. By 1995, the success of this rural cooperative programme (1,764 members or roughly 1.5% of the Saotomean population) led CLUSA to assist in the creation of urban cooperatives as well.

Loan Guarantee Fund

CLUSA operates a loan guarantee fund, primarily through the *Caixa nacional de paupance e credito* (CNPC), but also through a second financial institution that specializes in the delivery of agricultural credit, Mesquita Center. The fund serves cooperatives that need to borrow from the formal financial sector, and it provides a guarantee (for a fee) up to 20% of the amount borrowed by the group. In 1993, CLUSA had guaranteed 22 loans, and distributed over US $53,000 to fifteen different cooperatives.

Technical Assistance

CLUSA's technical assistance to microentrepreneurs is a vital component of the project. Cooperative members receive training in literacy and numeracy as well as assistance in management, finance, accounting, and property law. CLUSA has assisted with implementation of an agricultural cooperative export strategy, designed a rural development public education campaign, and has been instrumental in drafting new national cooperative legislation.

Low Repayment Rate

According to reports, the lack of village tradition and social structure in most of the farm associations has made lending activities risky. Only 72% of all CNPC loans and 87% of Mesquita Center loans have been repaid.

***Source**: Adapted from Fidler, P. and S. Sipkins in "The Informal Sector and Micro-Finance Institutions in West Africa," L. Webster and P. Fidler (Eds.). The World Bank. 1995.*

Caisse d'épargne et de crédit des femmes (CECF)
Senegal

Background

Created in 1987, *Caisse d'épargne et de crédit des femmes* (CECF) is the first Savings and Loan Network for women in Gran Yoff (Dakar). CECF was established with the help of ENDA-GRAF to combat the socio-economic problems facing women. It finances income-generating projects using a credit system managed by women's groups. CEFC is a well-developed savings network serving over 20,000 women in 25 districts.

CECF Structure

CECF is administered by the women it serves, stressing participatory principles. The administrative structure includes a community board and four committees: Management Committee, Credit and Recovery Committee, Accounting Committee, and Conflict Management Committee.

Outreach with Service Booths

Service booths have been created in markets to develop loan opportunities for grassroots populations. The objective is to encourage savings, and enable the most needy women to access credit. Thirteen booths have been established, serving 10,000 women whose combined savings total is 15 million CFA (US $30,000) a month.

Loan Eligibility

CECF gives loans to individuals and women's groups undertaking a profitable economic activity that adheres to civil laws. Recipients must make regular deposits into savings accounts of at least 25% of the loan amount applied for. Loan recipients may not apply for loans from other sources.

Savings and Loans Features

CECF's objective is to encourage savings and to enable the most needy women access to credit. Current Accounts are used for savings, in which deposits on savings incur 3% interest for a minimum of six months. Loans vary in length from five months to one year, with a grace period of one to two months. The yearly interest rate is fixed at 10%. Women can also use mortgage lending to obtain loans to buy a house. Furthermore, a revolving savings and loan programme is available for women who want to make the holy pilgrimage to Mecca.

Additional Community Services

- CECF provides advice and assistance to self-employed women initiating or operating microenterprises.
- CECF has created a network of literacy teachers to enhance the skills of women and insure the direct control of finances.
- CECF has facilitated the creation of cooperatives to purchase food and household provisions. Thes cooperatives have enhanced food security and nutritional health.
- CECF operates a Savings for Housing Project, collecting over 61 million CFA to purchase 300 plots of land for housing development.

Source/Contact*: Adapted from programme description submitted to UN/OSCAL. Women's Savings and Loan Network of Dakar, c/o ENDA-GRAF Sahel, BP 13069, Dakar, Senegal, West Africa. Tel: 221-27-20-25, Fax: 221-27-32-15, Email: graf@sonatel.senet.net*

Credit Agency for Private Enterprise in Senegal (ACEP)
Senegal

Background

The Credit Agency for Private Enterprise in Senegal (ACEP - *Agence de crédit pour l'enterprise privée sénegalaise*) began in the early 1980s as a small loan programme to assist rural communities, but soon expanded into the urban setting. The programme was supported by the USAID Community Enterprise Development Project and additional donor funding. In 1987 it became a private NGO, and in 1993 it was licensed as a credit union, ACEP, capable of lending from its own resources. By 1996, ACEP had established several key objectives in its mission: provide credit and savings services, promote social and economic community development, develop a financial service network, and cooperatively manage its development activities.

Operation

ACEP serves over 5,000 rural and urban microentrepreneurs who lack access to formal financial institutions. All recipients are small-business owners; thus, the clientele tends to be the upper end of small business owners. Less than 30% of the borrowers are women.

ACEP has adopted an incentive structure to serve its client base, emphasizing loan quality and individual attention to clients. The Head Office is located in Dakar. There are five Regional Offices, with each office overseeing three to four Agencies, which in turn deal directly with the clients.

Individual Loans

Loans are exclusively individual loans to continuing businesses. All recipients must have collateral and credible references. Loan acceptance is based on personal knowledge and client evaluation by an ACEP representative from one of the Agencies. All loans must also be approved by the Regional and Head Offices. New loans are granted only after previous loans are repaid, and almost half of the clients receive multiple loans. The interest rate on loans is 17% with an additional 1% administration cost. Loans are awarded on a 12-18 month term, with a ceiling of US $20,000. The average loan balance is around $1,600. From 1996-1997, the loan portfolio grew 49%, and there is more than a 99% recovery rate.

Encouraged Savings

ACEP does not have any compulsory savings requirement, but encourages savings. Two types of savings have been collected since 1993 – project savings and business savings – with a 4.5% fixed rate deposit interest. 10% of ACEP repayments go into savings accounts.

Factors of Success

ACEP has achieved operational and financial self-sufficiency due to several factors, including effective donor assistance, clarity of mission and goals, efficient administration operations, effective management and loan monitoring, and sound financial management.

Source*: Adapted Jacobson, J. and W. Shapiro,*
The Virtual Library on Microcredit,
http://www.soc.titech.ac.jp/icm

Sierra Leone Opportunities Industrial Centers (SLOIC)
Small Enterprise Development and Training Programme
Sierra Leone

Background

The Sierra Leone Opportunities Industrial Center (SLOIC) was founded in 1976 with financial support from USAID and technical support from Opportunities Industrialization Centers International (OICI), a private, non-profit organization based in Philadelphia, Pennsylvania. SLOIC seeks to promote and support industrial development and economic growth in Sierra Leone.

Small Enterprise Development and Training Programme

In 1989, SLOIC and OICI collaborated on a six-year Small Enterprise Development and Training Programme, with funding from USAID, the Government of Sierra Leone, OICI, and other local contributions. The Programme was initiated to increase income levels, productivity, and employment in Sierra Leone by assisting the development of micro and small enterprises. It offered a comprehensive package of services tailored to the needs and capabilities of programme participants, including pre-vocational training, technical skills development, management and entrepreneurship training, and loans for the informal sector entrepreneurs. SLOIC operated six centers in Sierra Leone supporting the programme: two vocational education and business centers, two small and microenterprise development foundations (SEDFs), one management and business development center, and an agricultural skills training center.

Credit Services

The credit component of the Small Enterprise Development and Training Programme was handled by the SEDFs, one of which opened in Bo in 1989 and the other in Makeni in 1991. Loan applicants receive a package of services that consisted of business management training and credit. Borrowers were required to obtain two guarantors who would submit the titles to their homes as collateral on the loan. Following approval, the borrower was required to make an advance payment of 10% of the principal amount of the loan, which was later subtracted from the final loan payment. Loans ranged from US $200 to US $1,000 for a variety of microenterprises, including furniture production, electrical appliance repair, shoe making, tailoring, and automotive repair. Until September 1992, loans were disbursed on a twelve-month basis, but the programme amended its guidelines to provide credit only on six-month terms. The annual nominal interest rate in 1993 was 40%.

Mandatory Training

Loan applicants were required to participate in training to qualify for loans. The training course involved an introduction to concepts and techniques in bookkeeping, marketing, business management, business planning, and credit management. Trainees were also taught about the social role of microentrepreneurs, taxation, insurance, and regulations that governed their particular businesses. The training programme was offered every three months.

Decline in Performance

The centers spent a good deal of time monitoring and encouraging the entrepreneurs to implement specific management practices and follow through with their business plans, but performance was not impressive. SEDF found that after the disbursement of the loans, participants lost interest and did not seriously apply the techniques taught in the training courses, despite the efforts of the centers. Furthermore, the overall loan repayment was not impressive. For example, the performance of the Bo SEDF steadily declined since 1989 to a loan recovery rate of only 22% in 1993. The drop in the repayment rate was attributed to the increase in the volume of loans, inadequate screening criteria, and the deteriorating security situation.

Lessons: Better Business Appraisal

SEDF had difficulty appraising microentrepreneurs, who were often illiterate, did not keep records, and were guarded about disclosing information regarding their various business and personal activities. Consequently, the business evaluations conducted by the centers were based on the calculation of profitability of the activity without taking into account the money that the owner draws from the business. This approach failed to present the credit approval committee with an accurate picture of the debt burden of the loans. As a result, loans were too large for borrowers to manage. In response, the programme attempted to reduce its dependency on the accuracy of the profitability analysis.

Source*: Adapted from Hadjimichael, B. "The Informal Sector and Micro-Finance Institutions in West Africa," L. Webster and P. Fidler (Eds.). The World Bank. 1995.*

Get Ahead Financial Services (GAFS)
South Africa

Background

The Get Ahead Foundation (GAF) was established in 1984 to promote economic empowerment of residents of South African townships. In 1987, with the financial support of USAID, GAF created its Stokvel Lending Programme to provide working capital loans to groups of microentrepreneurs. After confronting operational and sustainability problems, the Stokvel Lending Programme was successfully restructured as a separate company in 1996, now know as Get Ahead Financial Services (GAFS).

Learning from Past Problems

GAF faced many problems establishing its microfinancing scheme. During apartheid, GAF faced hostile political conditions and a culture of nonpayment as disadvantaged peoples boycotted rent and other payments to protest their severe conditions. Nevertheless, from 1988 to 1990, the Stokvel Programme grew steadily, maintaining a healthy portfolio. Then, in 1991, the programme expanded from 2,400 borrowers in January to nearly 8,000 by the end of the year. While managers were fixed on impressing USAID and other donors with the programme's outreach, field staff were enthusiastic to direct as much money as possible to the poor. As a result, GAF had spread itself too thin. In 1992, USAID identified severe operational and sustainability problems, including a portfolio risk of 60%, and in 1994 it threatened to terminate its support for GAF.

In response, GAF conducted a critical review of its operation, identifying four weaknesses.

1. **Loose Lending Methodology**: group methodology was not strictly applied, and field workers did not require groups to pay for defaulted members.

2. **Poorly Trained and Demoralized Staff**: the apartheid left an unskilled labor force, and field staff often lacked basic academic and management skills.

3. **Poor Management Information**: management was not aware of the severity of the problems as key performance indicators were incorrectly calculated or not measured at all.

4. **Poor Customer Service**: Loan sizes were too small and terms too long (12 months). Also, product delivery was poor, as administrative systems at the head office were not prepared to serve large volumes of borrowers.

Improved Institutional Structure

In response to its self-critique, GAF instituted major organizational and operational changes, and in 1996 it assumed its new name, Get Ahead Financial Services (GAFS). Non-performing offices were closed, and the remaining offices were reorganized into ten branches (called Centers), each consisting of ten loan officers supervised by one manager. A Head Office directs policy and ensures that information and communication is functioning properly between the Centers. Loan officers are now required to schedule standardized repayment dates, faxing reports to the head office immediately, where a new computer system produces timely and reliable reports.

Emphasis on Staff Training and Motivation

The apartheid left an unskilled labor force, and field staff, who often lacked basic academic and management skills. In response, a comprehensive training curriculum was designed to upgrade the staff, including a two-week training class in April and June that all staff are required to attend. Also, a monthly incentive pay scheme rewarding portfolio quality and quantity was initiated to motivate staff and reduce resistance to change. To qualify for incentive, loan officers must serve 40 Stokvels and have a minimum of 90% repayments. Head office administrative staff is included in the incentive programme, receiving a 5% share of all incentives earned by field staff.

Improve Lending Methodology and Customer Service

The Stokvel Programme was so named as it drew upon traditional savings clubs in the black community called "Stokvels". In efforts to improve loan payments among the Stokvels, each group was issued only one check, rather than one per borrower, and the group was collectively held responsible for repayment before they could receive additional loans. Each group was also required to open a group savings account, which was used to pay for members who were having difficulties in a particular month. To better meet client needs, GAFS now offers four different loan terms: four, six, nine, and twelve months. First time borrowers have only the four-month option, but as groups return for repeat loans, their term options increase. Loan sizes are carefully regulated during a Stokvel's first four loans, but become more flexible thereafter, with a maximum amount of US $1,160. A systematic disbursement system was also developed to improve product delivery.

Borrower Criteria and Group Formation

To qualify for a loan, prospective borrowers form themselves into self-selected groups of five to eight business persons; members cannot be of the same family or household. GAFS has learned that Stokvels often stop borrowing after their first loan due to problems with one or two of the group members. Consequently, GAFS has reduced the minimum number of clients per group to four to qualify for a second and three after the third loan. Loan officers play an important role in shaping the attitudes of the groups and ensuring that they appreciate their responsibilities to each other. During the pre-loan phase, loan officers conduct three or four meetings with the groups to examine loan terms, group cohesiveness, and the feasibility of the business ventures.

Improved Outreach

The number of clients in the Stokvel Programme increased from 1,710 borrowers in 1993 to nearly 9,500 borrowers in 1996. However, in contrast to the reckless growth in the early 1990s, the implemented changes have ensured that GAFS experiences quality growth. In 1994, an estimated 90% of GAFS' clients were women, and 70% of these women were either heads of households or primary earners. Stokvels borrowers average 48 years old and have an average of 6.3 years of education. The typical GAFS client is a middle-aged, single mother, responsible for five children or grandchildren, unable to find formal sector employment.

Achieving Sustainability

GAFS no longer relies on donor grants to fund its loans portfolio, but instead borrows from private commercial banks that offer overdraft accounts. The cost of borrowing from these banks is 18% to 19%. Assuming continued performance improvement, GAFS plans to become financially sustainable by 2000, and eventually a regulated microfinance institution. During a recent USAID evaluation process, GAFS' total portfolio at risk was found to be 6% of the current US $3 million portfolio.

Source: *Adapted from Churchill, C. The World Bank Group, Case Studies in Microfinance,* http://www-esd.worldbank.org/sbp/, *and GAFS programme description, Microfinance Network,* http://www.bellanet.org/partners/mfn/

Khula Enterprise Finance & KhulaStart
South Africa

Background

Khula Enterprise Finance Ltd. began in 1996 as a financial conduit to Retail Financial Intermediaries (RFI) such as banks, NGOs and provincial development corporations, which in turn lend to Small, Medium and Microenterprises (SMME). It was established under South Africa's Companies Act and is dedicated to improving access to finance for SMMEs.

Financial Products

Khula offers various financial products to assist Retail Financial Intermediaries:

- **Business loans** are funds for lending to microenterprises, with the amount lent, method of disbursement, and repayment terms determined by Khula. They range from R 1 million to R 100 million (US $166,666 to US $16,666,666).
- **Seed loans** are startup capital for new RFIs to initiate the loan portfolio and fund initial operating expenses.
- **Capacity building** is a joint exercise between Khula and the RFIs to build the necessary skills and ability to manage the loan portfolio. If capacity building is necessary, Khula will provide specialists in strategic planning and accounting system support, design and installation of debtor systems, loan officer training, and skills development for the board of directors.
- **Equity funds** are for upper end microenterprises who require equity partners for expansion and future development plans. This would involve a participation of up to 49%, with an eventual divestment within two to seven years.

Credit guarantees to RFIs secure loans for the purchase of fixed assets or working capital, or to assist RFIs that are exposed to a level of risk that require credit guarantees to offset it.

Requirements for Retail Financial Intermediaries (RFI)

In order for Khula to be assured of an RFI's financial security, RFIs pass three levels of assessment. Level One is a preliminary evaluation of the RFI's future plans or existing performance. Level Two is a score-based evaluation of the RFI's record of development and operational activities. Level Three is a detailed appraisal of the RFI's organizational governance, management routines and procedures, financial performance, and human resources policies and record. The RFI also needs to clearly define microenterprise financing as its core activity, the capacity to carry out its current and proposed projects, clear and achievable short, medium and long term objectives, and agreement with Khula on the required level of capacity building.

KhulaStart

KhulaStart began in 1998 as an intervention strategy by Khula Enterprise Finance to promote greater access to microcredit in rural areas. It is a group lending scheme for the lower end of the microenterprise market, targeting historically disadvantaged communities, particularly women in rural areas and the informal sector. Ideally, 70% of the total loans are given to women. KhulaStart tries to establish new lending capacity in areas without microcredit services. It is based upon the UNDP initiative called MicroStart.

Micro Credit Outlets (MCOs), responsible for managing the programme and disbursing loans to various groups, are chosen from existing rural area NGOs and CBOs already participating in microenterprises. MCOs must have links with the community and its leaders, show a demonstrated need for a microcredit facility with no other lending facility offering a similar product in the area, and be involved in some type of microenterprise support activity in the community such as business training and advice.

KhulaStart provides loans from R 300 to R 3,500 (US $50 to US $580), working with MCOs to assess their needs and refine their loan products. These loans are used to start or expand a range of business activity, with MCOs **encouraging diversified business activities and seeking non traditional business activities for women**.

Source*: Adapted from programme description, The Virtual Library on Microcredit, http://www.soc.titech.ac.jp/icm*
Contact*: P.O. Box 4197, Rivonia 2128, South Africa, Tel: 011-807-8464. helpline@khula.org.za*

The Mvula Trust
South Africa

Background

Mvula Trust is an independent NGO committed to the principle of demand-responsive development, supporting disadvantaged communities. The Trust seeks to facilitate and finance projects related to health, water supply, and sanitation. It supports development policies aiming to reinforce community health and sanitation infrastructure, participation of local agencies, and training and the exchange of information in the health sector. The Trust operates upon invitation by communities, and works in cooperation with Government structures at national, regional, and local level, as well as other development agencies. It targets poor and disadvantaged South Africans, community and local level organizations, regional sector organizations, NGOs, small-scale contractors, and initiatives to develop national and regional policy. All projects include monitoring and evaluation and effective operation and maintenance in the project cycle.

Participation

The Trust promotes a policy of community empowerment through the management and ownership by communities of their own development processes. The Trust's policies include support for local decision-making, control of finances and responsibility for operation, maintenance and repair payments. The Trust's projects all have subsidy ceilings and a cost-sharing component. In areas of project implementation where communities lack expertise, the Mvula Trust encourages partnerships with local NGOs, the private sector and/or other agencies. Communities are responsible for sub-contracting in project implementation and training skills.

Microcredit Programmes

In 1997, Mvula Trust launched a microcredit programme to assist the health sector, which has been long neglected by the Government and private sector. It created a collective credit system for community members to improve the health infrastructure. The Trust acts as a guarantor for microfinance institutions and individual members applying for commercial loans. It also grants loans to members who are unable to access commercial loans. These loans aim at financing basic health services and providing decision-makers with financial instruments, techniques, and institutions supporting community health projects. Funds are also used to finance training and capacity building programmes, encouraging the use of innovative and alternative technologies and approaches towards effective implementation, methodology, and policy in the health sector.

The Trust has developed a model to estimate and meet water supply in rural areas. The model consists of ten stages, drawing upon demographic data, financial costs, project requirements, and community needs. The model has been an effective tool in assisting health workers with meeting the water supply demands of rural households.

Source/Contact*: Adapted from programme description provided by Mvula Trust, PO Box 32351, Braamfontein, South Africa, 2017, Tel: 011-403-3425, Fax: 011-403-1260, Email*: *mvula@wn.apc.org*

Self Employed Women's Union (SEWU)
South Africa

Background

The Self Employed Women's Union (SEWU) is a trade union for self-employed women in South Africa started because traditional trade unions were not addressing their needs. There has been an increasing feminization of the labor force, with women predominating in low wage, less secure jobs and in the informal sector. SEWU seeks to empower low-income women in the labor force, especially those working in the informal sector.

Women in the Informal Sector

In South Africa, self-employment is rarely a choice but a necessity. Women have no other option to generate income than to start their own businesses. Within the informal sector, women tend to be restricted to low-income and low-skilled work. This has come about for a variety of reasons: women tend to have problems accessing credit and educational facilities, women have an inferior legal status, and women tend to take greater responsibility for raising children. As a result, women tend to work in the invisible sectors of the economy doing casual work, piecework, seasonal work or home-based work, which are precisely the sectors of the economy most subject to exploitation. Women workers have a weak bargaining position, as they are isolated and unorganized.

SEWU Agenda

SEWU seeks to support self-employed women and help them achieve recognition for their work. It helps to build unity between women, develop negotiating skills so that women can negotiate directly with the city council and police through their own representatives, and provide legal advice. SEWU also assists women with problem solving associated with work, such as childcare, credit, maternity and disability benefits. The SEWU agenda includes training to develop lobbying skills so that women can organize themselves to change unsuitable laws and leadership skills for community development. It also provides access to other organizations that offer skills training, credit and loan facilities, legal assistance, health advice, and counseling.

Start-Up Challenges

SEWU has 1,000 members based in Kwa-Zulu Natal, with more than half of the members being street vendors. Many are also home-based workers. As a membership organization, SEWU goes to the streets of townships to organize women. In the early stages of SEWU's development it met a great deal of resistance from organizations that routinely preyed upon hawkers and the self employed. Contacting home-based workers was even more challenging, but has been accomplished over time through the knowledge of SEWU's street vendor members.

Negotiation & Collaboration

SEWU has established relationships with the national Government, City Council and local authorities, achieving recognition as a negotiating party. The city council has agreed to set up a childcare center for vendors. Recognition by the national Government came at an opportune time when the Government was particularly receptive to hearing the perspectives of local people. SEWU has also established positive working relations with NGOs and other trade unions, who are sympathetic and cooperative, and have assisted in fundraising efforts.

Source: *Adapted from programme description by Global Alternative Media Association (GAMMA), The Virtual Library on Microcredit, http://www.soc-info.soc.titech.ac.jp/icm/wind/wind-women*

The Small Enterprise Foundation (SEF)
South Africa

Background

Only one third of people in the Northern Province of South Africa has access to employment; the remaining population depends upon self-employment as the only hope of generating an income. However, with little or no collateral these people cannot approach banks nor can they afford the 700% interest rate that moneylenders often charge. The goal of the Small Enterprise Foundation (SEF), a non-profit NGO, is to work towards the alleviation of poverty and unemployment among the black population in rural areas of South Africa by providing sustainable financial services. SEF employs a staff of 81 people, 35 of whom are women. By the end of March 1999, over 33,300 loans totaling R 27.4 million (US $4,566,666) had been disbursed. As at the end of March 1998 less than .1% of the total loan portfolio had any amounts in arrears.

Group-Based Lending

SEF uses a group-based lending methodology patterned after that of the Grameen Bank of Bangladesh. Clients form themselves into groups of five, which are then combined into Centres containing six to eight groups. Centres meet on a fortnightly basis to make repayments, deposit savings, and discuss issues. Meetings are directed by a Centre committee, with Field Workers facilitating and monitoring the meetings. Field Workers are the primary programme contact with the borrowers; each is expected to service a portfolio of about 350 individuals or 70 groups. SEF encourages regular savings by requiring groups to open an account at the Post Office. Loans are disbursed and groups deposit their savings into this account. SEF has no direct control of or access to the group savings. Through the savings plan, the borrowers build up a fund on which they can fall back when facing difficulties. Currently, the combined savings of SEF members total more than R 1.6 million (US $266,666).

Targeting Women

Currently 97% of SEF and Tšhomišano's clients are female. Typical enterprises include sellers of foodstuff and clothing, small convenience shops, and dressmakers. Each business typically employs 2.4 individuals on a full-time or part-time basis. A 1995 evaluation concluded that only 30%-40% of SEF clients were very poor, i.e. living below half the poverty line. Consequently, a new programme was launched, Tšhomišano, to specifically target the poorest, adjusting the motivational techniques, loan utilization checks, on-going follow-up, and other aspects of the programme to address the needs of the poorer population.

Enhancing Livelihoods

Loans have an important impact on people’s lives: very poor families are able to afford three meals a day rather than one, while other families are able to provide schooling for their children, obtain electricity for their houses, or expand their businesses to hire employees. In addition to its financial benefits, participants, especially women, build independence and self-reliance to change their circumstances. Security and self-esteem is also reinforced through regular savings, the supportive community built around the Centres, and the participatory structure of the programme.

Source/Contact*: Adapted from programme description provided by Small Enterprise Foundation (SEF), P.O. Box 212, Tzaneen 0850, South Africa, Tel: (015) 307 5837, Fax: (015) 307 2977, Email: sef@pixie.co.za*

Standard Bank's E-Plan
South Africa

Background

In South Africa, it is estimated that 73% of the population of the low-income people (defined as individuals having an income less than US $667) do not have any type of bank account. While many worthwhile efforts for financial services in developed countries have focused on credit programmes for low-income people, the Standard Bank of South Africa has focused on depository services. Depository services allow the poor to safeguard their savings, accumulate their funds, and insure for unexpected expenditures.

In the early 1990s the Standard Bank commissioned a team of experts to analyze the financial industry and design a depository product for the low-income market. The team concluded that depository services were inadequate for low-income people, and created a new affiliate institution called the E-Bank that specifically targets the low-income market. The E-Bank, which evolved into the E-Plan, offers an integrated combination of product and delivery features, including user-friendly conveniently located branches and technology, exploiting the cost of computerized services.

Saving with E-Plan ATMs

E-Banks are conveniently located in high-traffic areas in colorful, well-designed, user-friendly kiosks. All financial services are delivered through automated teller machines (ATMs), and each E-Bank location has three to four assistants to help new ATM users. E-Banks offer a single depository account with card-based access; there are no checking privileges and no passbooks. All money deposited earns a 2% interest rate as long as the client maintains a minimum balance of US $56, and an additional 3% interest premium to clients who maintain the minimum balance for over six months. With a fully automated system, the E-Bank can monitor accounts and reward savings performance. Depositors who regularly save and maintain a specific balance above the minimum become eligible for drawings and prizes.

The approach is based on providing product and delivery features that are valuable enough so low-income clients are willing to pay ATM transaction fees slightly above the market norm and high enough to cover banking costs.

In 1996, the E-Bank merged with other consumer banks to reduce costs and improve outreach. E-Bank clients were transferred to an E-Plan, the E-Bank facilities were renamed Auto-E-Outlets, and the Auto Bank became the name used for the Standard Bank's ATM network. The E-Plan maintains the same basic services as the E-Banks, plus E-Plan clients are also able to withdraw funds from ATM kiosks of other banks in South Africa.

In 1997, the Standard Bank converted 570,000 low-balance (less than US $223) Plus Plan customers to the E-Plan and met little resistance to this involuntary conversion. By transferring to the E-Plan, clients began to earn interest with a minimum balance of US $56 rather than the US $223 required with the Plan Plus.

Increased Outreach

Within the fist year of operation, over 150,000 accounts were open, and the rate of account growth has increased since then at about 60,000 to 70,000 new accounts per month. Wile it takes about 8,000 ATM transactions to break even on ATM machines costs, the rapid growth in accounts has brought in an average 12,000 transactions a month. Standard Bank plans to almost triple the number of Auto-Bank-E outlets from the 70 existing in 1997 to 190 by 2002.

Challenges

While the number of accounts and account balances have grown, the number of transactions per account has not. It costs about R 4.58 (US $0.76) per month to maintain an account – this includes some capital costs as well as other costs. The number of transactions per account is growing slowly, averaging only R 2.8 (US $0.46) per month. This means that account maintenance and account opening costs must be spread over relatively few transactions. As a result, operating profits, defined as transaction fee revenue minus the cost of account maintenance, including allocated capital costs and transactions costs, were still negative. But interest earnings, which were not included in transaction fee revenue, helped the E-Plan to break even. While the basic deposit rate in the E-Plan is 2%, the market rate in South Africa was about 14%. Standard Bank expects to generate positive operating profits from the E-Plan, with the number of transactions per account to double to four transactions per month in 2002 through further marketing of benefits of the savers' lottery, life insurance, further product education, and product expansions. Account maintenance costs are meanwhile expected to fall to R 2.77 (US $0.46) per month.

Lessons Learned

The E-Plan program demonstrates how a commercial bank can use market information to bundle services for low-income clients. The most notable feature of Standard Bank's E-Plan, and perhaps its most important lesson in providing basic banking services, has been the focus on demand enhancement. By re-thinking the needs of the basic banking customer, i.e. the demand side, a new product emerged that has proven to be valuable to the low-income consumer, while providing a way to lower the costs of offering the service. The delivery system is not 'cheap' and the plan relies heavily on service charges to cover costs. But the experience has shown that even low-balance customers can be profitable for banks, and the E-Plan has continued to expand and add financial services for the poor. That lesson should be borne in mind when trying to provide basic financial services for the poor.

***Source**: Adapted from the World Bank's "Findings, Africa Region. Number 134. May 1999," which was derived from "Financial Service for the Urban Poor: South Africa's E-Plan" by J. A. Paulsons and J. McAndrews.*

FINCA Tanzania
Tanzania

Background

Established in 1998, FINCA Tanzania is an affiliate of FINCA International (refer to FINCA International Factsheet). The Tanzania programme is one of three programmes operating in Africa. It is located in Mwanza and serves the area around Lake Victoria. In this region and throughout Tanzania, there are few jobs in the formal sector, with 84% of Tanzanians supporting themselves through agriculture. During the past 20 years, literacy and child mortality have improved but child nutrition has not, indicating the need for additional sources of income and employment. FINCA Tanzania seeks to improve the livelihoods of the people in Tanzania, using microcredit as a strategy to empower low-income women, who spend increased earnings on their children first, improving nutrition, health, and educational opportunities.

Focusing on Women

100% of FINCA Tanzania's clients are women and many are members of the Sukuma tribe, prevalent in the Lake zone. Many of these clients are also single parents, providing the sole source of income for their households. Clients have begun small businesses involving petty trade, such as selling fruits and vegetables, fish, charcoal, and second-hand clothing. Some clients have begun manufacturing activities, such as making crafts and brewing local beverages, while other clients are in the service industry, operating businesses such as hair salons.

The Village Bank Approach

Through FINCA's Village Banking approach women meet on a regular basis to discuss business practices, listen to guest speakers on special topics such as business and health, and to share experiences and knowledge, including recipes. Village banks offer credit and savings options. Loans range from US $50 to US $600, with loan growth linked to client savings so that greater savings allow for greater loans to be obtained. External loans from FINCA or internal loans from the village bank are available, providing additional credit opportunities for clients and creating an opportunity for the village bank to improve their financial returns. FINCA Tanzania requires compulsory savings. It also has a voluntary savings programme that allows clients to deposit their savings with the group and freely access their deposited funds.

Outcome

FINCA Tanzania began training its first Village Banking groups in June 1998, and disbursing its first loans in July 1998. The programme grew during the remainder of 1998, serving 757 clients and disbursing US $57,183 in loans, with the average loan size being US $47.

Plans to Expand Training & Outreach

In 1999 FINCA Tanzania plans to work with Freedom from Hunger to provide its clients with basic business training at Village Banking group meetings. It plans to extend its outreach to 3,500 clients and to provide Village Banking services in the cities of Mara and Geita, in the Lake region.

***Source**: Adapted from FINCA programme description, www.villagebanking.org*
***Contact**: The Foundation for International Community Assistance, 1101 14th Street, NW, 11th floor, Washington, DC 20005. Tel: 202-682-1510, Fax: 202-682-1535.*

Les Banquiers ambulants
Togo-Benin

Background

Les Banquiers ambulants offers financial services to disadvantaged peoples. Its services are special in that itinerant bankers travel on motorbikes to serve the clientele, assisting them to place loans and obtain credit. Other than providing financial services to the poor, itinerant bankers do not operate under a common mission, and recipients choose how to use their funds. The bankers typically support existing activities and their expansion, rather than the creation of new enterprises. Itinerant bankers are ethnically, geographically, and culturally diverse, although women represent a small percentage of the itinerant banker's structure. The education level is often high among the itinerant bankers; 29% in Benin and 14% in Togo are civil servants.

Beneficiaries

Women shopkeepers represent the majority of the itinerant bankers' clients; about 70% in Benin and 80% in Togo. Clients also include other professionals such as craftsmen, civil servants, and service providers. Sponsored activities range from the sale of goods and services to the transformation of agricultural goods. Beneficiaries select their itinerant bankers according to their personal values of trust, seriousness, and honesty. The networks are informal, established through friends and acquaintances. Oftentimes, due to occasional conflicts, beneficiaries prefer to keep their money with several itinerant bankers. Major constraints include the weakness of working capital and the unpredictability of the market, but the access to advance credit outweighs these disadvantages.

Savings & Credits

The minimum deposit is CFAF 100 (about US $.20), and the average saving varies according to location. For example, in Cotonou, Benin, the average daily saving is CFAF 66,000 (US $132), while it is double in Togo. Oftentimes, clients use a savings card with 31 squares to record savings deposits, with the itinerant banker serving as a "money keeper." Contributions can be made on a daily basis, every two days, or once a week. The service cost is 3.3% a month.

The general interest rate is 5%-20% a month for credit beyond 30 days, and bankers allow advances to clients. In Cotonou, 95% of the customers request credit advances. In Lomé, Togo, credit advances are limited by the total amount of contributions already made by the client. While the system for advances guarantees demand from clients for the itinerant bankers, it complicates daily management. Itinerant bankers deposit their finance surplus in commercial banks, but they can not access credit from commercial banks.

Potential

Itinerant bankers offer flexible financial services well-suited for the economic activities of the informal sector that do not require huge capital and follow short economic cycles. Yet the number of clients remains limited, and the bankers are restrained by weak access to commercial credit. In response, some itinerant bankers have organized into solidarity mutual groups to received official recognition, access more credit, and pool resources.

***Source**: Adapted from programme description provided to UN/OSCAL.*

The Action for Development (ACFODE)
Uganda

Background

The Action for Development (ACFODE) seeks to improve the standard of living of poor micro-entrepreneurs through the provision of credit facilities in a sustainable manner and training in technical support skills relevant to income generating activities. Established in 1995, ACFODE currently operates a Micro Credit Finance Programme in the two districts of Pallisa and Kiboga, serving over 300 clients, and plans to expand into four other districts.

Utilizing a Pilot Project

Through its own networking programmes and needs assessment in rural Uganda in the early 1990s, ACFODE realized that it is not sufficient to provide women with knowledge and information regarding their rights and potentials. While women engage in small income generating activities to meet their families' overwhelming financial problems, their earnings are low due mainly to lack of capital as well as lack of knowledge in managing a business.

In response ACFODE established a revolving fund and extended small loans to 27 women groups in the four districts of Rukungiri, Pallisa, Lira and Kiboga. These groups were selected based on the viability of their projects after training them in the basic aspects of business and credit management. Agricultural and animal husbandry skills training were also provided through government extension workers. The groups were closely supervised to ensure that they were putting their training into practice. Eventually, training in leadership skills was also provided. Towards the end of the project, a participatory evaluation was carried out.

This pilot project, which began in July 1995 and ended in August 1997, served as a learning experience for ACFODE. The revolving loan scheme showed that women could operate a business quite well when properly financed, trained and supervised. It also showed that they used earnings not only to improve their income generating activities, but also meet their families' financial requirements. The women also became more self-reliant and improved their standing in their families as well as in their communities. Their husbands became more supportive of them.

Identifying Clients

Currently, ACFODE serves the two districts of Pallisa and Kiboga, targeting women (and some men) engaged in economic activities but lacking funds and securities, with little or no formal education, lacking appropriate business skills, and unaware of available economic opportunities and resources. To identify those who are most needy of financial assistance as well as their training needs, focus group discussions and a participatory gender specific baseline survey are undertaken in each community prior to actual implementation.

Group Formation & Training

Those people identified for the programme are assisted to organize themselves into basic groups of five. Four basic groups are then organized together to form an organizational group, which meets once a week. They are guided and trained in making their own by-laws governing their relationships, and electing their own officers. They also discuss the importance of savings after which they shall be encouraged to begin saving on a weekly basis.

Savings & Loans

Each individual has a savings account book wherein the group treasurer records weekly obligatory savings, which are deposited in the organizational group's account. The organizational group, together with the credit/field supervisor, appraises individual income generating activities to determine their profitability and sustainability. They determine the amount of loan each person needs based on a budget. The group guarantees the loan, thus using collective pressures to honor repayments. The loan applications, budget, repayment schedules, and guarantees are submitted to the ACFODE Loans Appraisal Committee for approval. As soon as the loan has been approved, the loan amount is transferred to the organizational group's account, which withdraws the amount and distributes it to each individual borrower accordingly.

Repayment of loans plus interest is paid to the organizational group on a weekly basis. This weekly repayment is deposited into the ACFODE account in the local bank, and a copy of the receipt of deposit is given to the Credit/Field Supervisors. The loan period depends on the type of project financed, but generally does not exceed six months. Repeat loans of higher amounts are extended to those who successfully paid their earlier loans and interest within the agreed upon time period. ACFODE typically grants US $50 individual loans to over 300 clients, with 80 clients receiving repeat loans. The repayment rate is 97%.

Challenges

During the pilot phase (1995-1997), ACFODE recognized the need to train women in other skills such as literacy, basic mathematics, marketing and trading, quality control, proper post harvest handling and storage as well as time and home management. It is also important not to overburden women and to prevent men from abandoning their financial responsibilities towards the home. To meet these challenges, ACFODE worked together with other organizations to deliver the necessary training. Its also monitors and evaluates each group every six months to ascertain any positive development and to identify any problems.

Another challenge is the uncertainty of farming, which is the primary occupation of women clients. Due to weather changes and lack of scientific farming technology, loan extensions to farm producers is very risky. Support is needed by the Government, international organizations, and possibly an insurance company. Also there is a need for more funds to meet the growing demand for loans. ACFODE depends on donor money and grants often fail to be timely, delaying loans and frustrating borrowers.

Source/Contact*: Adopted from programme description, ACFODE, plot 623/624 Bukoto, P.O. Box 16729, Kampala, Uganda, Tel: 256-41-531-812, Fax: 256-41-530-412.*

Centenary Rural Development Bank (CERUDEB)
Uganda

Background

Centenary Rural Development Bank (CERUDEB) is a commercial bank offering microfinance services. It started in 1983 as the Centenary Rural Development Trust by the Ugandan National Council of the Lay Apostolate, providing basic financial services to low income rural segments of the population. In 1993 the trust was converted to a commercial bank, CERUDEB. 1995 was the first of three consecutive years of profit and last year it paid its shareholders the first dividends from the bank's 1997 profits. It now serves over 102,000 clients through its eleven branches, located in Arua, Hoima, Kabale, Kampala, Kyotera, Lira, Masaka, Mbale, Mbarara, and Mityana.

Products to Meet the Needs of the Rural Population

CERUDEB endeavors to design products for Uganda's rural population. An estimated 73% of CERUDEB's deposits are from rural clients and 71% of the bank's loans are from rural clients.
The minimum deposit to open a savings account is relatively low for a commercial bank at Ush 10,000 (US $6.5). It dispenses loans to micro- and small-scale enterprises starting at Ush 100,000 (US $65) and is flexible in the types of collateral it accepts from loan applicants. In the past this has included land titles, business inventory, equipment, motor vehicles and personal property.

CERUDEB works on providing accessible and efficient service, while remaining borrower friendly. Credit analyses focus on the client's ability to repay a loan and not on the value of the client's assets; these analyses are done on-site by the loan officer. Loan officers are in constant contact with their clients to aid in financial planning and to avoid loan defaults. CERUDEB extends over 1,000 loans monthly, largely to micro and small-scale enterprises.

Performance

CERUDEB has developed into a sustainable commercial bank. At the end of 1998 CERUDEB had assets of Ush 25 billion (US $1,644,736), total deposits of Ush 20 billion (US $1,315,789) and total loans of 12.1 billion (US $796,052). The bank's investment portfolio of Ush 5.8 billion (US $3,815,789) ensures liquidity and safeguards depositors. Savings accounts are ensured for up to Ush 3 million (US $1,974) per account by the Bank of Uganda.

All of CERUDEB's branches are computerized and linked by high frequency radios with data transmission capabilities. It is the first national bank capable of making rapid fund transfers to any of its branches. CERUDEB is now a subagent for Western Union International, allowing its clients to send or receive rapid fund transfers worldwide.

Future Plans

Plans for the future include the opening of two new branches in Kampala and eight other branches in Bushenyi, Fort Portal, Iganga, Jinja, Kasese, Mbale, Mukono, and Soroti. CERUDEB also plans to open five small agencies in Gulu, Kitgum, Kotido, Moroto, and Nebbi. It plans to introduce additional financial products such as agricultural production loans, investment credit, home improvement loans, and more attractive savings accounts to better serve their clients.

***Source**: Adapted from programme descriptions,*
The Virtual Library on Microcredit,
http://www.soc.titech.ac.jp/icm.
MicroFinance Network,
http://www.bellanet.org/partners/mnf/

Cooperative Bank Limited
Uganda

Background

The Cooperative Bank Limited is the second largest bank in Uganda, committed to providing members and clients with efficient and professional services. In 1995 the Cooperative Bank started an Agency Programme to add financial services to the microenterprise sector. The Agency Programme seeks to increase savings mobilization efforts and to provide efficient and sustainable microenterprise credit to its small savers. USAID provided an initial grant in 1997 to add six nationwide agency offices to complement the existing 24-branch network. A second grant towards this objective was later approved by PRESTO's Centre for Microenterprise Finance. Cooperative Bank works in close partnership with the Bank of Uganda to operate the six agency offices and an officer of the Central Bank is also part of USAID's monitoring and evaluation team that reviews progress of the Agency Programme.

Expanding Outreach

By extending the Cooperative Bank's outreach to microenterprise as well as traditional clients, the Bank provides savings and non-collateralized credit to Uganda's largest economic sub-sector. Two of the six new branches are already operating in Owino Market and Mukono Town, and the remaining four locations are scheduled to open by June of this year. If sustainable, microfinance services will also be available in the other branches. The client base of the Agency Programme contains over 70% of the Ugandan economy and represents its fastest growing sector. Target clients of the Agency Programme are owners and managers of microenterprise activities employing less than ten workers. The lack of job opportunities in the formal sector and the growing number of school graduates have forced individuals to create their own jobs in the microenterprise sector. The Agency Programme also draws its clients from established groups such as cooperative unions, market groups and business associations. The number of female clients in the Agency Programme averages about 65%.

Saving Microenterprise

The Cooperative Bank embraces the potential of microenterprise banking in Uganda and it may acquire the existing portfolios of several multifaceted development organizations. Using market research, the Bank plans to develop microfinance products that are generic but can be fine-tuned to meet specific local requirements. It currently offers individual savings accounts and microenterprise credit. Loan services have a base amount for all borrowers and a structured growth pattern as clients' businesses expand. The Agency Programme may also make transition financing available, allowing clients to rise from one economical level to the next (i.e. micro to small scale). The Cooperative Bank is also involved in finalizing a curriculum for a Microenterprise Banking Certificate Course taught by the Uganda Institute of Bankers to assist the microfinance industry in its transition from an NGO base to a commercial base, and knowing how to introduce NGO engineered microenterprise methodologies into the commercial environment is essential to remain competitive.

***Source**: Adapted from programme description, The Virtual Library on Microcredit, http://www.soc.titech.ac.jp/icm*

FINCA Uganda
Uganda

Background

FINCA Uganda was established in 1991 by the Uganda Project, a group of Americans and Ugandans. After purchasing a tractor for use in northwestern Iganga, they sought loan capital to develop the area. Because of its reputation in microfinance, they approached FINCA International (refer to FINCA International Factsheet) for assistance in starting a village banking programme. The Uganda Project succeeded in securing the US $50,000 start-up fund, and in 1992 FINCA launched its first Africa affiliate in Jinja. A FINCA International Programme Advisor was sent to develop the programme, with funding from the Uganda Project, Food Industry Crusade Against Hunger, the McKnight Foundation, and Rotary International. In 1995 USAID provided three years of funding for a Resident Financial Advisor, and to expand the scope and scale of the programme. During this reorganization period in 1996, FINCA Uganda developed a strong institutional and financial foundation for future growth.

Empowering Women

FINCA Uganda's mission is to "provide empowering microcredit and monetized savings services to women under positive social interaction," using the village banking method. Empowerment opportunities are not only through savings and credit, but also as a forum for non-financial information. The village banking method tries to allow women to improve the profitability of their businesses, self-esteem, relative position in the home, health, education, and the future of their children. Its special mission towards women is in reaction to the increasing "feminization of poverty," with 70% of the world's poor being women.

Targeting Low-Income Women

FINCA Uganda targets poor women microentrepreneurs and not start-up enterprises, allowing the most needy clients to access credit and savings. Clients are from urban, peri-urban and rural areas, with 70% in the trading sector, 10% in small manufacturing, 10% in service businesses and 10% in pseudo-agricultural activities (i.e. eggs, milk, mushrooms). As FINCA Uganda expands into northern Uganda, the percentage of rural clients is expected to increase from 10% to 25-30%.

FINCA Uganda is not geographically restricted so it can service any area with at least 30 female microentrepreneurs. In addition, FINCA credit officers reside in their market area and are supervised by senior credit officers and managers from the branch offices.

Establishing a Village Bank

Potential village banks can approach FINCA Uganda for assistance, or credit officers within geographically segmented areas can form village banks. Following a four to five week training period, individuals in the village bank receive a loan from FINCA Uganda. Loans are disbursed at the site of the village bank meeting and overseen by the credit officer. Then there are weekly meetings for business matters, loan repayment, and voluntary and compulsory savings deposits. Posts of responsibility are allocated among the village bank members, with the credit officer providing weekly assistance on bookkeeping and meeting formalities. Credit officers also oversee compliance and audit village bank books to minimize fraud.

Credit & Savings

Village banks offer credit and savings options. Loans range from US $50 to US $600, with loan growth linked to client savings so that greater savings allow for greater loans to be obtained.

External loans from FINCA or internal loans from the village bank are available, providing additional credit opportunities for clients and creating an opportunity for the village bank to improve their financial returns.

FINCA Uganda requires compulsory savings. It also has a voluntary savings programme that allows clients to deposit their savings with the group and freely access their deposited funds.

Repayment Incentives

FINCA Uganda tries to maximize the likelihood of repayment through its policies. Its client selection process is designed to attract and retain good clients and minimize bad clients. There is a form of self-selected membership in favor of women with businesses, competent business management skills and good credit history. Weekly meetings help build discipline, conformity, performance, self-confidence, trust, and solidarity. The use of social collateral in the form of guarantees and peer pressure encourages repayment. Repayment is also made weekly and in small amounts, encouraging clients to follow FINCA's motto: "Do less and accomplish more." Lending is also done in a progressive manner since the prospect of future loans serves as a repayment incentive. Even the compulsory savings requirement encourages repayment of loans since savings serve as a form of collateral.

Accomplishments and Future Prospects

In 1998, FINCA Uganda became FINCA's largest affiliate, growing by 94% in client outreach. Over the course of the year FINCA Uganda provided nearly US $3.5 million in loans, averaging US $212 per family in a country whose average annual income is US $557. As of April, 1998, it has made total disbursements of US $ 5.6 million and client savings reached US $699,000. It now has 16,400 clients and over 500 village banks. In 1999 FINCA plans to hire a financial specialist and a planning specialist to support the regional manager, strengthening FINCA's Africa programmes in the areas of financial management, client services, and growth and expansion. Its goal is to reach over 40,000 women by August, 2000.

***Source**: Adapted from FINCA Uganda programme description, www.villagebanking.org*
***Contact**: The Foundation for International Community Assistance, 1101 14th Street, NW, 11th floor, Washington, DC 20005. Tel: 202-682-1510, Fax: 202-682-1535.*

PRESTO
(Private Enterprise Support, Training, and Organizational Development Project)
Uganda

Background

The Private Enterprise Support, Training, and Organizational Development Project (PRESTO) is a four year initiative funded by USAID, designed to create an enabling environment for micro and small enterprises. PRESTO started in February 1997, in Uganda, and is USAID's first performance-based contract in its history. The key idea is to practice private sector business standards within the development arena.

Center for Microenterprise Finance

Much of PRESTO's work in Uganda is based in the Center for Microenterprise Finance (CMF), which aims to improve and expand the financial services offered to microenterprises through banks and non-bank financial institutions. CMF is implementing a programme aimed at disseminating microenterprise finance best practices to the managers and staff of participating MFIs, drawing upon lessons learned from successful microenterprise finance programmes, and combining this with a commitment to achieving financing sustainability with long term donor support. There are four principal elements to the CMF programme: Microenterprise Finance Best Practices Training, technical assistance, Financial Services Grant Programme (FSGP), and the Information Centre.

Microenterprise Finance Best Practices Training

Four training courses for programme managers and staff have been developed and implemented, providing the basic foundation skills that MFIs need to improve operations at the level required for participation in the Financial Services Grant Programme (FSGP). Participation in these courses does not guarantee access to FSGP, but MFIs need to implement the practices taught in the courses and meet CMF selection criteria before receiving access to grant funding. All training courses are based on the idea of cost sharing with participating MFIs, with CMF paying the cost of training course development, implementation, and materials, while MFIs pay for transportation, lodging, and other incidental expenses.

1. **Introduction to Microfinance Best Practices**: This course is targeted at MFI programme managers with experience in implementing savings and credit programmes, but lacking exposure to internationally recognized best practices and analytical skills. Using presentations, plenary discussions, case studies, and small group work, participants explore the evolution of microfinance best practices, the need for sustainable MFIs, and learn basic analytical skills. Participants gain a solid understanding of microfinance best practices and the key variables influencing viability, preparing an action plan to move their institution in the direction of self sufficiency.

2. **Business Planning**: In this course participants learn the business planning process, write a mission statement for their institution, assess their current situation, and determine a base potential for development. Other key areas include the development of strategies for organizational development, use of dynamic computer models for portfolio projections, and analysis of their institution's financial status.

3. **Loan Tracking**: This course covers the elements of successful loan tracking. Participants learn the importance and benefits of a good loan tracking system, develop formats to capture important portfolio information, and establish filing

systems so that loan tracking information and formats can be easily accessed. This knowledge enables participants to develop or improve their own loan tracking systems.

4. **Basic Accounting**: Designed to develop or refine basic accounting skills for MFI staff, participants in this course learn to identify business transactions that need to be recorded, write proper books of account to serve as the basis for financial statements, learn how to prepare financial statements, and establish necessary internal controls.

Follow-Up Technical Assistance

Training courses can provide MFIs with basic skills and information to assist them in efficient and effective operations and eventual self-sufficiency, but additional follow-up and technical assistance are also necessary. CMF therefore offers technical assistance to MFIs that have demonstrated a commitment to achieving professional business oriented operations using microfinance best practices. CMF staff are available to help MFIs develop their programmes in the areas of microfinance best practices, business planning, accounting, financial management, loan tracking, delinquency management, and development of savings and credit methodologies. Specialized technical assistance is available in computerized management information systems (MIS) and other areas through the grants programme.

Financial Services Grant Programme

The Financial Services Grant Programme (FSGP) provides grants to MFIs to help them improve and expand their savings and credit activities. Between 1997 and 1999 USAID plans to award US $5.9 million in grants, subject to the availability of funds. Grants typically range in size from US $50,000 to US $500,000. MFIs receiving grants must provide quarterly reports on key outreach data and financial information to USAID and PRESTO CMF. Qualified MFIs may seek support in loan funds, operating costs, staff capacity building, specialized technical assistance, cross visits and study tours, and fixed assets.

MFIs must meet specific criteria to qualify for FSGP grants:

- MFIs must be legally registered in Uganda as a bank, company, NGO, or other financial intermediary.
- MFI clients must be poor, and at least 25% of the clientele must be women.
- MFIs should be principally engaged in microenterprise lending, demonstrate competence in microfinance programme management, and have delivered financial services for at least one year.
- MFIs need a realistic strategy to provide services to at least 500 clients by the year 2000, and to achieve financial self-sufficiency within seven years.
- MFI must charge full cost interest rates and fees, and implement procedures to ensure delinquency rates less than 10% and a loan loss rate less than 5%.

Information Dissemination

CMF has an information center with an interactive Internet link and a library of materials documenting the methodologies and experiences of microfinance institutions worldwide. The PRESTO home page is used to disseminate information about Ugandan MFIs. CMF is planning a review of management information systems (MIS) of Ugandan MFIs to write a simple guide on the development and implementation of an effective MIS. It plans to develop new training courses, including one on MIS and the other on financial analysis.

Source*: PRESTO programme description,*
Virtual Library on Microcredit,
http://www.prestoug.com/CMFhome.htm

Uganda Microfinance Union (UMU)
Uganda

Background

The Uganda Microfinance Union (UMU) was established to introduce microfinance to new segments of the poor using innovative methods to better serve their clientele. UMU was started with financing from the Life in Africa Foundation. Unlike many microfinance institutions (MFIs) based in the capital city, UMU is located in the rural village of Busiika where no financial services were available. Along with its innovative methods, it has a strong commitment to sound business and banking principles with a realistic business plan to achieve financial sustainability within five years.

Targeting Women

UMU believes in non-gender-based participation, while still recognizing the importance of women's needs. UMU's policy states that at least 50% of the members of a group must be women and on average groups consist of 70% women members, with both men and women performing well. UMU also believes that it is critical to provide microfinance services to the working poor as well as the poorest of the poor. The working poor are often not poor enough to qualify for most assistance programmes including microfinance, but do not earn enough to plan for their future or for possible unemployment.

Solidarity Lending Scheme

UMU successfully employs the solidarity group lending scheme, but with an increased emphasis on the individual borrower that allows the client to become financially responsibility and disciplined more quickly. UMU works in small groups of five to ten self-selected members. This allows for more flexibility to serve individual needs, with a higher level of individual contact between UMU staff and clients. Smaller groups are also more capable to self-govern and monitor their progress, reducing the need for formal group meetings lead by UMU staff. Smaller groups facilitate informal communication between members and increase the responsibilities of individual members while making the group responsibilities more manageable.

Each new member can receive an initial loan of Ush 50,000 (US $33). Clients qualify for new loans increasing in increments of Ush 50,000 (US $33), with timely repayment of previous loans. Performance of other group members does not affect the ability of an individual to move on to a higher loan amount, but does affect the timing of loan disbursements to the group.

Since each microenterprise is different, the client is allowed to determine the speed at which loans are repaid (within set parameters). This also determines the rate at which higher loan amounts can be accessed. Clients can choose to repay in weekly, biweekly or monthly installments in a six-month time period. Repayments are directly made by the client to the UMU office. There is no penalty for early payment of a loan, but inability to adhere to the loan terms resulted in either suspension from the programme or repetition of the same loan cycle before graduating to a higher loan amount.

UMU provides clients with individual savings accounts, in which borrowers deposit 20% of the total loan. UMU does not block savings from the client during repayment of a loan, allowing limited access to savings when necessary. UMU offers interest bearing savings accounts; ordinary savings accounts earn an annual interest rate of 3.5% while fixed savings accounts earn an interest rate of up to 10%.

Innovative Products

UMU's flexibility allows it to offer new products and services and to modify existing products to better serve clients. Starting in June 1999, UMU will test pilot a new loan product combining short-term working capital loans with larger, long-term capital asset loans. For example: a shopkeeper could receive a refrigerator to prevent produce from spoiling, the value of which could be repaid over the course of a year, while still obtaining short-term working capital loans that could be used to increase stock or other business expenses.

Test programmes are also another way that UMU expands its range of services. With financing from the Life in Africa Foundation, UMU is test piloting a programme to provide loans to low-income earning workers based on a credit guarantee from their employer. This will enable the working poor to develop skills and assets for the future. It is lending to domestic workers in Kampala to allow them to acquire land.

Remaining Competitive

While UMU is the only microfinance institution operating in Busiika, it realizes that this will change, as microfinancing becomes increasingly available to rural areas. Therefore, UMU places an emphasis on customer service, striving to make their services as user-friendly and responsive to clients needs as possible. This approach is clearly recognized by clients, as attested to by the number of clients who have left microfinance programmes in their own villages and travel the extra distance to bank with UMU.

UMU recognizes the importance of their staff as the institution continues to grow. UMU has personnel policies designed to foster commitment and dedication among the staff, and they are encouraged to take an active role in the institution's development through open communications, cross-functional training, and morale building activities.

The Life in Africa Foundation is assisting UMU in the design and implementation of an internal assessment tool to better track the impact of credit and savings services on clients as they graduate to higher loan amounts. This will allow for the generation of systematic information to identify and address weaknesses in their services and management systems, streamline procedures, and improve the user-friendliness of their programmes.

UMU has 2,200 members with a loan portfolio of Ush 100 million (US $32,894) and member savings of Ush 50 million (US $65,789). Its repayment rate is 100% with only two loans that were not paid on time. Future plans include the building of a new branch office in Kampala, as well as a new branch office in a peri-urban area and one in a rural area. UMU is ahead of schedule in its five-year financial sustainability plan.

***Source**: Adapted from UMU programme description, The Life in Africa Foundation,* http://www.lifeinafrica.com/umu.htm, *Ugandamu@infocom.co.ug*

Uganda Women's Finance Trust Limited (UWFT)
Uganda

Background

The Uganda Women's Finance Trust Ltd. (UWFT) is an NGO founded in 1984, affiliated with Women's World Banking (WWB) in New York. UWFT's mission is to economically empower lower income women microentrepreneurs, enabling them to raise their economic and living standards. It targets women in urban and rural areas. Male membership cannot exceed 20% and men cannot occupy leadership roles. Operating at the grassroots level, it assists women in gaining greater control over their businesses, income, and assets. It employs two methods to achieve its goals, solidarity group lending and individual lending. UWFT has nine branches offering credit and savings services, located in Kampala, Masaka, Mbarara, Kamuli, Jinja, Iganga, Mbale, Kumi, and Soroti, employing 52 people to run these sites.

Solidarity Group Lending

In solidarity group lending, clients form groups of 10-15 members. UWFT loans to solidarity groups are in turn lent to members. Loan collateral consists of a group guarantee and a savings deposit of 30% of the total loan. Group members carry out individual businesses, but oversee the loan as a collective group, including assessment of a member's loan requirements, monitoring progress, and collection of membership dues. Peer pressure works to ensure loan repayment to UWFT. In 1998 solidarity group lending had a portfolio of Ush 351 million (US $230,921) to 5,940 clients. UWFT concentrates most of its loan capital on group lending since this allows for greater outreach, fewer costs of supervision and appraisal, and greater cost effectiveness than individual lending.

Individual Lending for Proven Performers

UWFT has made an effort to offer individual loans to those members who have proven their reliability and need. This approach targets small-scale microentrepreneurs requiring larger loans – between Ush 500,000 to Ush 1.5 million (US $329 to US $987). Clients are graduates of solidarity groups and are required to have some form of collateral, including guarantors. They must present a viable business plan to UWFT and make a 30% savings deposit of the total loan. In 1998 individual lending had a portfolio of Ush 287.5 million (US $189,144) to 775 clients. The demand for individual lending is high but is restricted because the appraisal, supervision, and collection of loans must be done by UWFT staff, making individual lending costs substantially higher than group lending costs.

Savings Services

UWFT offers individual savings accounts available to all women over eighteen, joint savings accounts to married couples, and group savings accounts to solidarity groups. These savings accounts must maintain a minimum balance, and deposits and withdrawals are voluntary as long as the minimum balance and the compulsory savings amount (for loans) are maintained. Prior to starting a savings account, UWFT asks potential clients to save for at least three months to review the individual's saving discipline. UWFT uses this time to provide training in group dynamics, basic record keeping and other essential skills. In 1998 the savings portfolio was Ush 952 million (US $626,315) from 11,212 clients. UWFT does not utilize client savings for lending purposes.

Source*: Adapted from UWFT prgramme description, The Virtual Library on Microcredit, http://www.soc.titech.ac.jp/icm/*

Credit Management Services Limited (CMS)
Zambia

Background

Credit Management Services Limited (CMS) was established in 1992 as a subsidiary of Molver and Company, a Zambian accounting firm, to provide financial services in Zambia. CMS consists of four loan programmes:

1. The Mponge Smallholder Marketing Fund was established in 1992 to lend to small and medium enterprises involved in input supply distribution to smallholder farms.
2. The Mponge Women's Bank was established in 1994 as a credit and savings scheme based on modified rotating savings, (it was CMS' first involvement in microfinance).
3. The Kabwe Smallholder Development Project Agricultural Revolving Fund was established in 1995 to lend to small and medium enterprises engaged in crop marketing activities in Kabwe district.
4. The Luapula Province Livelihood and Food Security Revolving Credit Fund was taken over from FINNIDA in 1995 and lends to individual entrepreneurs such as farmers, fishermen and women.

In 1994 CMS received ZK 40 million (US $20,000) to manage the revolving fund for the Mponge Women's Bank, and in 1995 it received ZK 750 million (US $375,000) for the Luapula Credit Fund. The Mponge Women's Bank and the Luapula Province Livelihood and Food Security Revolving Fund give microcredit to 306 women in the rural areas of Mponge, Kashiba, and Miputu in the Copperbelt Province and to 423 women in Mwense, Nchelenge, Samfya, Mansa, and Kawambwa in the Luapula Province. CMS training stresses the benefits of savings and the compulsory 50% savings requirement is not considered unusual to these women, who have become accustomed to rotating savings and credit arrangements. Individual savings have increased by as much as 250%.

Lending Procedures

CMS lends to women's clubs divided into cells of five members apiece. Each cell mobilizes savings of 50% of the total loan, with the savings used as collateral. Loans of up to ZK 500,000 (US $250) are available. A club applies for a loan after the initial savings has been accumulated and members have attended orientation meetings. The loan is distributed to two members of the cell, chosen by the members. Recipients are selected, endorsed by the club, and issued loan applications by a credit officer. The loans are distributed and repayable in four months with a single installment. After the loans are repaid, other cell members may receive loans. The head office management approves applications during field visits, usually every four months.

Borrowers sign individual loan agreements, but loans are guaranteed by all members of the cell and the elected leaders of the club. Peer pressure is used to ensure repayment, which is at 98%. The cell leader is the last to receive a loan and usually the most influential member of the group. The responsibility for loan repayment first rests with the individual and then the club. Each cell member is equally responsible for a defaulter and if the cell fails to repay, the club is required to repay the balance of the loan. If a loan is not repaid, the club is barred from receiving future loans.

Innovative Approach to Microcredit

CMS has a diversified programme portfolio in agricultural finance and enterprise development to achieve and maintain profitability. CMS has built upon existing, informal, financial women's clubs, making it easier for clients to accept loan procedures. CMS has an elaborate but transparent management information system, with active participation of clients. This has inspired confidence and trust at all levels. The weekly club meetings enhance group solidarity and are an underlying factor in the success of group lending. The required 50% savings rate allows women to take advantage of interest from their savings, which is 45% per year. Even after Zambia's 35% inflation rate, this represents a positive real interest rate of 10% per year, compared to market real interest rates of -6.6%.

Results

Over the first three years of operations as a microfinance institution CMS has discovered the high potential for rural savings. It has mobilized substantial savings from poor rural entrepreneurs, and improved portfolio performance by active involvement in credit monitoring by senior head office staff. CMS has also discovered that women were a lower credit risk, enhanced loan recovery by strict contract enforcement supervised by a staff lawyer, and disbursed loans that meet a critical minimum in order to achieve a positive change in clients' economic status.

Source*: Adapted from Muscona, D. T. and D. M. Dorca, "Zambia's Credit Management Services: Micro-Credit Schemes for Women Entrepreneurs," The World Bank's Findings, Africa Region. Number 135. May 1999.*

The Community Foundation for the Western Region of Zimbabwe (An ORAP Initiative) Zimbabwe

Background

The Community Foundation for the Western Region of Zimbabwe rose out of the initiative of Organization of Rural Associations for Progress (ORAP), a membership organization with 18 years of experience working with communities all throughout Zimbabwe. Over 40,000 ORAP community members contributed a portion of their savings to establish the Foundation's endowment. Both ORAP and the Foundation share the philosophy that communities have the answers for their own problems, which they will overcome if they are empowered.

Building Upon Traditional Savings

Founding ORAP communities desired to establish a permanent financial base with which to seed and sustain ongoing and future community development projects. In 1995 and 1996, community members and ORAP staff partook in fact-gathering mission, and with funding from the Carnegie Corporation in New York it visited foundations in the United States and Africa. Their research impressed upon them that they could build a large fund by collectively combining the small funds of many contributing households. In response they built upon the traditional savings concept, *Qogelela*, in individual communities, and soon the idea evolved into a "big *Qogelela*" and by the end of 1995 thousands of people had contributed funds totaling Z $60,000 (US $1,578). The Foundation was officially established in 1998 in Bulawayo, and has also mobilized start-up funding from the Carnegie Corporation, UNDP, and the Open Society Initiative for Southern Africa.

Co-Financing Initiative

The Community Foundation seeks to co-finance community initiatives through a process that builds resources and collaboration between the communities and other sectors of society. The Foundation builds co-financing agreements through three critical steps:

1. **Stimulate and identify co-financed community based initiatives**. The Foundation consults with a wide range of actors to generate ideas to develop co-finance possibilities supporting community initiatives in Zimbabwe.

2. **Form action partnerships around community initiatives**. The Foundation identifies with communities and other partners available resources and assists in designing a project initiative. It then develops a financing plan and project management agreement clarifying the roles of partners.

3. **Co-finance the plan**. Once the agreements are in place, the Foundation, communities, and other partners begin executing the financial plan by providing resources.

Co-Financing Focus Areas

The Foundation intends to support and co-finance initiatives in four distinct areas, chosen after extensive consultation with communities and organizations:

- **Improve Community Agriculture and Water Access**: Communities in western Zimbabwe rely heavily on agricultural production but face obstacles due to persistent drought conditions and communal lands with a naturally low fertility or infertility through overuse. Several communities have proven that modern and traditional techniques can address these problems and the Foundation plans to support such solutions.

- **Improve the Access and Quality of Primary Education**: While children in the region can almost universally access schools, the schools are severely under-funded and lack proper infrastructure, text books, science equipment, and sufficient teaching staff. As decent education is a top priority in communities, it is also a priority for the Foundation.

- **Development and Opportunities for the Youth**: Few organizations and programmes exist to involve and assist Zimbabwe's youth. Consequently, many cross the borders into South Africa and Botswana seeking employment and often become involved in delinquent activities or sent to jail. It is also crucial to invest in AIDS awareness programmes for the youth.

- **Empower Women**: Women play a crucial role in Zimbabwe: over 70% of Zimbabwe's population is rural and between 70% and 90% of this rural population are women. While men are absent seeking employment in other towns, cities, or countries, women assume full responsibility for the household, agriculture, and education and care of children. Thus women are key for Africa's future generations.

Source/Contact*: Adapted from program description provided to UN/OSCAL by ORAP, PO Box 1799, Bulawayo, Zimbabwe, Tel: 263-9-69617/69285, Fax: 263-9-69617/69285, Email: westfund@acacia.samara.co.zw*

Self-Help Development Foundation (SDF)
Zimbabwe

Background

The Self-Help Development Foundation (SDF) was initially established in 1963 by a Catholic missionary in Chishawasha, just outside of Harare. It was based on the idea of savings clubs and credit unions, of combining small and seemingly insignificant individual, financial assets to create sizeable and useful assets. A group of twenty people started the first savings club, the Savings Development Movement (SDM), and by 1984, there were 5,700 savings clubs and eleven credit unions. The credit unions stagnated due to the complexity of operations but the savings clubs thrived. However, growth in the savings clubs was so great that in 1985 the Government intervened to suspend the SDM on the charge of misuse of donor funds. The Government audit showed this charge to be groundless and the savings clubs continued. In 1987 SDM changed its name to SDF and secured external funding from the Konrad Adenhour Foundation in Germany.

Savings Clubs

SDF activities concentrate on savings clubs and development activities that go beyond savings, working in small groups in urban and rural areas. After witnessing the government's high default rate in its agricultural credit schemes and the failure of its own pilot loan programme, SDF decided not to offer loan services. Its mission is to promote the economic and social development of the population, encourage members to save money that would otherwise be wasted, teach members how to use their savings for development, educate members on the responsibility of saving while promoting self-confidence, mutual trust and close cooperation, and organize training programmes in income generating projects.

SDF has over 10,000 savings clubs, with its goal to establish 1,000 new savings clubs annually. These are part of a rural development programme run by village members. SDF assists in marketing members' craft works where fair prices can be obtained, and offers training in market activities in Harare, Bulawayo, Kwekwe, Rusape, and Mashvingo.

Outreach to Rural Women

Customary laws and practices in Eastern and Southern Africa mean that women generally lack assets such as land or cattle, but are expected to provide for the basic needs of their children regardless of the availability of spousal support. Rural women see SDF as a "bargaining chip" that allows them access to education, training, and group meetings, as well as a marketing channel for their craft works. Women account for up to 85% of the membership in the savings clubs.

Despite the proliferation of formal and informal financing institutions in Zimbabwe, many women have been unable to access credit due to minimum deposit and collateral requirements. SDF has helped compensate for the lack of credit and savings facilities for rural women. The savings clubs have increased the number of microenterprises in craft production and the amount of disciplined savings. Much of these accomplishments are due to SDF's role as a grassroots organization stressing participatory principles, with decision-making resting in the rural villages.

Source*: Adapted from B. Sinnott's programme description, The Virtual Library on Microcredit, http://www.soc.titech.ac.jp/icm*

Zambuko Trust
Zimbabwe

Background

Zambuko Trust was founded in 1992 by a group of Zimbabwean business, community, and church leaders to serve as a source of enterprise and income generation for the underprivileged. Securing funding from a variety of sources, notably the NGO Opportunity International, Zambuko was the first urban microcredit program in Zimbabwe. It is both a social welfare organization possessing tax-free status and a lending institution that charges interest on its loans.

Targeting Low-Income Women

Zambuko has made significant efforts to lend its money to the poorest segments of the population, especially the economically active poor working in the informal sector. The majority of Zambuko's clients are literate, although most have not received secondary education. Over 70% of the clients are women and Zambuko plans to further target women as their loan arrears rates are much lower, 18.1% compared with 56.5% for men.

In its first year of operation Zambuko made 269 loans with a value of Z $448,961 (US $83,600). By 1995 it had disbursed 2,800 loans with a value of Z $4,257,000 (US $500,823) and had also expanded from its base in Harare to operating in four of the eight Zimbabwean provinces, with four branch offices and three satellite offices. Zambuko's repayment rate in 1995 was 97% and the loan default rate has never exceeded 4%.

Financing on Commercial Terms

Zambuko finances on commercial terms, rather than subsidized credit. The interest rate is 32% on all loans. Initially, Zambuko's interest rate policy received significant criticism as exploitation of the poor. Zambuko feels that subsidized credit is only possible where there is a continual flow of grant funds available, and that its current financial situation requires loans to be made on commercial terms for financial sustainability. It has made an effort to limit its loan sizes in order to serve a greater number of clients, with an average loan size in 1995 of Z $1,528 (US $180).

Prioritizing Flexibility

Zambuko's loan management program also prioritizes flexibility in recognizing individual client needs: repayment follows a 6 to 12 month timetable; clients can choose to apply for loans as a group guarantee or as an individual guarantor; clients determine which household assets will serve as collateral; repayments can be made at the Zambuko office or at the client's place of business. As an additional form of security, Zambuko requires that clients establish a specific monthly repayment date, all clients deposit 10% of their loan principal into an insurance fund prior to receiving their loan, and payment of a 3.5 - 4.5% processing fee. Turnaround time between loan applications and disbursements has been reduced by using solidarity groups to screen clients and decentralizing the loan approval process on loans under Z $5,000 (98% of all loans). Most loan decisions are made within a week of the request.

Performance

In only a few years Zambuko has managed to build a solid microfinance lending institution, and has been particularly successful in targeting poorer segments of the population actively involved in the informal sector. This expansion, however, has underscored new challenges for Zambuko. In 1995, Zambuko's operational self sufficiency was only 59.6%, and less than 56% of Zambuko's assets were classified as "performing" assets, loan portfolio or investments. This high percentage of non-performing assets contributed to Zambuko's low return ratio for 1995 (26.1%). Also, while loan recovery is quite high, Zambuko's arrears rate in 1995 reached a high of 30.6%. Although loan officers carefully monitor their client's loans, one problem is the high volume of loans handled by each officer, which was initially encouraged by Zambuko to reduce its transaction costs. Consequently, Zambuko has re-evaluated its lending and collection policies and is now recommending that each loan officer handle no more than 250 loans.

Zambuko can also enhance performance by establishing its infrastructure to handle its recent expansion. This would include the creation of a standardized accounting system to consolidate information and provide accurate data on the institution's financial position at the headquarters level for the whole institution; cost accounting for the services and special programs operated by Zambuko; and an improved management information system that can generate data in a timely fashion to help management make key decisions.

Source: *Adapted from Malhotra, M.*
The World Bank Group, Case Studies in Microfinance, “Zimbabwe: Zambuko Trust.”
http://www-esd.worldbank.org/sbp/

Fondo Fiduciario de Capital Social (Foncap) Argentina

Background

Fondo Fiduciario de Capital Social (Foncap) is an innovative initiative of the Argentine Government to eradicate poverty and alleviate unemployment. Foncap's aim is to create a self-sustaining and self-perpetuating scheme that will provide financial and non-financial services to poor microentrepreneurs across the country, operating as a second tier institution. Its main activities involve microbanking, development of social organizations, and research and analysis, each with its own goals.

Microbanking for Microentrepreneurs

Foncap's microbanking services seek to develop financial instruments for the special needs of practitioners providing services to urban and rural microenterprises. Its specific goals include:

- Transfer and adapt effective and efficient microcredit technologies and methodologies.
- Introduce and educate potential practitioners into the main points of microfinance and encourage the support of corporate and financial markets.
- Create and develop microbank operations.
- Generate human resources specialized in microfinance.
- Promote the specialization of microfinance support services in fields such as market consulting, human resources, computer systems, and training.

Microbanking in Practice

Foncap has established twelve microbanks, with more than US $17 million in loans and US $3 million in grants for a three-year period. These microbanks include six NGOs, three commercial firms, and three complementary financial organizations. The microbanks evaluate the financial viability of microbank projects, submit business plans to the board for approval, administer the disbursement of loans and grants, and supervise these operations. Each microbank produces monthly reports on its progress, the quality of service, and its clients, according to the goals established in each business plan.

As part of its training for microbanks, Foncap designed and implemented a training course for credit analysts and general managers of microbanks, combining it with fieldwork for practical and concrete experience. It also organized institutional visits to successful microfinance operations throughout Latin America for potential practitioners in the Argentine market, and conducted market studies across the country to assess the viability of microfinance operations in particular regions.

Expanding Microbank Services

In 1999 Foncap intends to expand its operation in the following areas:

- Establish sixteen additional microbanks (28 total), and disburse loans of US $13 million.
- Establish credit agreements committing US $40 million for the three-year period established in each business plan (this amount is the total lending capital available in the Trust Fund administered by Foncap).
- Invest in human capital specialized in microfinance by training thirty general managers and 150 credit analysts.
- Cover eighteen provinces with the presence of at least one microbank.
- Articulate the development and transfer of microbank operation and administration software.
- Construct a credit bureau linking all operations and building a track record for microenterprise clients.
- Promote the consolidation of a network of practitioners to share experiences and provide training and internship services.
- Work as the Local Technical Service Provider in UNDP's MicroStart programme, assisting the Technical Service Provider

(TSP) in training working teams in different microbanks.

- Approve the work plan proposed by the TSP, which analyzes each microbank's needs and experience in the field.
- Create the Center for Information and Documentation on the Internet, transferring and distributing information about the microenterprise sector between 1,000 users comprised of researchers, public officials, and members of organizations throughout the country.

Improve Market Access through Social Organizations

Foncap's second area of work is in the development of well-established and self-sufficient microenterprise chambers or trade associations to act as representative social organizations, improving the ability of microenterprises to access the supply and demand markets of goods and services. These social organizations seek to provide support in training, infrastructure and communication networks, assist organizations in the elaboration of their projects, and monitor and evaluate financed projects. Social organizations conduct market studies across the country, identifying the kind of services that microenterprises need. In 1999 Foncap intends to:

- Conduct six regional meetings to coordinate various activities to promote the microentrepreneurial sector.
- Coordinate internships and work exchanges between different organizations.
- Increase the institutional strength of these organizations through strategic planning, infrastructure and equipment.
- Approve 57 new projects, with training of 700 members in strategic planning issues and provision of adequate infrastructure to organizations.
- Support projects related to commercialization, business opportunities, marketing, and legal issues.
- Create a national Internet information network of 70 organizations.
- Encourage ten studies on legal, taxation and socioeconomic issues in the microenterprise sector.

Generating Research to Fight Poverty

Foncap's third area of work is in research and analysis to promote discussion and thought on poor microentrepreneurs, creating a framework to encourage the creation of strategies and policies to fight poverty and social exclusion. Research is conducted in an open competitive selection process, encouraging independent researchers and research teams from universities and other educational centers to work on core subjects. Foncap has a scholarship programme covering different topics, with twenty research projects in progress. These projects are financed and will be published by Foncap, and include specific studies on the differentiated tax regime for the microenterprise sector, legislative framework of poor microenterprises, and regulatory framework of practitioners providing financial services to the poor. Other projects include a microenterprise map of Argentina, statistical analysis of the size and characteristics of the microenterprise sector, the first inter-university event on microenterprise research, the first meeting of Foncap researchers on their preliminary findings, an introductory paper on ethical and political views of microenterprise programmes, and an evaluation on the impact of non-financial services on microenterprise development.

Source*: Adapted from programme description, The Virtual Library on Microcredit, http://www.soc.titech.ac.jp/icm.*
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Grameen Bank
Bangladesh

Background

Grameen Bank (GB) is a banking system based on mutual trust, accountability, participation and creativity. GB provides credit to the poorest of the poor in rural Bangladesh, without any collateral, serving as a catalyst in the over all development of socio-economic conditions of the poor who have been kept outside the banking orbit on the ground that they are poor and hence not bankable. Since formally becoming a bank in 1983, Grameen has given out nearly 16 million micro-loans (today averaging US $160), and enjoys unparalleled customer loyalty. Today Grameen Bank GB is the largest rural finance institution in Bangladesh, with over 1,128 branches, serving 38,951 villages (more than half of the total villages in Bangladesh). It has more than 2.3 million borrowers, 94% of whom are women. The on-time loan repayments exceed 98%, and defaults (bad debts) are less than one-half of one per cent.

Key Grameen Bank Features

Establishing a Grameen Bank branch is coordinated through a branch manager and a number of center managers and covers an area of about 15 to 22 villages. The manager and the workers start by visiting villages to familiarize themselves with the local context and identify prospective clientele, while presenting the purpose, functions, and operation of the bank to the local population. Groups of five prospective borrowers are formed; in the first stage, only two of them are eligible for, and receive, a loan. The group is observed for a month to see if the members are conforming to the rules of the bank. Only if the first two borrowers begin to repay the principal plus interest over a period of six weeks, do the other members of the group become eligible themselves for a loan. Because of these restrictions, there is substantial group pressure to keep individual records clear. Therefore, the collective responsibility of the group serves as the collateral on the loan.

Savings is prioritized (but not enforced) through a set of incentives to encourage borrowers to save 5% of the loan amount, plus one taka (US $0.03 cents) per week. The accumulated saving, one of the indicators the bank uses to gauge its impact on poverty eradication, has grown from nothing in 1983 to over US $108 million.

Interest rates are set by the board such that after paying all expenses, including the cost of its growth, the bank makes a modest profit. The profit is returned to the shareholder-borrowers in the form of dividends. The current rate of interest on 'working capital' loan is 20% and on home loans is 8% (Home loans are cross-subsidized by the working capital loans). Last year the bank made a profit of US$ 680,000. The Grameen Bank is an example of a totally self-reliant poverty-eradication initiative that does not need a handout to sustain itself or its growth.

The Grameen Bank was designed so that ownership and control should remain in the hands of the very people it serves. As soon as a borrower accumulates sufficient saving, she buys one (and only one) share in the Bank, which costs US $3. Today 92% of the Bank is owned by its borrowers. (The Bangladeshi Government owns the remaining 8% of the shares). The shareholder-borrowers elect nine directors from their midst. (Another 3 directors are appointed by the Bangladeshi Government). Only the borrowers can buy shares in the bank.

Poverty eradication à la Grameen requires the local leadership and workforce without outside "help". The Grameen Bank model is highly culture-sensitive and works only in the hands of the local bankers. Presence of foreigners often has dis-empowering and dis-franchising effects. Furthermore, the Management-Expense-Ratio (MER) required of a typical Grameen Bank replication can not sustain the cost of involving Western aid-workers, either directly or indirectly; it is based on the expectation that the workers salaries will be in line with the average national income of Bangladesh.

Grameen Bank Replication Lessons

Grameen Bank has inspired people and institutions throughout the world with its success in poverty alleviation. During the last decade, more than 4,000 people from some 100 countries have participated in Grameen's training, and over 223 Grameen replication programmes in 58 countries have been established. Some of its key lessons for successful replication include:

- **Small Loans**: Initially, offer small loans (usually less than $100). Larger loans are given later after the clientele develops the skills, discipline and commitment.
- **Focus on Women**: Make loans mostly to women, who are much more committed to using their loans for the benefit of their families, and generally have a stronger commitment to repay their loans in order to qualify for larger loans in the future.
- **Small Group Size**: Insist that clients are organized into small groups of typically five, with each person committing to guarantee the loan payment of the other group members.
- **Weekly Payments**: Successful programmes insist that payments be made weekly, thus helping to build discipline and consistency. Weekly payments on small loans over a period of 52 weeks also ensure that the payments required each week are small enough, that if one person in the group could not pay in a given week, the others would be able to make the payment for her.
- **Required Savings**: Require all borrowers to weekly deposit some money into a savings account that will earn interest. Establishing savings accounts strengthens commitment to the programme, and builds a sense of discipline, self-esteem, and well-being.
- **Interest Charged**: Charge an appropriate level of interest, usually higher than what a bank might charge, but much less than what a money lender would charge - this is generally between 2%-3% a month, just enough to pay salaries of the bank workers supervising the programme in their area.
- **Banking Business**: Hire people with a business or banking background to be village bank workers and the programme, thus building upon practical experience.
- **High Commitment to Training**: Develop a strong commitment to meet with the people every week on a regular schedule, to give training in literacy, health, and community development, in addition to training in accounting, marketing and entrepreneurial skills.

Key Lessons Preventing Repayment Crises

While repayment problems are inevitable, Grameen Bank's experience shows that management can arrest their developing into crises through close supervision stressing the following elements:

- **Targeting**: Group recognition must be done by a supervisor more senior than the branch manager and must include visiting the house of each prospective member to ensure that all are bottom-level poor.
- **Center Discipline**: Surprise center visits should be routinely made by branch managers, programme officers, and area managers to check on attendance, payments schedules, conduct of meetings, loan utilization, etc.
- **Quarterly Monitoring and Evaluation**: An effective system compares plan targets with actual performance and analyzes gaps between them.
- **Surprise Internal Audits**: Unannounced audit visits to branch offices and village centers examine both financial management and work performance and provide an independent check for monitoring reports.

Source*: Adapted from programme descriptions, http://www.grameen-info.org.*
Contact*: Grameen Bank, Mirpur Two, Dhaka 1216, Tel/Fax: 880-2-803-559 or 880-2-806-319, Email: gtrust@grameen.net*

BancoSol
Bolivia

Background

BancoSol is a for-profit commercial bank established in 1992 to serve the microfinance sector. BancoSol's clients typically work in the informal urban economy and cannot otherwise gain access to formal financial services. Customers come from poor, economically active households and operate their own microenterprises; 78% of the clients are women. In November 1996, it had a loan portfolio of US $43.1 million, with more than 69,900 outstanding loans and 50,000 savings accounts. BancoSol is financially sustainable, and has funded the expansion of its operations by capturing commercial loans and deposits from the public.

From NGO to Commercial Bank

BancoSol was chartered in 1992, but began five years earlier as a grant-funded NGO called PRODEM. PRODEM developed an effective lending technology that generated a well-performing loan portfolio. In 1992, PRODEM transferred a base of 14,300 clients and a loan portfolio of US $4.0 million to BancoSol. This portfolio gave BancoSol an immediate source of revenue and a base to expand future operations. PRODEM's cost-effective lending methods were the backbone of BancoSol's lending. It inherited experienced, highly motivated staff from PRODEM, and began operations with a reputation of being a sustainable and serious lender, with a commitment to its mission and an affiliation with ACCION International.

Challenges of Growth & Transformation

With the assets from PRODEM, BancoSol embarked on an ambitious growth path, with expansion of its office network and loan portfolio. The rapid growth of BancoSol in Bolivia and its transformation from an NGO (PRODEM) to a licensed commercial bank illustrates important lessons for other microfinance institutions (MFIs). MFIs face financial and management challenges as they grow and formalize. For BancoSol, growth was accompanied by two major challenges: increasing financial pressures and changing demands on management.

- **Financial Pressures**: After becoming a licensed bank, BancoSol switched from donor funding to more expensive commercial loans and deposits. The average cost of funds rose from 4% per year at the time of transition to 12% by mid-1995. Transition inhibited BancoSol's revenue generating capacity because legal reserve requirements reduced the proportion of assets placed in the high-return loan portfolio. There was also a greater proportion of larger loans, which earned lower effective interest rates. These factors reduced BancoSol's return on performing assets and cut its operating margin by 13 percentage points.

- **Management Pressures**: Rapid growth brought on a number of other challenges. BancoSol's growth was mostly "extensive," resulting from rapid expansion of the branch network. While PRODEM had grown to four branch offices by the end of 1991, over the next four years BancoSol expanded to 32. The accelerated creation of new branches and hiring of new loan officers lowered productivity (portfolio outstanding per unit of inputs, such as branches or loan officers), and entailed costs from new banking infrastructure, staff, monitoring systems, and communications, that were unmatched by rapid growth in the number of clients and in the total portfolio.

Larger Loans to Address Financial Pressures

BancoSol increased the revenue-generating capacity of each loan by increasing loan sizes and terms to maturity. Larger and longer-term loans produced more interest income, with little increase in operational cost per loan. Portfolio efficiency (ratio of the average portfolio outstanding to total costs) rose from 1.67 in 1992 to 2.24 in 1995. The increase in loan size compensated for the rise in costs per loan and allowed BancoSol to remain financially viable.

Larger loan sizes generally result from one of three possibilities, but do not necessarily mean a drift from the original mission of the MFI. These are (1) policy-induced increases due to changes in an MFI's lending criteria, (2) information-induced increases as a result of accumulated knowledge about the clients' capacity to repay, and (3) client-induced increases due to a demand for larger loans among repeat clients. The latter two do not signal a change in the MFI's mission, while the first possibility may signal a change in mission.

In BancoSol's earlier years there was a brief period of policy-induced increases of loan sizes. The larger loans caused some repayment problems, possibly due to overextending borrowers' debt capacity, and the policy was revised. Subsequently, information- and client-induced loan size increases have been the primary source of portfolio expansion as clients gain access to larger loans over time. These forms of loan size growth represent a maturing relationship with repeat customers, rather than a search for wealthier ones. First time loans for new clients rose in 1992 and 1993, but declined to their original level by 1995.

Restructuring Management

Rapid growth and transformation into a bank forced BancoSol to adapt its organizational structure and culture. During the PRODEM stage, the institution promoted an informal office culture that encouraged innovation, commitment to the organization's mission, and recognition of individual contributions to a team effort. The management hierarchy was simple and flat, relying heavily on interpersonal relations. This internal culture fit well with a lending methodology based on trust between the organization and its clients. The informal culture was less suited to the demands of a larger institution, proving difficult to integrate new staff and branches within the existing culture. Management needed improved information systems to cope with an expanding portfolio.
BancoSol adapted by designing a stricter management structure, improved systems, and new chains of command. Experienced bankers, human resource managers, experts in asset and liability management, and management information systems specialists were incorporated. Yet BancoSol retained personalized contact with the clientele and used simple procedures and instruments tailored to the clients' demands.

This balanced approach to restructuring management was influenced by BancoSol's Board of Directors, whose shareholders include NGOs, donors, and individual investors. The Board was concerned with the safety of investments, their reputation, and with preserving the integrity of BancoSol's original mission. It recognized the changing demands on management and demonstrated the political will necessary to make difficult decisions to improve its organizational structure.

***Source**: Adapted from a synopsis by Greg Chen of the CGAP Secretariat from the paper "BancoSol: The Challenge of Growth for Microfinance Organizations" by Claudio Gonzalez-Vega, Mark Schreiner, Richard L. Meyer, Jorge Rodriguez, and Sergio Navajas; in Hartmut Schneider (ed.), "Microfinance for the Poor?" Paris: OECD, 1997.*

Corposol/Finansol
Columbia

Background

In the 1995, Finansol, a regulated microfinance intermediary in Colombia and an affiliate of ACCIÓN International, experienced a crisis that caused a severe deterioration of portfolio quality. With the assistance and collaboration from both the private and non-profit sectors, ACCIÓN intervened and developed and implemented a recovery plan. Finansol now has new management, portfolio quality has improved, and new investors have recapitalized the institution. A summary of the factors precipitating the crisis and the actions taken to address the crisis provides a useful lesson for the microfinance community.

From NGO to Commercial Finance Company

Finansol began as an NGO founded with ACCIÓN's support to provide services to microentrepreneurs in Colombia's informal sector. From its start in 1987, Corposol grew at an unprecedented rate; by 1989 it provided integrated training and access to credit to more than 3,000 clients, and this escalated to nearly 25,000 active borrowers at the end of 1992. Corposol was one of the first microlending institutions to initiate its lending activities by obtaining lines of credit from commercial banks, initially through the personal guarantees of the founders, and afterwards through guarantees from ACCIÓN's Bridge Fund and FUNDES.

By 1992 Corposol felt that additional sources of capital were needed to sustain the institution's rapid growth and it explored ways to tap directly into financial markets as a regulated financial intermediary. Corposol decided that a commercial finance company (CFC) was the preferred type of regulated financial institution, allowing it to avoid raising the large minimum capital requirement to create a bank, and to begin operations immediately. In October 1993, with 71% of the shares, Corposol became the controlling owner of a CFC which was renamed Finansol. Joining Corposol as minority shareholders were ACCIÓN International, Calmeadow, FUNDES, a local development bank and private individuals.

Performance Deterioration

Although Finansol inherited a large loan portfolio of excellent quality, a proven lending methodology, and consistent operational profitability, a number of factors quickly led to its deterioration:

1. **The relationship between Corposol and Finansol was structurally flawed**. Corposol, the NGO, retained the credit extension staff while Finansol, the financial institution, served only as a booking and financing agent. Since most of Corposol's operating revenues were generated by training fees charged concurrently with loan disbursement, this created an incentive to disburse and a disregard for collection.

2. **Corposol became overly ambitious, providing completely new products and expanding too quickly**. The new products were largely unsuccessful, the management information system could not keep up with product diversification; and the institution lacked appropriate staff training for the new products. In response, management launched a massive refinancing of the portfolio, which included lengthening loan terms and rescheduling bad debts. This provided brief cosmetic relief at the huge cost of hiding and worsening asset quality, and undermining methodology. Meanwhile, loan officers came under intense pressure to increase loan volumes to generate revenue, disregarding credit quality.

3. **Management made poor decisions in response to banking regulations**. In 1994, the Colombian government attempted to control inflation by limiting the asset growth

of regulated financial institutions to 2.2% per month - an extremely low figure considering that annual inflation was in excess of 20%. Finansol was immediately affected, but as an NGO, Corposol was not. It became expedient for Corposol to retain a portion of the loans to permit the combined portfolio to grow at a faster rate than the regulated system. Thus began a practice of shifting portfolios between the institutions that lacked transparency and misrepresented their financial position.

Turnaround – Back to Basics

After an evaluation of the entire microlending operation, followed by the resignation of Finansol's President in September 1995, an open appraisal of the entire operation was conducted and a corrective plan designed. The turnaround plan was based on a rigorous and uncompromising return to the basics. Finansol regained control over its loan portfolio by terminating new product offerings, returning to the basic loan model, severing most arrangements with Corposol and taking management responsibility for the credit extension staff. Finansol also implemented a comprehensive plan to reduce costs, improve reporting and budgeting, and focus on quality hiring, training and evaluation. In addition, it began to eliminate non-productive assets that at one point comprised a significant portion of all assets, and effected a capital increase of $2 million to cover loan losses.

Restructuring and Recapitalization

While the operational problems were diagnosed and the cures already implemented, the regulatory framework presented another set of challenges. Colombian banking rules mandate the gradual provisioning of delinquent loans, which caused an erosion of Finansol's net worth to the extent that it violated the Superintendency's standard that a regulated financial institution may not lose more than 50% of its starting net worth in a given fiscal year. If the Superintendency intervened, not only could this have caused Finansol's collapse due to a lack of market confidence, but it would have had a serious effect on the broader Colombian financial market as well since Finansol issued paper amounting to approximately US $30 million.

Accordingly, working with IFI (*Instituto de Fomento Industrial*), Colombia's second-story development bank, ProFund, Citibank-Colombia and others, ACCIÓN led a full recapitalization plan in 1996. The plan had two goals: 1) to sever the relationship between Corposol and Finansol and 2) to raise enough capital to meet the capital requirements of the Superintendency and to provide for future growth. The first goal was achieved when Corposol surrendered its majority stockholder position through a debt for equity swap with its banks to which those shares were pledged. The second goal was achieved when the new investors purchased US $3.5 million of equity in Finansol, and with the sale of additional shares on the Colombian market.

Key Lessons

Finansol/Corposol's crisis underscores that microfinance institutions cannot relax standards under pressure to increase services or client base. Furthermore, effective quality control instruments, applied on a regular basis by professionals with microfinance experience, is one of the best safeguards against institutional deterioration during major transitions associated with scaling-up operations. Finally, major institutional changes and crises can be better addressed with the support and feedback of colleague institutions (such as ACCIÓN), the sustained confidence of financial markets, the credibility with the Superintendency of Banks, and the involvement of new investors.

Source: *Adapted from Chu, M. et. al. "Corposol/Finansol: Preliminary Analysis of an Institutional Crisis in Microfinance," The Virtual Library on Microcredit, http://soc-info.soc.titech.ac.jp/icm/corp-finansol.html.*

Self-Employed Women's Association (SEWA)
India

Background

The Self-Employed Women's Association (SEWA) was established in 1971 and registered in 1972 as a trade union movement for women in India's informal sector, an unrecognized, neglected part of India's economy (constituting approximately 90% of the total economy). In 1974, four thousand women subsequently established the SEWA Bank as a co-operative to empower poor self-employed women by providing them with access to credit and financial services and to reduce their dependence on exploitative moneylenders. Today SEWA has over 220,000 members and has 362 producer groups and 72 co-operatives.

SEWA Objectives

- Help low-income women become financially independent and start their own economic activity.
- Reduce red-tape/procedures to help illiterate women get small loans without difficulty.
- Provide facilities for savings and fixed deposits accounts, thus fostering thrift in women managing their savings and ensuring safe custody of cash.
- Provide credit to further the productive, economic and income generating activities of the poor and self-employed.
- Extend technical and management assistance in production, storage, processing, designing and sale of goods and services.
- Provide loans (comparatively lower interest rates) to repay old debts and redeem jewelry from pawnbrokers and moneylenders.
- Adopt procedures and designs schemes suitable for self-employed women, such as collecting daily savings from their business place or home, or providing savings boxes and training in banking procedures.
- Provide legal and productivity training, education, maternity, protection, social security and "creche" facilities.
- Minimize seasonal migration due to lack of employment by encouraging women to form self-employed producer groups and then finding new markets for their products.

The SEWA Bank

The SEWA Bank has been successfully giving small loans to resource-poor women over two decades. Decisions regarding policy and sanctioning of loans are made by a Board of Directors, where positions are filled by regular elections. The Bank is run by qualified financial managers hired by the Board, and the Reserve Bank of India (India's Central Bank) supervises its functioning as it does any other bank. The repayment rate is astonishingly high by the yardstick of commercial banks, and SEWA loans at viable commercial rates of interest. Its attraction is that it provides services tuned to the poor (especially poor women) and its interest rates are much lower than those of usurious moneylenders. The Bank provides loans with a repayment period of three years for productive purposes. At present, the Bank lends to its members in three major areas: working capital, buying tools of trade, capital investments like a house, a store or workspace. Below are some of the Bank's distinguishing features.

Serving Low-Income Women: Bank membership is open only to low-income women on payment of Rs. 10 (US $0.32 cents) as share capital. Women are encouraged to hold accounts in their own names, which is revolutionary for traditional Indian society, where financial accounts are almost always managed by or passed down along patriarchal lines. Bank clients are largely hawkers, vendors and those working in the tobacco and dairy producing areas of Gujarat State in Northwest India.

Utilizing "Mobilizers": The bank employs woman savings mobilizers to encourage women to save with the bank. The mobilizer visits women at their homes or workplaces so that they can easily deposit their savings. When a woman needs a loan, the applicant usually comes with a reference person, already known to the SEWA Bank, and if it is the woman's first time to the bank, she will also be accompanied by some other family member or friend. Applications for loans are made by the members themselves or through the bank's field staff.

Loan Approval: The SEWA Bank scrutinizes and processes loan applications, carefully reviewing the applicant's income-generating ability, financial status, soundness of working conditions and ability to repay. The information is discussed in a Loan Committee that submits its recommendation to the Board. The majority of the loans are unsecured; their approval process takes about one week. If the woman has jewelry to offer as security, a fixed deposit or a mortgage, the approval procedure is shortened and she can get a loan the same day. Once the loan has been approved, the borrower is required to buy 5% of the loan amount in bank shares and to open a savings account if she does not yet have one.

Prioritizing Capital Accumulation: Loans are only available for economic activities and not for personal use. SEWA has given priority to capital accumulation so that loans are not taken primarily for consumption and survival. Furthermore, SEWA ensures that loan sizes are not too small, so that a significant amount can be invested in capital. This can especially be a problem for women, who have greater obligations socially to the family before themselves.

Accommodating Indebted Borrowers: SEWA extends credit to highly indebted women to pay off high-interest debts with moneylenders. Once freed from the exorbitant interest rate, women use the new credit productively to generate more income to repay SEWA's lower-interest loan and build up working capital. Before borrowing, while repaying and after repayment, SEWA encourages its members to save.

Accommodating Repayment Problems: Around 10% of the women face difficulties in repayment each month. Most repayment problems occur in times of crises. SEWA has learned that providing support at these times rather than harassment strengthens the Bank's image as a friend of the poor and results in better repayment than legal recourse or threats could do. The SEWA Bank is flexible in helping women reschedule their installments when these crises occur.

Self-Sustaining: There are no Government subsidies, and the Bank borrows and lends at market rates. Thanks to its commercial interest rates and members' high repayment record, SEWA successfully stays self-sustainable, something many financial experts believe is difficult to achieve when the loans are given to the poorer strata of society.

Institution Building and Supporting Social Infrastructure: Perhaps more important than just access to credit, SEWA empowers women to run their own organizations, form co-operatives and bargain collectively in the market place. SEWA women are speaking out more, taking leadership roles, and realizing how far they can go when they have collective bargaining power for wages, better working conditions, combating domestic violence, or improving education and family health. Women's groups that receive loans also receive training in financial management, their legal rights, business management, as well as other support services. Many SEWA groups have begun health co-operatives and child-care facilities. They try to make these financially self-sustainable by generating income through fees for services and training fees for other groups.

Sources: *Adapted from Srinivas, Smita. 1997. "Paving the Way for Women's Economic Progress," Women and Money, Microcredit Section, and the programme description, The Virtual Library on Microcredit, http://www.soc.titech.ac.jp/icm.*

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Borromeus Credit Union
Koperasi Kredit Borromeus
Indonesia

Background

The Borromeus Credit Union (*Koperasi Kredit Borromeus*) was created in 1972 to enable staff at Borromeus Hospital in Bandung to become homeowners. The Union has 194 members, each with average savings of US$25. The goal of the credit union is to improve the welfare of its members by creating a capital fund using savings, granting quickly obtainable loans under reasonable terms, developing inter-employee relations, and enabling its members to become more assertive.

Three Types of Housing Credit

Loans are granted first and foremost for housing. Loan recipients are asked to contribute to a voluntary and a compulsory savings scheme. The Credit Union offers three possible ways for members to obtain loans:

1. **Housing Loans**: Members can borrow a fixed multiple amount of their total savings, granted for the purpose of purchasing land, housing, carrying out repairs or reconstruction. These loans are quickly obtainable and may be equal or less than five times the total savings available. The maximum loan possible is US$ 1,100, which must be repaid in under a year, with a monthly interest rate of 1.5%.

2. **Housing Building Pilot Project**: Members can purchase a house built by the Credit Union. This loan is granted to members interest free, and 142 houses have been built to date. The St. Borromeus Foundation has granted a soft loan of approximately US $100,000 for the house building project, and the Government is also assisting via their "Housing Ownership Credit" scheme.

3. **Simple Housing Development Programme**: Low-income staff can benefit from a special housing programme. Funded by the Dutch Housing Commission, this programme has enabled the construction of ten houses, although forty were needed. Zero-Kap (Netherlands) has recently contributed to this programme through a grant and soft loan to enable the construction of eighteen more houses on the site. The beneficiaries of this programme must have been employed by the hospital for at least five years, exhibit a sense of cooperation and loyalty with Credit Union clients, be in urgent need of housing, and adherence to the programme's regulations. In addition, active participation in the project is encouraged, in finding a site, preparation, and actual construction. Approximately 20% of the initial capital comes from the credit union's existing capital resources.

Housing Construction

Houses constructed under the credit programme are referred to as *rumah tumbuh* or "growing house". The basic construction is simple, with only rudimentary furnishings. Later additions can be made in accordance with the family's needs and financial resources. Emphasis is placed on team spirit and cooperation during the construction phases.

Credit Loan Terms

No initial payment is required for either the Housing Building Pilot Project or the Simple Housing Development Programme, due to the fact that low-income communities are rarely able to accumulate any form of savings. The total cost of the building and furnishings is calculated in liaison with the purchaser, so that monthly repayment amounts are realistic. The fact that everyone assists in the construction process helps to keep costs fairly low. Sites are selected near workplaces and schools to minimize transportation costs.

To qualify for a loan, the borrower has to agree to move into the house less than a month after signing a letter of consent, and must take out insurance to ensure that repayments will be covered in the event of death. Members repay the capital cost of the house to the Credit Union. The borrower pays an interest rate of 6% (based on the 9% mentioned above and the free-interest loan from the Borromeus Foundation). This money is paid into a revolving fund to enable further investments.

Funding

Funding comes from member contributions, the Borromeus Foundation, a private hospital foundation, the Dutch Housing Commission and another Dutch organization, and the State controlled National Savings Bank. Individual member contributions average about US $25, while the Borromeus Foundation contributed US $100,000 to the Borromeus Credit Union in the form of a long-term interest free loan. The Dutch Housing Commission gave a grant of US $26,000 and another Dutch organization added more funds. The Government, through the Housing Ownership Credit/National Savings Bank gave a loan of US $265,000, at an interest of rate of 9%. The capital fund managed by the Borromeus Credit Union amounts to US $8,730 and is expected to increase by US $1,000 monthly. Despite the large scale of the institution, it is far from its goal of satisfying all of its members' needs.

Future Plans

The Borromeus Credit Union hopes to increase its capital through grants and low-interest loans. It also believes that the local government has a role to play in facilitating the allocation of the building construction allowance and land certificates, and that the National Savings Bank should lower its interest rates. The Borromeus Credit Union plans to extend its range of services, in particular focusing on education, health, and income generating activities.

***Source**: Adapted from programme description,*
The Virtual Library on Microcredit,
http://www.soc.titech.ac.jp/icm

Centre for Micro-Finance in Nepal (CMF)
National Savings and Credit Development Project (SA/CRED)
Nepal

Background

The Centre for Micro-Finance in Nepal (CMF) is a project of the Canadian Centre for International Studies and Cooperation (CECI) and is jointly funded by USAID-Nepal and the Program for Innovation in Micro-Enterprise Development (PRIME), a global program of USAID. The project duration is from January 1998 to March 2000. The Centre includes the National Savings and Credit Development Project (SA/CRED), which is jointly funded by the Ford Foundation, the US Agency for International Development (USAID), and the Canadian Centre for International Studies and Co-operation.

Goal and Objectives of CMF

- To enhance awareness among donors, government and microfinance practitioners on critical issues that face the microfinance sector in Nepal and globally, and on emerging thinking on best practices.
- To strengthen the commitment of funding agencies (including donors and the INGO and NGO sectors) to support only those microfinance institutions and programs that are moving towards sustainability.
- To enhance capacity among microfinance practitioners to implement microfinance activities that build upon best practices.
- To strengthen the resolve of government agencies to design and implement the legal and regulatory framework (including supervisory mechanisms) needed to support microfinance institutions.
- To build improved understanding among microfinance practitioners of the gender issues, with particular reference to issues related to improving access to microfinance services to low-income women.

Strategy and Activities

- **Educational Activities**: CMF will sponsor a series of educational activities (conferences, seminars) that will be targeted at the major stakeholders in the microfinance sector (i.e. donors, Government and practitioners). These activities will address core issues related to the practice of sustainable microfinance from a practical rather than theoretical/ideological perspective.
- **Networking**: CMF will facilitate the emergence of three inter-linked networks (donors, government agencies/officers, and practitioners) with a direct interest in the microfinance sector.
- **Microfinance Resource Centre**: A resource center will be established for microfinance practitioners and researchers, with materials on microfinance in Nepal and globally.
- **Technical Assistance:** CMF will work in an advisory capacity with a select sample of microfinance practitioners to plan the process by which they receive the technical assistance required to assist them to replace unsuitable program practices with those that promote sustainability.
- **CMF Sustainability**: CMF will be incorporated as a private company, owned by key stakeholders in the microfinance sector in Nepal. It will then begin to sell its services on a cost recovery basis.

Recognizing and Promoting the Community

Despite $250 million of external funds that have been injected into poverty alleviation credit programs in Nepal over the past thirty years, the vast majority of Nepalese people have little or no access to basic financial services. In recent years, community groups throughout Nepal have come together both spontaneously and through the efforts of promotional agencies to meet their needs for savings and credit services. Most of these groups begin as small, informal clusters of neighbors, but many grow and mature into more formal community-based savings and credit organizations (SCOs). These SCOs are funded and managed by the members themselves and provide a range of financial and social services. Experience worldwide indicates that such SCOs can contribute significantly to the socio-economic development of disadvantaged communities when they are promoted in a professional and systematic manner.

The National Savings and Credit Development Project (SA/CRED)

The goal of the SA/CRED project is to establish the foundation for a viable and sustainable community-based savings and credit movement in Nepal. This is achieved through the identification and diffusion of best practices in the promotion, institutionalization and cooperation of SCOs, including:

- The identification, elaboration, testing and evaluation of an appropriate development model for SCOs in Nepal, comprising promotional strategy, training curriculum, and management tools.
- Supporting the emergence of a legal framework conducive to the operation and development of SCOs.
- Contributing to networking and federative initiatives to transform a collection of individual SCOs into an effective and consolidated movement.

The Technical Unit

The SA/CRED project will establish a small professional Technical Unit within CECI-Nepal to undertake research, develop curriculum and deliver training and technical support to a select number of Partner Agencies engaged in the promotion of SCOs in Nepal. These Agencies (INGOs and NGOs) shall then test the tools provided through their on-going field-level implementation programs. The Technical Unit will provide follow-up monitoring and support to partner NGOs and INGOs.

Project Implementation

The SA/CRED project will be managed by CECI, and shall be guided and monitored by an Advisory Committee comprised of representatives from project stakeholders. Project components are:

Component #1: Strengthening Promoting Agencies. SA/CRED will work with at least twelve Promoting Agencies with field-level outreach to at least 240 SCOs with combined membership of 10,000, including at least 35% women members. There will be four stages to implementation of the first component:

- Stage 1: A field research project to identify "best practices" for SC0s.
- Stage 2: Develop training materials and management tools to promote best practices.
- Stage 3: Field testing of these materials with a set of Promoting Agencies and SC0s;
- Stage 4: Evaluation of the effectiveness of the training materials and strategy.

Component #2: Reform of Policy Framework: SA/CRED will work in partnership with both governmental and non-governmental agencies to elaborate a legal and policy framework that addresses the needs of NGOs and SCOs engaged in financial intermediation. This will involve drafting new legislation for the NGO sector as well as revising laws and rules governing savings and credit cooperatives.

Component #3: Networking of SCOs: Networking activities will focus on enabling SCOs to build an integrated and sustainable saving and credit system in Nepal through the formation and strengthening of federative structures. Networking amongst Promoting Agencies will also be facilitated.

***Source/ Contact**: Adapted from programme description provided by the Centre for Micro Finance (CMF), National Savings and Credit Development Project (SA/CRED), CECI-Nepal, GPO Box 2959, Baluwatar, Kathmandu, Nepal. Tel: 977-1-414430 or 419412, Fax: 977-1-413256; Email: cmf@mos.com.np, http://www.south-asia.com/cmf*

The Coalition for Microfinance Standards
The Project to Develop Standards for Microfinance
Philippines

Background

Most Philippine microcredit institutions are hampered from scaling-up due to a traditional mindset, lack of knowledge, technology and trained personnel, and limited operating capital. Overall, the NGOs' marginal outreach and limited capability are attributed to the lack of common standards to guide the growth and capacities of the institutions and their clients. The Coalition for Microfinance Standards was formed to develop and promote standards for NGO microfinance operations that seek to provide the poor with greater access to financial services on a viable and sustainable basis. The Coalition is a group of NGOs and Government agencies, with its major activities funded by USAID and significant counterpart contributions from Coalition members. The Coalition's Project to Develop Standards for Microfinance has five major components: 1) coalition formation, 2) research, 3) developing and promoting standards, 4) training, and 5) advocacy.

Project Organizational Structure

- **The Policy Advisory Group (PAG)** is the core group of the Coalition, serving as the policy advisory body. It focuses its attention on the development and advocacy of standards and other related technical and policy issues.
- **The Project Support Group (PSG)** PSG monitors project implementation and is in charge of fund management and internal control for proper accountability. It is also the executive decision-making body of the Coalition, responsible for the approval of contracts and the terms of reference, reviews of progress reports of the Secretariat, and approves the recommendations of the Secretariat to improve project implementation.
- **The Secretariat** is responsible for the coordination and/or management of all project activities. It provides daily oversight of the project, administrative support for the Coalition and the management of all sub-contracts. It is headed by a Project Manager who is assisted by a Project Coordinator, a Training and Organizational Development Manager, Advocacy Officer, Research and Information Officer, an Administrative Assistant and a Utility/Messenger. At the different stages of the Project the Secretariat is assisted by short-term contractual personnel, including consultants, programmers, and data encoders to ensure timely and quality attainment of Project objectives. The Secretariat, through the Project Manager, reports directly to the PSG for matters related to management and administration, and to the PAG for policy related issues.

Core Principles of the Coalition

- **The poor need access to appropriate financial services**. The demand for microfinancial services has not been met by formal and semi-formal financial institutions, creating a high demand among the poor for credit and savings services that are appropriate to their needs – fast, friendly and fair.
- **Microfinance is an effective tool for the alleviation of poverty**, **and must be made available to as many poor as possible**.
- **The poor can repay loans, can pay the real cost of loans, and can save**. Given the savings instruments that are accessible and appropriate to their needs, low-income people are quite capable to utilize and manage funds allowing them to increase their incomes.
- **Microfinance can and should be undertaken on a viable and sustainable basis**. Microfinance should aim for full cost

recovery after a reasonable development period.

- **Microfinance NGOs and programmes must develop performance standards that will help define and govern the microfinance industry towards greater outreach and sustainability**. These are organizational, operating, financial and reporting standards that will lead to the recognition of microfinance as a legitimate sector in the financial services industry. The establishment of standards will also allow the measurement of institutional efficiency and effectiveness, the comparison of players, the display of accountability, and will encourage MFIs to continuously move to a higher level of performance. The standards will also raise the investment attractiveness of MFIs.

Major Project Components

Coalition Formation: This entails the formation of a coalition of NGOs and other agencies involved in microfinance, including the formation of a core group of microfinance practitioners and policy advocates into the Policy Advisory Group (PAG), serving as the driving force for the Project. The specific outputs of this component on coalition formation are: (1) the formation of the PAG by core group members signifying formal agreement based on a selection criteria; (2) formation of coalition with members formally signing an agreement; (3) strategic plan to be evidenced by an approved Project Implementation Plan (PIP); and (4) regular and special meetings with the PAG meeting monthly and/or as needed, and with general membership meeting on a semi-annual basis.

Design and Conduct of a National Microfinance Survey: A national survey will identify, locate and gather relevant data on existing NGOs that are involved in the delivery of credit and savings services to the poor. The survey is expected to yield a statistical database on microfinance performance indicators, serving as a major input in the development of standards. This component of the design shall produce: (1) an inventory of MFIs; (2) a framework for the national microfinance survey; (3) training of enumerators; and (4) conduct of a national survey. The database should be readily accessible while the profiles produced should be published and disseminated to target audiences.

Training and Paticipation of Microfinance Institutions: Reiterative consultations will be used to elicit participation in and ownership of the Project by microfinance institutions. Also, training activities will be undertaken to improve the understanding and working knowledge of recipient institutions of the application of microfinance standards and indicators.

Development and Promotion of Microfinance Standards: A review of existing standards will be undertaken in the creation of a Standards Document, which will be agreed upon by the Coalition. To promote the standards there will be several regional workshops and a large national workshop. The regional workshops will culminate in a national microfinance summit where the standards will be formally launched. The Standards Document will also be disseminated to donor agencies, government agencies and the banking sector.

Advocacy & Linkages: Advocacy efforts will seek to establish linkages with NGO networks, bankers' associations, international groups, etc. Exposure trips to successful microfinance models abroad for policy makers and MFI senior officers will be undertaken. As part of the Project's networking activity a coalition directory and other publications will be distributed to all members and concerned national and international agencies. The Project shall also facilitate the linking of agencies into an information-sharing network through the provision of on-line services.

***Source**: TheVirtual Library on Microcredit, http://www.soc.titech.ac.jp/icm.*
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The Women's Bank
Sri Lanka

Background

During the 1980s, the National Housing Development Authority (NHDA) started to recruit women who had been active in improvement programmes for low-income settlements to work as community assistants or *praja sahayaka*. The NHDA hoped that such part-time staff would help overcome the serious shortage of extension workers and field staff and reach a larger number of households within a shorter period of time. The intervention of the *praja sahayaka* resulted in considerable progress, because the *praja sahayaka* had a much better relationship with the women in low-income settlements than the staff of the NHDA.

However, the *praja sahayaka* quickly realized that it would be very difficult for them to operate within the framework of a Government agency. In 1990, some *praja sahayaka* organized into a non- governmental organization called the Praja Sahayaka Service. This organization played a major role in the development of the Women's Bank among the women in low-income settlements.

Building on Tradition

The Women's Bank emerged out of a pilot project of women's mutual help groups initiated by the National Housing Development Authority (NHDA) of Sri Lanka in 1989. The project was based on the traditional system of savings and credit, known in Sri Lanka as *seettu*. The participants in such a group contribute an agreed sum of money to a pool on a daily, weekly, bi-weekly or monthly basis. The pooled amount is awarded to one member of the group at a time, either in an agreed order or by drawing lots. *Seettu* enables people who find it difficult to save to gain access to finances they would otherwise not be able to acquire. By using the concept of *seettu*, the project was able to make the women feel familiar and more comfortable with the concept of a women's mutual help group.

Membership

To be eligible for membership to a women's banking group, a woman must have a low income, reside in a low-income settlement, and be willing to participate in group activities according to a set of rules and regulations. Only one member of a household can participate in a particular group. The groups consist of 5-15 members only; no moneylender can join the group and the group leader cannot be actively involved in party politics.

Group Formation

The formation of a group and the learning of the rules and regulations take one to two months. During this period, the group establishes a routine of weekly meetings that last thirty to ninety minutes each. At these meetings, women learn to arrange savings and loans, to keep records of all monetary transactions, to select office bearers, to understand the group constitution, to open a bank account and to manage emergency loans. The members select a chairperson, a secretary and a treasurer for the group. The treasurer keeps the financial records, while the secretary keeps the minutes of the meetings.

The group is monitored by more experienced group leaders, and the group leaders participate in the group leaders meetings. Once the group is well established it receives some stationery (a pencil and an eraser, a ruler and a file cover, three ledgers, a red ink pen and two blue or black pens) from the Praja Sahayaka Service. Each member of the group also receives a printed copy of the rules and regulations to memorize and understand. Five months after the day of formation, the primary bank branch tests the members of the group to ensure that they know and understand the rules and regulations.

If the group passes the test, it becomes a formal member of the bank branch. It receives a small steel cash box from the Praja Sahayaka Service. The Praja Sahayaka Service also helps the group to get a seal for the group that is considered an important indication of recognition of the group's official status.

The Women's Bank is a cooperative bank, with bank branches consisting of saving and loan groups (women's mutual help groups). All members of a group meet weekly, and the leaders of all groups in one bank branch meet monthly. The working committee of a bank branch also meets weekly, and all groups of a bank branch meet at least once a year. All members (or their representatives) of the Women's bank meet once a year. In 1995, there were 560 groups at 20 branches, with over 5600 members.

First Savings then Loans

Saving is the first activity a group undertakes once it has been formed. Each member must buy a share of Rs.100.00 (US $1.4) in the bank, pay an admission fee of Rs.10.00 (US $0.14) and a welfare contribution of Rs.10.00 (US $0.14) per month and continue a compulsory saving of Rs.5.00 (US $0.07) per month. During the first five months, members can get an emergency loan of Rs.100.00 (US $1.4) that they have to pay back as soon as possible. The group as a whole decides the service charge for such loans. During the next five months, when the accumulated savings have increased, loans of Rs.250.00 to Rs.500.00 (US $3.5 to $7) are awarded for small-scale production activities or for consumptive purposes, and the service charge is set at 4% per month. As the group increases its savings, the maximum loan amounts which the women can borrow from the bank also increases.

Uses of the Credit

Most increases in income resulting from better access to credit are used to improve the family welfare. Women are better able to provide adequate food and shelter for their family, especially in the many cases when the father is not present. When they were asked how they use the credit from the group, women listed the following:

- To escape from indebtedness to a local moneylender.
- To pay skilled labor for house construction.
- To fill a gap in the running costs of an enterprise caused by a sudden price increase.
- To retrieve valuable items which they had pawned earlier.
- To purchase schoolbooks and pay tuition fees for the children.
- To pay *seettu* debts.
- To make bulk purchases of materials used in their enterprises.
- To pay for food when the husband is a daily laborer and out of work.

Reinforcing Cooperative Action

The loans and the impact of the loans on their financial situation appear to be secondary to the benefits emerging from cooperative action. For many members, the group is the first opportunity to meet formally, to discuss problems and to develop joint action. For example, the groups have organized to address house construction and improvement with a service initiated by a local organization, Women in Need, in conjunction with the Federation of Women Mutual Help Groups and Praja Sahayaka Service. The service provides supplementary house construction loans, organizes the collective purchase and transport of building materials, lobbies for common amenities such as water supply and toilets, and enables households to hire skilled labor. As the groups gather experience and strength they can address non-monetary problems, such as drugs and alcohol addiction and domestic violence. The groups channel information (i.e. available counseling services for women victims of violence and drug and alcohol addicts).

Source*: Adapted from "The Women's Bank in Sri Lanka", The Virtual Library on Microcredit, http://www.soc.titech.ac.jp/icm.*
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The Bank for Agriculture and Agricultural Cooperatives (BAAC) Thailand

Background

The Bank for Agriculture and Agricultural Cooperatives (BAAC) was established as a state enterprise bank in 1966. At that time very few Thai farmers had land title documents which would be considered acceptable as security for bank loans. In response, BAAC adopted joint-liability as its principal basis of loan security. While BAAC offers other financial services, joint-liability lending remains its primary lending tool for small-scale farmers, allowing it to make significant inroads into the rural credit market.

Joint-Liability Groups

A basic requirement for joint-liability security for BAAC loans is that the farmers form themselves into groups. These groups vary in size from five to thirty farmers, according to the bank's regulations. After passing BAAC's basic eligibility criteria in practice, membership is decided by the farmers themselves and not by the bank. Each year the group members who want to borrow for seasonal production costs sign a contract in which they accept liability not only for their own individual loans, but also for the loans borrowed by other members of their group. Hence the term 'joint-liability'. The loans are made by BAAC to individual farmers, not to the group collectively. The amounts borrowed by each farmer depend on their individual needs, up to a maximum of 50,000 Baht (US $2,000).

Distinguishing a Joint-Liability Group from a Cooperative or Association

The groups formed by the farmers are not legal entities, and cannot borrow or enter into contracts as groups. The groups exist only insofar as their individual members are legally bound to each other and to BAAC as the result of signing a joint-liability contract. In the very small number of cases where joint-liability borrowers are taken to the courts for non-repayment, the whole group will be involved in the court action. The legal commitment ceases once the loans are repaid. Therefore joint-liability groups are conceptually quite different from cooperatives and farmer associations, which are permanent, legal bodies and which borrow on a wholesale basis from BAAC for their own institutional development and for on-lending to members.

Limitations to Joint-Liability Groups

To borrow under joint-liability a farmer must be able to join a group of at least five members. Consequently this form of lending is not appropriate to individual farmers who are isolated from BRAAC groups. Individual decision making is limited in that group members must follow similar production schedules to better monitor each other's production activities and cash flow. And joint liability loans are normally available for no more than 50,000 Baht (US $2,000), which tends to restrict this type of lending to relatively small-scale farmers.

Joint-liability lending is also inherently expensive, because loans are relatively small, and success depends on frequent contact between borrowers and the bank's field officers. Typically field officers visit clients' homes or farms at least twice during the course of each loan, as well as issuing repayment warning notices and making supplementary visits to farmers with loans in arrears. One of the bank's goals is to have experienced group leaders take more responsibility for some aspects of loan administration.

Reasons for Success

Responsibility for each loan lies unambiguously with individual clients, and not with the group as a whole. Within Thai rural society an individual typically accepts responsibility for maintaining an asset and repaying a loan only if he or she is the sole owner. If responsibility is shared by the group, BAAC has found that ultimately no one accepts responsibility.

Mutual trust and peer-pressure within the groups nevertheless play a key role ensuring loan repayment. Therefore the groups must be organized and approved by the villagers themselves, not imposed by the bank. Also, the groups must be fairly small in size, so that the farmers concerned do genuinely know each other. In practice some groups have established their own eligibility criteria, which can be stricter than the criteria applied by the bank itself. But there is no limit to the number of groups which can be formed within one village, so farmers excluded from one group can form their own group with their own entry requirements.

Farmers must be involved in and can only borrow for similar types of production. Joint-liability lending is restricted to activities that are related to the production of the farmers' main annual crop. They are given for the production of more than one crop when all group members produce the same combination of crops. However, joint-liability contracts are not normally given for term loans (there are exceptions to this) or for certain types of short-term loans, where only one or two individual farmers rather than the group as a whole are involved. BAAC has other kinds of non-mortgage loan security for cases like these.

The quality of group leadership is critical for success, particularly in terms of loan repayment. Clients can usually repay their BAAC loans only at a branch office, and group leaders will often arrange transportation and shepherd the whole group directly to the repayment desk of the branch to ensure that they all honor their commitments.

Groups exist only for the single purpose of expediting certain categories of BAAC loans; they are not multi-function groups, and have no role in savings promotion, extension, the purchase of inputs, and post-harvest or marketing activities. There are cases of groups cooperating informally in these other fields, but BAAC makes no special effort to encourage the extension of the groups' functions.

The concept of joint-liability depends heavily on establishing and maintaining trusting relationships between group members, and with the bank. Therefore the security of the system rests on systematic supervision by field staff who are able to visit client farmers in their homes and at their farms, helping to nurture a sense of discipline with respect to financial matters

Joint-liability borrowing serves mostly small-scale farmers, who have proven to be more reliable. While branch managers are often reluctant to extend loans to small-scale farmers, BAAC has found that clients who are small-scale farmers tend to repay their loans more reliably than large-scale farmers. The likeliest reason for this is that the small-scale farmers have only the choice of borrowing from BAAC at about 1% per month or from private moneylenders at interest rates as high as 10% per month. Consequently, it is in their best interest to maintain a good repayment record. Larger-scale farmers, who have more resources of their own and who may be able to borrow from commercial banks, have a less powerful incentive to repay.

Source*: Adapted from Lightfoot, Paul, "BAAC Experience with Join-Liability Lending,"*
The Virtual Library on Microcredit,
http://www.soc.titech.ac.jp/icm
Contact*: BAAC 469 Nakorn Swan Rd. Dusit Bangkok 10300 Thailand. Tel: (66-2) 280 0180 Fax: (66-2) 280 0442*

Poverty, Credit & CIDSE
Vietnam

Background

Poverty, Credit and CIDSE is a working group of thirteen Catholic development agencies. In 1977, it began a programme in Vietnam, which was extended to Cambodia in 1979 and Laos in 1981. The programme initially provided emergency aid and supported national reconstruction programmes. However, political and economic changes in the three countries have allowed CIDSE to increasingly focus on community based development, supporting local people's efforts to eliminate poverty and bring about a just society.

The programme promotes integrated development. It supports projects that help people attain economic well being, social and political rights, and spiritual aspirations. CIDSE works in partnership with local groups, strengthening their ability to become self-sufficient in developmental work. It also works with local authorities, where appropriate, and has established a good working relationship with government bodies based on openness, frankness and a mutual desire to improve the lives of poor people in the region.

Impact of Liberalization of Financial Market

The liberalization of the financial market in Vietnam in recent years has witnessed the expansion of non-public financial institutions. However, a review of such institutions reveals an urban bias as well as a preference for large and well-secured loans to the neglect of small savers and borrowers, especially in the rural context. This has, in turn, led to the emergence of a large and dynamic informal credit market charging higher interest rates than those charged by official institutions.

Drawbacks of Pre-Existing Credit Programmes for the Poor

There are a variety of credit programmes that do focus on the poor (defined in various and often conflicting ways), but which exhibit a number of drawbacks. These drawbacks include:

- Bias towards urban centers and the main trading routes.
- Narrow focus on individuals rather than groups.
- An attitude that the poor are incapable of generating savings.
- Lack of locally based control decision making.
- Lack of stable and adequate funding support.
- Lack of institutional support.
- High staff turnover.

Credit and Savings to Address Poverty

In 1992, CIDSE initiated a credit and savings project in Vietnam. It was focused particularly on the needs of many of Vietnam's poorest women. Through focussing on this group, CIDSE intended not only to improve income and production but also family nutrition and general well being.

Given the nature and scale of the problems of Vietnam's poor, a credit scheme might not seem a priority, but as demonstrated elsewhere it is a micro-scheme with macro-implications. CIDSE has been largely influenced by the Grameen Bank model, which has been successfully imported elsewhere in Vietnam. Credit and savings schemes address not only the immediate and direct needs of the poor but also many of the indirect, longer-term needs beyond material assistance alone. These include group formation, skills training, the challenge of attitudes and the building up of confidence and solidarity at both group and community levels. Such an approach is indicative of the general philosophy and strategy of CIDSE.

Eight Key Principles

In adapting and developing the Grameen Bank model for the circumstances of Vietnam, the CIDSE Credit and Savings Scheme has highlighted eight key principles:

1. Clearly targeting the poor.
2. A special focus on poor women.
3. Adequate and stable financing over time.
4. A built-in savings component that mobilizes local capital.
5. Appropriately small loans and regular small repayments.
6. No interest rate subsidy for members.
7. The formation and strengthening of members into locally chosen solidarity groups.
8. Adequate and appropriate training and technical support.

Direct Results

Direct results are measured in the range of income generating activities for which loans are accessed. To date, the programme has assisted over 6,700 participants in 32 areas; has loaned 2,534 million VD (US $253,400) and has achieved a repayment rate of 95%. There has been an increase in the range of income-generating activities, ranging from pig and poultry raising to small scale trading to the purchase of engines for boats to rice paper making. Such activities have helped job creation, stabilizing or expanding income-earning opportunities among the poor.

Indirect Results

Indirect results are measured in terms of:

- The many social and community benefits of direct targeting and, on the basis of such targeting, more accurate information gathering and analyses. Such information will prove invaluable when planning and supporting future programmes in a variety of areas.
- The local group skills and solidarity as well as in capacity building and skills training amongst the Vietnamese partner organizations especially at local and regional levels.
- The improvements in nutrition, the quality of housing, improved social relations within the family and broader group solidarity. This is a level of impact frequently commented upon by the membership themselves.

Source*: Adapted from "Alternative Banking for and by the Poor - A CIDSE Case Study from Vietnam," Brussels: CIDSE, 1996***,** *in The Virtual Library on Microcredit, http://www.soc.titech.ac.jp/icm*

Contact Addresses*: CIDSE CLV Programme, Huidevetterstraat 165, 1000 Brussels, Belgium, Tel: 32-2-502.58.58, Fax: 32-2-502.51.27, Email: clvprog@eunet.be. CIDSE Vietnam Field Office, GPO Box 110, Hanoi, Vietnam, Tel: 84-4-825.4834 or 0265, Fax: 84-4-825.0266, Email: cidsehan@netnam.org.vn. CIDSE Vietnam Liaison Office, 214/19/18 Nguyen Huu Canh Street, Tan Dnh Ward, District 1, Ho Chi Minh City, Vietnam, Tel: 84-4-844.5287, Fax: 84-4-843.6866, Email: cidsehcm@netnam2.org.vn.*

The Consultative Group to Assist the Poorest (CGAP) International

Background

The Consultative Group to Assist the Poorest (CGAP) is a multi-donor effort to broaden and deepen the success of the work done by pioneer institutions in this field. Launched in 1995 and renewed in 1998, CGAP is currently comprised of 25 members. Its mission is to expand poor people's access to high quality financial services from sustainable or potentially sustainable micro-finance institutions.

CGAP Structure Consists of Four Main Bodies:

1. **The Consultative Group (CG)** which is composed of the 26 Member Donors and is chaired by the World Bank Vice-President for Special Programs (Mr. Ismail Serageldin).
2. **The Policy Advisory Group (PAG)**, which is composed of eleven leading microfinance practitioners.
3. **The CGAP Secretariat**, which is responsible for programme implementation, and is housed in the Private Sector Development Department of the World Bank.
4. **The Investment Committee**, which reviews and approves all funding proposals.

Overview of CGAP Objectives

In its initial three year phase (1995-98), CGAP's objectives were to distill and disseminate lessons on microfinance best practices to practitioners and policymakers in government and donor agencies; mainstream microfinance in World Bank operations; contribute to the development of supportive policy environment for MFIs; and support innovation in the sector through direct investments in a select number of MFIs. In its ongoing second phase (CGAP2), five key themes have been identified: (1) support institutional development in the microfinance sector; (2) support changes in donor practices to improve microfinance operations; (3) increase understanding of poverty outreach to MFIs; (4) improve the legal and regulatory frameworks for MFIs; (5) facilitate the "commercialization" of the microfinance industry. Below is a summary of the expression of these objectives in the African context.

Africa Capacity Building Programmes

In 1997, the CGAP Secretariat launched the **Pilot Africa Capacity Building Program** to improve institutional viability of African MFIs with a business orientation, and to enhance the human resource base in microfinance through sustainable training programmes. The Pilot facilitated the development and delivery of courses in eleven countries with more than 500 participants from approximately 250 MFIs. Course development addressed: delinquency measurement and management and interest rate calculation and setting; financial statements and analysis: accounting for MFIs; business planning and financial projections; and training of trainers: adult education for financial management courses.

In 1999, CGAP2, in collaboration with the British DFID, launched a new African Capacity Building Program called **AFCAP**. AFCAP seeks to build the capacity of local service providers in eleven African countries to offer training and technical assistance supporting the microfinance industry. Initially, AFCAP will focus on topics already developed through CGAP's Pilot programme, but as AFCAP gains experience it will likely add more topics and products, according to demand by the microfinance industry.

Some of the Pilot Africa Capacity Building Programme's Key Lessons include:

- **Lack of Service Providers**: A competent supply of training designers, trainers and technical consultants is the biggest bottleneck to the development of local markets for capacity-building.

- **Choosing Local Partners**: The keys to success in working with training institutes appear to be: 1) a high-level leader that champions the effort and places high priority on the partnership; 2) a perception by the training institute that the training is a good business proposition as opposed to another donor subsidy; 3) an element of risk-taking and entrepreneurial behavior (unfortunately not often found in traditional training institutes); and 4) an understanding the market and a clear strategy for attracting a niche.
- **A Long-Term Strategy**: Identifying and developing competent trainers is a long-term process, because good trainers must master the technical content of the courses and have excellent adult education and communication skills to draw the attention of the participants.
- **Importance of Marketing and Logistics**: The Secretariat initially focused on content and trainer quality, underestimating the crucial importance of marketing and logistics for successful training (an area local training institutes tend to be weak in).
- **Content, Content, Content**: There is no substitute for good content, combining the latest technical knowledge of microfinance with the cutting edge in adult education/experiential learning.
- **Course Development**: Service providers can not always develop course materials, particularly in regions with few examples of best practice microfinance. Course development should be done by technical experts and require significant redesign, a constant process that takes time and quality control.
- **Technical Support**: A high level of external technical support is necessary to ensure effective course materials and trainer quality. The Secretariat built a cadre of international talent with local experience to support course development, monitoring, and implementation.
- **Secretariat Time Investment**. Training initiatives are time intensive, including course development, re-development, marketing, logistical arrangements, and monitoring. To a large extent, the Secretariat over-estimated that training institute partners could handle many responsibilities on their own, and the Secretariat's distance from Africa exacerbated the burden.
- **Flexible Program Design**: Rigid adherence to specific deliverables and timeframes often compromise quality. Unfortunately flexibility challenges performance-based partnerships based on specified targets.
- **Prospects for Cost Recovery**: Cost recovery has remained elusive, and subsidies by other donors for training in Africa continues to threaten prospects for cost recovery. Nevertheless, preliminary results are promising; in East and Southern Africa, some MFIs paid the full cost recovery fee, and in West Africa, participants have paid an increasing proportion of the total.
- **Use of Scholarships**: Course scholarships should not be managed by the training partner. For instance, scholarships should not announced in marketing materials, which greatly decreases the incentives for the service provider to market the course based on its true quality and costs, and does not lead to long-term sustainability once scholarship subsidies disappear.
- **Training Impact**: Although training under the pilot Africa initiative has effectively exposed MFIs to technical aspects of sustainability and increasing knowledge on the topics, it remains to be seen whether the training results in changing practice. One-on-one technical assistance is needed to reinforce course lessons, and efforts should be made to link training to longer-term technical assistance.

Sources*: Adapted from CGAP programme descriptions, http://www.worldbank.org/html/cgap, and from "CGAP's Pilot Micro-finance Capacity - building initiative in Africa: What have we learned?" Note # 14, February 1999.*
Contacts*: CGAP Secretariat, Tel: 1-20-473-9594, Fax: 1-202-522-3744, Email: CProject@worldbank.org. AFCAP, PO Box 24380, Narobi, Kenya, Tel: 254-2-721450, Fax: 254-2-721454, Email: AFCAP@africaonline.co.ke*

Foundation for International Community Assistance (FINCA) International

Background

The Foundation for International Community Assistance (FINCA International) was established in 1984 to support the economic and human development of families in severe poverty through the formation of Village Banking. FINCA International works in seventeen countries on five continents, including Malawi, Tanzania and Uganda (refer to FINCA Tanzania and Uganda Factsheets). It receives about 65% of its funding from the U.S. Agency for International Development (USAID) and the balance of its funding from private foundations, corporations, service and religious organizations, and individual donors. Of FINCA's total budget, 82% goes to support programme activities in the field.

Combating Poverty at the Household Level

FINCA views poverty as one of the most serious yet preventable forms of death; an estimated 12 million children die annually due to poverty related causes. Rather than trying to combat poverty at the global level, FINCA attempts to do so at the family level, using self-employment as a way for families to escape from poverty.

Why Target Women

FINCA has chosen to focus its efforts on women, who compose 95% of its clients. The feminization of poverty is a worldwide trend, with 70% of the world's poor being women and an increasing number acting as the head of household and the sole source of household income. Research has also indicated that the most direct way of improving child survival and welfare is to give the mothers the means to do so, as women tend to invest more of their income on food, education, and shelter than men. FINCA believes that additional funds in the hands of mothers lifts a family out of poverty faster than increased income in the hands of men.

Village Banking Method

Village Banking is a strategy to provide working capital loans to finance self-employment activities, an effective mechanism for promoting family savings, and a community-based system providing mutual support and encouraging self-worth. The Village Banking method was pioneered in 1984 and has been continuously refined and imitated by dozens of nonprofit agencies. A Village Banking group consists of 30 to 50 neighbors, usually low-income women, that guarantee each other's loans, administer group lending and savings activities, and provide mutual support. Village Banking prioritizes a participatory approach and clients organize their support group, create their own bylaws, elect their own officers, keep their own books, manage all funds, and share a joint loan repayment guarantee. Each member receives a loan (ranging from US $50 to US $300), repayable in eight to sixteen installments over four months, with three loan cycles per year. The maximum amount a client can borrow depends on the amount of accumulated savings, with loan amounts increasing with savings. Credit is used to start or expand a self-employment business, preferably with a daily or weekly rollover of capital, such a selling vegetables, fruit, basic grains, bread, tortillas, beverages, clothing, etc. Loans are made at a non-subsidized interest rate of 3-4% per month, which permits most FINCA programmes to fully cover their operating and financial costs within three to four years. Participation is voluntary, with most clients remaining in the programme for an average of five consecutive loan cycles. When a "graduating" client leaves, her place is taken by a new or returning client, which enables loan funds to be recycled from one family to another. The average, on-time loan repayment rate is 95%.

Benefits of Village Banking Microcredit

In a 1998-1999 survey of 1,400 FINCA clients in eight countries, it was found that upon entering the programme the average FINCA client has a daily household per capita income of less than US $1.33, with 47% of these clients having a daily household per capita income of only US $.54. After one year in the programme, the clients with the lowest initial household income raised their daily household per capita income to US $1.08; after three years the daily household per capita income was raised to US $2.16.

The credit offered by FINCA in the form of loans allows clients to start or improve their own small businesses, providing a steady source of income and employment for themselves and their families. It improves the health, nutrition, and education of the client's children. Also, a steady income and a savings account raise the self-esteem and status of women clients, in a society where women are often treated as second-class citizens.

Village Banking aims to break the vicious circle of poverty, for without credit, poor people may work hard but stay poor due to the lack of opportunities and capital. Credit is used as working capital so that clients' efforts become more productive; as examples, clients can buy rice or grains in bulk at wholesale prices and resell it at retail prices or buy a refrigerator to keep produce fresh. As clients become more productive, their income increases and they are able to accumulative savings for other investments and emergencies.

Widening Coverage and Impact

FINCA's global network serves over 110,000 clients through more than 5,000 village banks, with 3,000 - 4,000 new clients being added each month. An additional 250,000 ex-clients have been served by FINCA programmes, with most of them self-financing their microbusinesses with their own savings. In 1998, FINCA disbursed over 210,000 loans for a total of US $30 million (average loan amount US $140), with FINCA clients holding US $6 million in savings and ex-clients holding US $12 million in savings.

FINCA is working closely with the World Bank and other multilateral agencies to help governments create a regulatory environment favorable for microcredit. Such efforts include ensuring the flow of money from microcredit institutions directly to the poor, without government interference.

African Technical Assistance Hub

In 1998, with help from CGAP (The World Bank's Consultative Group to Assist the Poorest), FINCA established its African Technical Assistance Hub in Kampala, Uganda. The African Hub seeks to provide efficient, cost effective, on-site technical assistance and monitoring. Already the Hub was responsible for the training of new directors for FINCA Uganda and Tanzania, systems management for FINCA Uganda and Malawi, and operating plans for all three Africa programmes. In 1999, FINCA expects to hire a financial specialist and planning specialist to support the regional manager. The team of experts will assist FINCA's African programmes to strengthen their financial management, client services, growth and expansion, helping them to reach over 30,000 African families with credit and savings services by the new millenium.

Future Goals

FINCA's medium term goal is to serve 150,000 clients by the year 2000. In the long term, it strives to help all of its country programmes become self-sufficient, covering all of their costs and relying on their own resources, without external funding. On average, FINCA programmes cover 91% of their in-country costs.

***Source**: Adapted from FINCA International programme description, http://www.villagebanking.org/*
***Contact**: The Foundation for International Community Assistance, 1101 14th Street, NW, 11th floor, Washington, DC 20005. Tel: 202-682-1510, Fax: 202-682-1535.*

MicroSave-Africa
International

Background

MicroSave-Africa is an international initiative to promote savings for poor people in Africa. MicroSave-Africa emerged in response to the Africa Conference on "Savings in the Context of Microfinance" held in February 1998 in Kampala. Its activities include action-research, hands-on learning-by-doing research, participatory training, and networking and information dissemination to develop a comprehensive sustainable programme to build the capacity of microfinance institutions (MFIs) seeking to provide secure high-quality savings services for poor people. The initiative is jointly funded by UNDP and DFID, and is based at the USAID-funded Centre for MicroFinance (CMF) in Kampala. Additional strategic partners include the UNDP/UNCDF's Special Unit for Microfinance and Microstart (SUM), the Consultative Group to Assist the Poorest (CGAP), German Technical Development Agency (GTZ), Coopération française, and the African Development Bank's (ADB) Microfinance Initiative for Africa (AMINA) programme.

Supporting Savings Service

There is greater recognition that institutional savings services that provide the saver with security, convenience, liquidity and returns represent a crucial financial service for lower-income clients. If priced correctly, savings instruments can contribute to institutional self-sufficiency and to wide market coverage. But for MFIs with a history of credit-driven services, the shift to savings products is often hard to effect. The MFIs need to acquire sophisticated management capabilities to manage liquidity, risks and cost, as well as a more complex organizational structure and information and reporting systems. Furthermore, in order to deliver effective poor-responsive savings services MFIs need to undertake what are quite complex product development activities.

Ownership, Governance and Management Structures

Few developing countries have effective supervisory bodies for deposit-taking MFIs, and even in the developed world supervisory bodies have not always managed to avert the collapse of deposit-taking mobilizing institutions. MicroSave-Africa seeks to develop effective systems of external supervision by enhancing the capacity of local service providers to undertake institutional assessment and ownership, governance and management structures.

Product Design

There is a pressing need to examine the best ways of designing and introducing new financial service products into MFIs serving the poor. The methods used to develop these products include: (1) research to identify needs and opportunities, (2) design and pilot testing, (3) monitoring and evaluation of the pilot test, and (4) revision and scaled-up implementation. MicroSave-Africa will promote these methods by:

- Conducting action-oriented research on savings products and their use by the poor.
- Entering into partnership with MFIs (comprising a wide-variety of institutional types) and local service providers to work on savings product development as part of a learning-by-doing agenda.
- Disseminating information on savings-related issues to MFIs in Africa.
- Enhancing the capacity of local service providers to provide training and technical assistance on market research methods to examine clients' needs for savings products.
- Working with AFCAP to prepare training curricula on savings product design, costing/pricing, pilot testing and evaluation.

Microfinance Capacity-Building Programme in Africa (AFCAP)

This project seeks to address capacity weakness on a sustainable basis by increasing the ability of local providers to deliver appropriate, high quality technical products and services to the sector. The project is a joint initiative by DFID and the Consultative Group to Assist the Poorest (CGAP). Started in January 1999, the three-year project will serve a total of eleven countries, providing training courses, technical assistance, and financial analysis services through local providers. To complement the learning-by-doing among local providers, limited international training and exposure will be offered. The project will refine the existing materials and develop and test further innovative capacity-building tools. Information exchange on local suppliers and MFI customers will be used to directly facilitate the development of the market for technical services. Finally, lessons from international good practice and programme experience will be elicited and disseminated.

MicroSave-Africa Study Programme

MicroSave-Africa has designed a study and an action research programme to develop an improved understanding of poor people's need and the demand for savings services, and how best to set about meeting these. The study programme is to be carried out be leading international experts working in conjunction with local consultants and the MicroSave-Africa staff. The programme has several studies to firstly understand the need and demand for savings, and secondly how the need and demand is being met or should be met:

Need and Demand for Savings Uses and Impact of Savings Services by Poor People: This study examines how poor people use informal, semi-formal and formal sector savings systems and services to better manage their household income and expenditure flows. It also examines the impact of the availability (or otherwise) of a variety of saving systems and services. The study uses fieldwork and studies conducted in preparation for the World Development Report 2001 on "Impact of Microfinance on Poverty Alleviation".

Drop-Outs among East African MicroFinance Institutions (MFIs): This study examines why MFIs in East Africa suffer such remarkably high levels of drop-out among their clients (often in excess of 25% per annum). It seeks to better understand why the current systems and services being provided by the MFIs appear (on the basis of these drop-out rates) to be failing to meet the needs and demands of the clients, and to draw lessons from these.

Meeting the Need and Demand Comparative Study of Cooperatives, Credit Unions and Village Banking Systems in West and East Africa: This study compares user-owned or "common-bond" MFIs in West and East Africa with special emphasis on the savings services they provide. It examines the largely unexplored and poorly documented Savings and Credit Co-operatives (SACCOs) or Credit Unions of East Africa, comparing them with the successful MFIs operating in some of the most difficult environments of West Africa.

Savings Products and Services Offered by MFIs in Africa and Elsewhere: The study seeks to improve knowledge and understanding of the variety of savings services offered by both the formal and informal sectors; examine the terms and conditions of these savings services from the perspectives of both the clients and the MFIs; review the pricing/costing implications of the terms and conditions of savings services; and seek to draw lessons for MFIs seeking to develop savings products for their clients. The study will be complemented with reviews and descriptions of savings systems and services already being offered by MFIs drawn from all over the world.

***Source**: Adapted from programme description, http://www.undp.org/sum. **Contact**: MicroSave-Africa, Centre for MicroFinance, PO Box 24204, Plot 21, Kawalya Kaggwa Close, Kololo, Kampala, Uganda. Tel: 256 (0)41 347481-3, Fax: 256 (0)41 347635, Email: msa@infocom.co.ug.*

MicroStart Programme
International

Background

The MicroStart Programme responds to the demand from United Nations Development Programme (UNDP) Country Offices for a practical and operational product to assist them in the delivery of quality programming to a well-defined niche in the evolving field of microfinance. MicroStart works with the UNDP's Special Unit for Microfinance (SUM), and other development actors, to build a new generation of microfinance institutions (MFIs) that have transparent track records and solid institutional and financial performance that will enable them to reach poor clients, particularly women, while operating on a sustainable basis.

A MicroStart consist of two integrated components:

1. A MicroCapital grant component in which five to ten or more local organizations receive grants of up to US $150,000 in seed capital for loans and overhead costs.
2. A technical services component in which an international best practitioner provides a range of technical services to the local recipient organizations. Recipient organizations are chosen by a MicroStart Approval Committee, established by the UNDP Resident Representative and comprised of representatives of NGOs, the private sector, a government focal point, UNDP, and donors.

Tangible Microfinance Tools

MicroStart is also an innovative way to assist local organizations and start-ups with tangible tools such as *MicroStart: A Guide for Planning, Starting and Managing a Microfinance Programme*, which draws upon the lessons of over twenty years of experience of leading microfinance organizations and practitioners from the North and the South. The Guide has been translated to French, Arabic, Chinese, Spanish and Portuguese.

Contracting Best Practitioners

One important innovation developed by UNDP's Special Unit for Microfinance, is a new and simplified process for contracting best practice expertise in microfinance. SUM contacted over 200 organizations, inviting them to submit applications to be technical service providers under the MicroStart Programme. Nearly seventy organizations sent in application materials, from which SUM prepared a shortlist of thirty qualified microfinance institutions and six consulting firms available for contracting at a standard fee of $500,000 over a three year period. This proposal was approved by UNDP's Contracts Committee in April 1997. This 'one stop shortlisting' process will save each of the participating Country Office and Technical Service Providers from having to go through an international competitive bidding process.

MicroStart Programme Overview

As of January 1999, the MicroStart Programme was operational or on the verge of becoming operational in twelve countries. By the end of 1999, MicroStart expects to have programmes operational in twenty countries. Following is a brief description of some of the MicroStart operations in Africa.

Côte d'Ivoire: Côte d'Ivoire is the first country in Africa where the MicroStart Programme was implemented. The Country Office selected SOCODEVI, a Canadian Technical Service Provider (TSP) to implement the programme in May 1998. In September 1998 SOCODEVI submitted its workplan to the MicroStart Advisory Board, which approved the three local organizations proposed to be among the participating MicroStart organizations: MUCREFBO, KATIOLA and MUCREFAB. These organizations were selected for their potential for success in increasing the numbers of clients, particularly women clients, their ability to develop as sound institutions particularly with good portfolio performance and their ability to develop along a sustainable path. The programme is running well and SOCODEVI plans to select additional local organizations to receive technical assistance, as well as a Local Technical Service Provider.

Madagascar: In 1998, Freedom from Hunger, the Technical Service Provider, and the Regional Advisor from SUM facilitated an orientation of the Madagascar Advisory Board to review the principles of microfinance "best practice", clarify programme design, and review the Board's role to provide general programme oversight and approve the Freedom from Hunger Workplan and MicroCapital Grant proposals. Freedom from Hunger submitted its detailed Workplan and four MicroCapital Grant Proposals to the Advisory Board. The Advisory Board approved the Workplan and the four proposals for: 1) ADEMO, a multi-service, non-profit association working in the province of Tulear, 2) FITIA/TIAVO, a federation of credit unions in the Province of Fianarantsoa, 3) Haingonala, a non-profit association specialized in natural resource management, and 4) TAMIFI, a federation of 122 peasant organizations registered as a trade union based in the city of Fiananratsoa. Freedom from Hunger will use a credit and savings methodology called Credit with Education, which is a group-based lending methodology developed for women and designed to enhance the food and economic security of households. In three years, the MicroCapital grant recipients aim to reach 12,000 women, with average loan sizes of $25-$50.

Morocco: Functioning as the Technical Service Provider, the Save the Children Federation (SCF) has identified six indigenous microfinance institutions (ZAKOURA, AMSED, AMSSF, ACAET, FONDEP and Ismailia) for MicroStart Morocco. These MFIs have been approved by the Advisory Board and have subsequently received their first Micro-capital Grants of $50,000 each. Save the Children has coordinated four participant workshops involving representatives from participating MFIs, members of the Advisory Board, and other relevant stakeholders to discuss topics relating to microfinance best practice, including sound business planning, financial reporting standards and management information systems. Study tours to Bolivia and Lebanon have been organized to expose participating MFI staff to different MIS systems being developed and used in the regions for possible adaptation to the Moroccan context.

Kenya: Currently, only a small percentage of Kenya's people have access to financial services. Financial services are provided to Kenya's *jua kali* (microenterprise) sector by 4-5 large microfinance organizations and a number of smaller organizations. Initiated in 1998, MicroStart Kenya is envisioned to provide capital and technical assistance to 5-7 of the smaller organizations.. The Country Office is currently in the process of identifying members for the MicroStart Advisory Board, and reviewing bids from Technical Service Providers to select one most suited for Kenya's needs.

Programme Constraints

The two primary constraints to future programme development are funding and the ability of SUM to engage country offices in a meaningful dialogue. In some cases these two constraints are related, particularly if a Country Office does not view microfinance as a priority to achieving its strategic objectives. Many Country Offices may operate under the premise that they need more funding to support the programme. As a result of experience over the last eighteen months, MicroStart Country Programme has developed so that it is more responsive to the needs of the Country Offices, the prospects for funding, and the state of the microfinance community in a particular country.

Source*: Adapted from programme description, http://www.undp.org/sum.* ***Contact****: Special Unit for Microfinance, 1 UN Plaza, UH-8th Floor, New York, NY 10017. Fax: (212) 906-3655, Email: sum@undp.org*

Pact International

Background

Pact began in 1971 as a membership organization for private and voluntary organizations (PVOs) and nongovernmental organizations (NGOs). In 1992 Pact revised its bylaws, dissolved its membership and established itself as an independent international nonprofit corporation. Pact seeks to contribute to the growth of civil societies by strengthening the community-focused nonprofit sector worldwide and by working with strategic partners to identify and implement participatory development approaches at the community level that promote economic, social and environmental justice.

Organizational structure

Pact maintains field offices in Africa (Angola, Botswana, Kenya, Ethiopia, Madagascar, Mozambique, South Africa, Zambia and Zimbabwe), Asia (Bangladesh, Cambodia, Indonesia, Laos, Nepal, and Vietnam) and Latin America/The Caribbean. Strong headquarters support from the programme, communications, finance and administration divisions, under the leadership of the president and chief executive officer, and the participation of an involved board of directors contribute to the high operational standards of these country programmes.

Although Pact is a decentralized organization, Pact HQ is the point of coordination between and among all Pact offices and is ultimately responsible for ensuring that programme goals are met, reporting is accurate and timely, and equipment and funds (direct and matching) are accounted for. Pact HQ staff have frequent and regular contact with field staff via email, fax and phone, and make periodic visits to field offices to ensure they maintain appropriate programmatic and financial discipline and comply with all Pact and donor policies.

Small Enterprise & Microfinance Programmes

Pact is committed to the sustainability and growth of microfinance institutions, savings mobilization, microenterprise promotion and income generation activities towards poverty alleviation through capacity building. The economic and social benefits from enterprise development are multiplied throughout the community, creating sustainable community development. Barriers to long-term poverty alleviation are complex and interrelated and go beyond simple access to financial services. Technical skills for entrepreneurial development are often low among the poor. Women, the landless and others whose poverty stems from a lack of profit producing assets often have low levels of formal education. They lack the financial support and skills needed to enter the marketplace with viable products at fair prices. Aspects of marketing such as quality, timing, and control of supplies are often unknown to many poor communities. New production techniques take time to learn and have an opportunity cost that the poor often cannot afford. This places the poor on the market's margins where they sell low quality goods at cheap prices. Pact's approach to microfinance addresses these problems.

The Capital PLUS Model

Pact’s Capital PLUS programmes provide sustainable financial services for the poor and support microfinance organizations, communities and individuals beyond the traditional role of microcredit programmes. The Capital PLUS model is based on the development of three interdependent resources: financial capital, in the form of savings and credit; institutions, in the form of sustainable microfinance organizations; and human resources, in the form of informed and empowered clients. Pact's Capital PLUS programmes integrate these three vital resources by providing high quality financial services, intensive training in financial and organizational management skills, and microenterprise education for clients.

Clients gain access to savings and loans, with context-specific training to ensure maximum benefit from credit and savings and to guarantee project sustainability. Training includes accounting, financial and organizational sustainability, strategic planning workshops, developing savings and credit group rules, record keeping, client managed microenterprise feasibility assessments, product design and marketing, and methods for connecting with the commercial banking sector.

The Capital PLUS philosophy tailors microfinance best practices to their clients' conditions. It places borrowers at the center of the project and brings financial services closer to the poor while gradually placing decision-making power in their hands. This approach challenges the poor to lift themselves out of poverty, and provides a long-term, results-oriented answer to poverty alleviation through financial, institutional, and human capacity building of project stakeholders.

MicroAssess: Reinforcing Self-Assessment

Pact is a leading facilitator of organizational development for both nascent and established institutions in countries in transition and emerging economies around the world. Capital PLUS builds on this experience with the introduction of MicroAssess, a tool that guides microfinance institutions through a self-assessment process that identifies and quantifies the organization's relative strengths and weaknesses. The findings generated by this participatory process inform and structure the training and mentoring programmes that Capital PLUS offers to institutions. MicroAssess provides a method for ensuring that the institutions participating in Capital PLUS programmes become viable, self-sustaining community organizations.

Pact in South Africa

Pact has several programmes in Africa. The South African Black Entrepreneurship and Enterprise Support Facility (BEES) was designed to empower blacks to generate wealth and create employment through the development of small and micro-enterprises. The BEES project strengthens existing small and micro-enterprise support organizations that provide technical and financial services to emerging small enterprises and entrepreneurs. In order to meet these objectives, the BEES project provides technical and advisory services that increase the effectiveness and impact of key types of enterprise development organizations and has established a resource center for local NGOs and others institutions interested in supporting black South African enterprise development.

The project identifies and documents promising approaches that stimulate entrepreneurship among businessmen and women. BEES has begun to document successful micro-enterprise development approaches and models currently found in South Africa to support their adaptation and replication elsewhere. The project also focuses on expanding the links that South African enterprise support organizations have inside and outside South Africa, in order to build a strong knowledge base of innovations, approaches and lessons learned that can strengthen the South African small and micro-enterprise sector. To date, links have been made between NGOs with strong community support but limited capacity and regional/national programmes and organizations with strong technical capacity but weak community links and perspective. In addition, study tours and exposure visits have supported the transfer, adaptation and dissemination of programme models and lessons to South African organizations from institutions and programmes throughout the world.

Source*: Adapted from programme description, http://www.pactworld.org.* ***Contact****: Pact Headquarters, 1901 Pennsylvania Avenue, NW, 5th floor, Washington, DC 20006, USA. Tel: 202-466-5666, Fax: 202-466-5669, Email: pact@pacthq.org.*

The Special Unit for Microfinance (SUM) International

Background

The Special Unit for Microfinance (SUM) was created by the Administrator of the UNDP in August 1997 to bring together the growing work of UNDP in the area of microfinance with the established credit and microfinance portfolio of the United Nations Capital Development Fund (UNCDF). SUM's purpose is to support the growth of effective microfinance institutions that have transparent track records and solid institutional and financial performance that enable them to reach poor clients, particularly women, on a sustainable basis. Within UNDP, SUM aims to foster an understanding of microfinance best practice and assist UNDP Country Offices and other UN agencies to incorporate those elements into programmes.

Building Capacity of Young Microfinance Providers

SUM made a strategic choice to provide support to start-up microfinance institutions, including those institutions that aim to develop new products and services. The choice is based on the rationale that meeting the demand for microfinance requires new and young organizations with vision, commitment and capacity to develop sustainable microfinance operations. This is especially important in rural Africa and other poor areas where UNCDF operates. The strategic choice is also based on the rationale that building the capacity of young institutions stimulates competition in the microfinance market, increasing the availability and quality of services serving the poor, and decreasing the price.

Capacity-Building Strategies

SUM operates on the premise that the single largest constraint to reaching the potential market for microfinance services is not capital, but the lack of institutional and human capacity to deliver services. To build institutional capacity of young organizations, SUM combines the resources and services of UNCDF and UNDP and seeks to establish partnerships with technically strong international technical service providers, donor and support organizations, and learning institutions. Key SUM strategies include:

1. Provide technical assistance to start up and fledgling institutions by contracting the services of experienced microfinance service providers, most of who are from the South. Organizations that have achieved a level of success in their own countries assist their smaller counterparts in other countries to develop their operations and systems.
2. Provide small capital grants, up to US $150,000, as a complement to technical assistance. MicroCapital Grants (MCG) are provided to implementing institutions for investment in fixed assets, such as computer and MIS systems, to cover a percentage of operational costs for a limited time, or as a complement to the organization's own loan funds, other donors' grants or as leverage for commercial loans.
3. Promote the innovation of microfinance implementers in rural Africa, and in difficult areas in the poorest countries where UNCDF operates.
4. Advance a learning agenda that supports the entrance and promotes the stability of new players in the market.
5. Disseminate microfinance best practice information through training programmes and information services that enable new entrants to the field, UNDP Country Offices and other donors to learn about best practices in the field.

Technical Assistance and Financial Support for MFIs

Technical assistance and financial support for MFIs is the core of SUM's work. The UNCDF's Microfinance Capital Investment Activities, the MicroStart Programme, and MicroSave-Africa, and special technical assistance activities in priority countries enable SUM and UNDP Country Offices to contribute to developing the institutional and human capacity of local MFIs on a sustainable basis. **MicroStart** provides start-up capital and technical assistance to build institutionally transparent and financially sustainable MFIs, while **MicroSave-Africa** seeks to promote secure, appropriately regulated, supervised, and flexible savings systems. (Both programmes are described in more detail in their respective factsheets).

The UNCDF Microfinance Capital Investment Activities is an important extension of SUM's technical and financial assistance. Established in 1966 as a capital funding window under UNDP's umbrella, UNCDF has approved more than US $100 million of investments in credit activities, the majority being microfinance related and the balance facilities for small and medium enterprises (SMEs). Presently, UNCDF has an active microfinance portfolio of about US $40 million, of which 70% is in Africa. It implements microfinance projects through a variety of partners, ranging from state-owned financial institutions to credit unions and NGOs.

SUM has initiated or supported UNCDF project formulation exercises in Palestine, Haiti, Nicaragua, Mozambique, Madagascar, Malawi and Western Africa (Mali and Mauritania). In Western Africa, it helped re-engineer the regional microfinance project with The West African Development Bank (BOAD), to improve its impact and sustainability. SUM has also assisted UNCDF with the identification of expertise, the elaboration of standard terms of reference for audit and evaluations, and the definition of standard monitoring and impact evaluation tools.

Supportive Learning Agenda

SUM's Learning Agenda investigates areas of interest to the UNCDF and MicroStart Programme's market niche. Learning agenda concepts matured in 1998, as country programmes became operational and UNCDF re-oriented its policy. The focus in this area of activities for 1999 are topics which address how better to support start-ups, new products, methodologies for reaching women, and financing requirements of young MFIs, particularly those working in rural Africa.

Best Practice Dissemination

Best practice dissemination involves:

- Building the capacity of UNDP's Country Offices in microfinance by developing training programmes and identifying other sources of information and training which Country Offices can access.
- Serving as the focal point for coordinating with donors and practitioners through the Consultative Group to Assist the Poorest (CGAP), and the Donor Committee on Financial Sector, to mainstream best donor practice into UNDP and UNCDF.
- Documenting and analyzing UNDP and UNCDF's work in microfinance and making policy recommendations to UNDP's Executive Committee and Executive Board, as appropriate.

During 1999, SUM intends to build on an innovative microfinance distance learning pilot project, which was financed by USAID in the pilot phase, and is based on the Economics Institute's Microfinance Training Program in Boulder, Colorado. SUM seeks to further develop the curriculum based on the results of the pilot, and disseminate the course on a global basis, including the Internet. Linkages with donor and technical support agency collaborative efforts are essential to SUM's staying relevant in the field. SUM staff will continue involvement in CGAP, the donor committees and working groups, the MicroCredit Summit, training workshops sponsored by learning institutions and events sponsored by practitioner agencies.

Source*: Adapted from programme description, http://www.undp.org/sum.* ***Contact****: Special Unit for Microfinance, 1 UN Plaza, UH-8th Floor, New York, NY 10017. Fax: (212) 906-3655,*
Email: sum@undp.org

International Labour Organization's (ILO)
Social Finance Unit
International

Background

The International Labour Organization (ILO) recognizes the social implications of financial sector issues, as reflected in the creation of an Interdepartmental Working Group on Finance, the proliferation of small revolving loan and guarantee funds in technical cooperation projects, and lastly in the creation of the Social Finance Unit. The Social Finance Unit looks systematically into financial sector issues relevant to the ILO, working with the major technical departments and the Multidisciplinary Advisory teams in the field. It seeks to enhance:

1. The capacity of decision-makers in Government, the social partner organizations, banks and private sector agents to develop and implement policies that optimize the social benefits of finance.
2. The Office's capacity to serve its constituents effectively in this field.

Serving & Building Capacities

The main responsibilities of the Social Finance Unit are to provide advisory services by responding to requests for information, advice and support in the field of finance from ILO constituents (national Governments, employers' and workers' organizations, and financial institutions). It also assists ILO constituents through policy recommendations and support programmes that improve access to financial services and undertakes action-oriented research on specific strategic issues. The Unit participates in international networks, such as the Consultative Group to Assist the Poorest (CGAP), the Microcredit Summit, and the Donors' Working Group on Financial Sector Development (DWFSD). It also maintains a programme of technical publications and dissemination of information on current issues in social finance and development.

Gender and Microfinance:

The ILO has been participating in a series of on-going training sessions in Buea, Cameroon, sponsored by the Pan-African Institute of Development and the Commonwealth Secretariat, providing training courses for banks and microfinance institutions that run credit schemes for women entrepreneurs. At the ILO Training Center in Turin, the Social Finance Unit has been providing training courses on gender and microfinance and assisting in the putting together of various training manuals dealing with the gender aspect of microfinance issues. In April 1998, the Unit prepared a paper for the Inter-parliamentary Union's Annual Conference in Windhoek, Namibia, examining women's access to financial services in the informal sector

PA-SMEC – Microfinance Programme in West Africa

PA-SMEC (*Programme d'appui aux structures mutualistes ou coopératives d'épargne et de crédit*) is a joint programme between ILO and the Central Bank of West African States (BCEAO) promoting savings and credit associations and other microfinance institutions in West-Africa to improve the access of the poor to financial services. Initially financed by the Federal Republic of Germany (1992-95), it is supported by the Government of Norway and with contributions also from the Government of the Netherlands. The programme covers the eight member States of the Economic and Monetary Union of West Africa (UEMOA) – Benin, Burkina Faso, Côte d'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo. The project administration is located at the headquarters of BCEAO in Dakar, and has a network of correspondents within each of the eight BCEAO National Agencies. PA-SMEC is currently under consideration for a replication in Central and East Africa.

PA-SMEC brings together monetary authorities and grassroots initiatives on how to advance microfinance through information exchange, data collection, training, advisory services, and the creation of an appropriate, incentive-based regulatory framework. Some of the major accomplishments of PA-SEC include:

- **Created the first comprehensive up-to-date database of microfinance institutions in West Africa**, covering nearly 90% of all initiatives. More than 170 institutions had been registered, totaling 2280 local credit and savings associations with more than 700,000 beneficiaries mobilizing more than 30 billion CFA in deposits.

- **Promote capacity building in microfinance institutions**. Twenty-two major microfinance networks participate in a Training of Trainers Programme, to strengthen the capacity of microfinance institutions to design, implement and evaluate training programmes for their staff and members. This Programme is executed in cooperation with ISPEC Benin (*Institut supérieur panafricain d'économie coopérative*) in Cotonou. PA-SMEC also works closely with CGAP to develop, test and disseminate training modules on different aspects of management of microfinance institutions.

- **Establish Policy Committees in each of the PA-SMEC countries** to facilitate the harmonization of positions between microfinance practitioners, donors, Government agencies and banks in designing a supportive policy and regulatory framework. As a result of this initiative by PA-SMEC some countries have even seen the emergence of professional associations for microfinance practitioners.

Village Banks in Madagascar

ILO's activities in support of the mutual financial sector in Madagascar started in 1990 with the promotion of village banks in three different regions of Madagascar. By the end of 1995, 31 CECAM (2,500 members) and two regional banks were established as well as an inter-regional team (INTERCECAM) which adequately responded to the demand from the local and regional level for training and technical assistance.

The second phase of ILO intervention in Madagascar supports microfinance activities at the national level. It focuses on strengthening the professional association of Mutual Finance Institutions (MFIs). According to this law, all MFIs need to obtain approval by CSBF (*la Commission de supervision bancaire et financière*). The Professional Association of MFIs (AAPIFM) has an important role in screening the applications of MFIs and preparing them to obtain CSBF's approval. The project aims at capacity building for MFIs in the areas of representation, networking, communication, training, legislation, accounting and research.

Social Funding in Zimbabwe

With ILO assistance and managed by the Ministry of Labour, the Social Development Fund was created to provide a viable and sustainable fund mechanism for financing very small start-up ventures in Zimbabwe. The Fund seeks to address the pressing needs of those who lost their jobs as a result of structural adjustment measures. The Social Finance Unit supports this initiative by assisting the Social Development Fund to acquire the technical and operational expertise to operate this on-lending mechanism. It also assists microfinance institutions in Zimbabwe to obtain the institutional maturity to service the loans received from the Social Development Fund.

Source*: Adapted from programme description, http://www.ilo.org/public/english/65entrep/finance/index.htm.* ***Contact****: Social Finance Unit, Enterprise and Cooperative Development Department - ILO, CH-1211 Geneva 22, Switzerland. Tel: 41-22-799-6070, Fax: 41-22-799-6896, Email: SFU@ilo.org*

Trickle Up Program
International

Background

The Trickle Up Program is dedicated to reducing poverty by helping the lowest-income people around the world to start or expand their own businesses. Founded in 1979 as an international non-profit organization, the Trickle Up Program has helped low-income entrepreneurs start or expand over 70,000 businesses in 115 countries throughout the world. Trickle Up's success is a result of the Program's three main features: a strategy for enabling the poor to create their own capital, a non-formal education process, and a network of locally-based coordinators, primarily from indigenous and international non-profit organizations.

Empowering People to Help Themselves

Trickle Up provides basic business training and a conditional grant so that unemployed or underemployed people can create or expand businesses they plan and manage themselves. It is based on the assumption that people already have the capability and ingenuity to create viable enterprises. With the Trickle Up start-up capital they can make this potential a reality. The Trickle Up process also emphasizes strengthening business skills, so that entrepreneurs are better equipped to sustain and expand their businesses. Trickle Up businesses are based on products or services that people know how to make or do and for which there are local markets.

Cost-Effective Operation

Trickle Up uses national non-governmental organizations (NGOs), international organizations and volunteers to make its programme cost-effective. Creative partnerships, such as those involving the United Nations Development Programmme (UNDP) in Liberia and Uganda, help to expand the scope of the Trickle Up Program while consolidating resources and staff. Working with the Peace Corps and United Nations Volunteers makes it possible for Trickle Up to serve remote areas beyond the reach of traditional financial services. These Volunteers enhance the effectiveness of the Trickle Up Program by providing individual attention to entrepreneurs in isolated areas. An innovative database management system makes it possible to assist a large number of businesses with a high level of accountability and low administrative costs.

Conditional Grants

Trickle Up provides US $100 in two US $50 installments to families or groups (three or more people), who have joined together to start or expand a business in accordance with the following conditions:

1. **Ownership**: they plan the business themselves.
2. **Local Resources**: they secure any necessary approvals or resources.
3. **Time/Energy**: they each work a minimum of 250 hours within 3 months.
4. **Self-Sufficiency**: they anticipate a profit.
5. **Reinvestment**: they save or reinvest at least 20% of the profit in the enterprise.
6. **Growth**: they anticipate a continuing and expanding level of self-employment.
7. **Accountability**: they report on their business and its results.

Implementing Trickle Up

Organizations implementing the Trickle Up Program are referred to as Coordinating Agencies, primarily local NGOs, but sometimes Government agencies and international organizations. Business groups complete a Business Plan which is submitted to the Coordinating Agencies for the first US $50; they receive the second US $50 installment after submitting a Business Report which demonstrates they have kept records, have established a viable enterprise and met the grant requirements. After the first twelve months of operation, the entrepreneurs submit a brief update on the status of their businesses. The Trickle Up Program provides low-income entrepreneurs the opportunity to establish profitable businesses and increase their income, helping them to meet their families' basic needs. In addition, they develop business and bookkeeping skills, the ability to save and reinvest, and increased self-confidence.

Key Programme Components

- **Seed Capital for Businesses**: A maximum of US $100 in two US $50 installments is provided per business. Trickle Up does not reimburse Coordinators for local administrative costs.
- **Programme Guidelines**: This manual explains the philosophy, policies and procedures of the Trickle Up Program and provides detailed information on how to implement the programme.
- **Training Tools**: Materials for Coordinators to use in providing business training to entrepreneurs.
- **Business Plan and Business Report forms**: Each Trickle Up business completes these two forms, as practical business training. A Business Plan Worksheet is also available as an option for training.
- **Administrative Reports**: Keeping track of the grant checks and the businesses is done through a database management system, with selected information from each Business Plan and Business Report entered into the computer. Administrative Reports are generated for each Coordinating Agency to facilitate local programme management.

Trickle Up Africa

Trickle Up Africa focuses on aiding entrepreneurs at the lowest level of poverty. In 1997, it helped establish 2,909 new businesses, benefiting more than 11,000 entrepreneurs and their dependents. These businesses are located in 26 countries throughout Africa. In 1997, 66% of the entrepreneurs who started businesses in Africa were women, and 44% were under 27 years of age. The results of these new businesses are impressive: 92% of the businesses that submitted a One-Year Update reported that their enterprises remain viable after one year, and 74% have expanded their business. The types of businesses established during the past year range from agriculture and livestock to handicraft production and retail of staple goods.

In its African operations Trickle Up strives to reach those affected by political crisis, as well as those in relative peace, but where poverty is widespread and diseases such as AIDS have had a disastrous effect on the population. Trickle Up works with national partners to help displaced persons and refugees in Sierra Leone, Liberia, Congo, Rwanda, and Mozambique. NGOs in Uganda continued to help families affected by HIV, while NGOs in Ethiopia worked with orphans and the families of street children. In many other African countries, Trickle Up helps thousands of single mothers and youth to make a living. Notable Trickle Up examples include:

- **In war-torn Liberia**, Trickle Up, along with other international partners, has embarked on a collaborative project to assist displaced Liberians. Over 35 Liberian NGOs are acting as Trickle Up Coordinators under the coordination of the UNDP to help launch over 2,000 small businesses.
- **In Freetown, Sierra Leone**, a Trickle Up Coordinating Agency is a vocational training school for street children called Boys Society of Sierra Leone. The school trains young people and Trickle Up helps provide graduates with start-up capital to turn their training into a source of income.
- **In Uganda**, where the AIDS crisis is acute, Trickle Up works with local NGOs to provide educational and health counseling for families stricken with HIV. The businesses started with Trickle Up funds allow for the afflicted families to engage in income-generating activities while they receive counseling, and provide for the basic needs of children orphaned by AIDS.

Source: *Adopted from programme description, http://www.trickleup.org.* ***Contact***: *Trickle Up Program, 121 West 27th Street, Suite 504, New York, NY 10001. Tel: 212-362-7958,*
Email: info@trickleup.org

USAID – Microenterprise Innovation Project (MIP) International

Background

The Microenterprise Innovation Project (MIP) is the U.S. Agency for International Development's (USAID) initiative to support technical and financial assistance, research and training on best practices in microenterprise development and finance. MIP's goal is to provide microentrepreneurs, particularly women and the very poor, with greater and more reliable access to financial and business development services to improve enterprise performance and household income. The objective of the MIP is to assist organizations that provide services to the microenterprise sector to increase their capacity, outreach, scale, sustainability, and service quality. The Project's components include: Microenterprise Best Practices (MBP); Assessing Impact of Microenterprise Services (AIMS); Implementation Grant Program (IGP): Technical Assistance to USAID Missions (MicroServe); and Program for Innovation in Microenterprise (PRIME Fund).

Assessing Impact of Microenterprise Services

Assessing Impact of Microenterprise Services (AIMS) was started to gain a better understanding of the ways in which microenterprise services strengthen businesses and improve the welfare of microentrepreneurs, as well as enabling USAID to better assess the effectiveness of their microenterprise programmes. AIMS develops and tests monitoring and assessment tools for use by Private Voluntary Organizations (PVOs) and NGOs in their microenterprise programmes, and produces synthesis reports on the project's conceptual framework and methodological approach for measuring the impact of microenterprise services. It conducts methodologically rigorous assessments of the impact of microenterprises programmes using longitudinal field surveys in countries such as Zimbabwe, India, and Peru. The programme also provides technical assistance and training to USAID missions in the areas of planning, design, and implementation of impact assessments.
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Microenterprise Best Practices

The Microenterprise Best Practices Project (MBP) is the research and learning component of MIP, with the objective to expand the knowledge base of microenterprise practices in developing countries through research and publications, a grant facility, and information sharing. MBP's knowledge base expands as practitioners try new approaches to design and deliver microfinance services, learning from the successes and failures of their clients. To facilitate this learning, MBP disseminates cases studies, tools, review papers, events, and Internet information, as well as providing grant funding. MGP is implemented by several organizations, including Development Alternatives, Inc., ACCION International, FINCA, Harvard Institute for International Development, International Management and Communications Corporation, Ohio State University Rural Finance Programme, Opportunity International, and Small Enterprise Educational and Promotion Network.

MBP Grant Facility

The MBP Grant Facility supports initiatives by practitioners and others outside of USAID willing to make long term investments in mechanisms for capacity building in microenterprise. The Grant Facility offers small grants to microenterprise practitioner institutions for projects and programmes which share information and spread awareness and understanding of successful microenterprise development practices, stimulate work at the frontiers of microenterprise development, and pursue innovations supporting entrepreneurial activities for the poor. Microenterprise service organizations seeking to improve their operations visit programmes of other organizations outside their network of affiliates, stressing the link between their organization and the other organization's issues, problems, or future plans, and how the information acquired could be directly applied to their programme. Grants support capacity building activities consisting of training, product or systems development, and other activities to improve the technical skills and knowledge base of organizations and networks providing services to microentrepreneurs. Capacity building grants promote the sharing across traditional agency boundaries of funding innovation, and the field testing of innovative programmes, technologies, and methodologies new to the microenterprise field that can improve the delivery of microenterprise services.

- **MBP Exchange Visit – Egypt & Ghana**: An exchange visit grant to Catholic Relief Services (CRS)/Egypt allowed it to visit Freedom From Hunger (FFH)/Ghana. For its 1996-1999 strategic plan, (CRS)/Egypt launched a pilot integrated village banking and health education project. (FFH)/Ghana is a recognized pioneer in integrated microenterprise development, and was able to provide CRS/Egypt with first-hand exposure to best practices in integrated village banking, including a conceptual understanding of the advantages and drawbacks to this approach. Based upon information gained from this visit, CRS/Egypt has implemented a follow-up plan to train field staff, promoters, health instructors, and management staff in the integrated village banking methodology. CRS also intends to replicate the integrated village banking model in three other governorates with 2,500 microentrepreneurs.

- **MBP Exchange Visits – KREP Institutional Model**: An exchange visit grant to World Vision Relief and Development, Inc. (WVRD) allowed it to visit the Kenya Rural Enterprise Programme (KREP) in Kenya to examine their lending methodology and institutional model. WVRD senior staff from East Africa regional programmes in Ethiopia, Eritrea, Kenya, Tanzania, and Uganda participated in workshops on project design, operations (including financial systems and information systems), management, institutional development, and practical application in the region. This was followed by the development of individual training and implementation plans by each country team, as well as a report to document new information for dissemination on WVRD's affiliate network.

Implementation Grant Program

The Implementation Grant Program (IGP) is targeted towards experienced microenterprise institutions and other organizations to expand microenterprise services by increasing their financial viability and cost effectiveness. Funding is geared towards increased outreach and scale of supported microenterprise organizations, higher levels of financial viability, greater cost effectiveness and cost recovery of non-financial services, leverage of funding by non-donor sources, and improved quality of reporting and accountability. Implementation grants are performance based, with annual implementation targets such as return on operations, number of outstanding loans, and delinquency rates. USAID's Microenterprise Development Office conducts a field assessment of the programme to verify baseline data, necessary financial and management systems for reporting requirements, and the capability of the institution to achieve its operational and financial targets.

***Source**: Adapted from USAID programme descriptions, http://www.info.usaid.gov.*
***Contacts**: AIMS Project, c/o Management Systems International, 600 Water Street SW, NBU 7-7, Washington, D.C. 20024. AIMS@msi-inc.com. Microenterprise Best Practices, c/o Development Alternatives Inc., 7250 Woodmont Avenue, Suite 200, Bethesda, MD 20814 USA. Tel: 301-718-8288, Fax: 301-718-5136, E-mail: mip@dai.com.*

World Council of Credit Unions (WOCCU) International

Background

The World Council of Credit Unions (WOCCU) was created in 1971 as a worldwide representative organization of credit unions and similar financial institutions. Its mission is to organize, expand, improve and integrate credit unions and related institutions as effective instruments for the economic and social development of people throughout the world. The World Council serves its members as a representative body, a provider of services, and a forum for the exchange of information. As the international organization of credit union associations, representing 84 countries around the globe, WOCCU possesses unique skills in the development of credit union systems.

Technical Assistance Programmes

WOCCU provides technical assistance through the design, implementation and evaluation of long-term credit union development projects and in the provision of short-term consultancies. Since 1980, WOCCU has implemented more than 100 substantive regional and country-level credit union development projects, and since 1990, WOCCU has conducted more than 300 short-term consultancies, covering the complete spectrum of credit union operational needs. These projects have enabled credit unions to better intermediate between small savers and borrowers. In many countries served by WOCCU, credit unions are setting new standards for safe and sound business practices in the financial sector, while putting people first in their development strategies and programmes.

WOCCU's technical assistance programme provides support to developing credit union movements in four areas: (A) building new credit union systems and strengthening those in existing movements, (B) designing, developing and providing guidance to credit union support organizations, (C) assisting with the passage of legislation conducive to credit union growth and with the formation of professional regulatory/supervisory entities, and (D) facilitating international system integration. Some of the key features in WOCCU's model credit union development programme are presented below, followed by examples from Africa.

Prioritizing Savings

A "model credit union" uses member savings as the primary source of funds for lending. Credit union management faces greater pressure for prudential management of the member's savings when funds are internally generated rather than borrowed from or granted by external sources. As they successfully generate internal savings, credit expands, enabling them to increase both the number and volume of loans to members. WOCCU support for savings include:

- **Savings Protection Strategy** focuses on improving the net capital position of participating credit unions and thus their ability to absorb losses without impairing members' savings. This prepares credit unions to scale-up savings and lending activities.
- **Savings Mobilization Strategy** spurs credit union growth by improving market rates on savings and improving the quality and convenience of savings services. This increases the supply of internally generated savings that can then be invested in productive and consumer credit. WOCCU's savings mobilization programme includes interest rate pricing, marketing tools and a technical assistance programme geared to the particular needs of each participating credit union.

Credit Administration

WOCCU manages its model credit union development projects through strong control and accountability standards; i.e. loan evaluation criteria, loan administration, delinquency control and collections. This component aids credit unions in increasing the variety of loan services, reducing transaction costs, increasing earnings and improving loan quality. Only those credit unions showing the greatest potential for meeting project requirements gain access to the programme. WOCCU establishes a local project management office to contract and work directly with participating credit unions. A responsible local partner assists with implementation and replication activities. At the end of the project, the project management office is closed, and the local partner assumes management duties.

Institutional Strengthening & Training

Institutional strengthening establishes the credit union's role as a financially viable local intermediary of savings and loans. WOCCU works with credit unions, focusing on management and staff skills, marketing and the credit union's institutional image. Based on the results of project-directed diagnostic studies, each participant credit union works with project advisors to prepare business development plans specifying policy changes, growth goals and financial indicators. These indicators must be achieved, according to a mutually agreeable schedule, to assure the credit union's continued participation in the programme.

Training programmes persuade directors and staff to institute and properly apply the financial policies promoted by the programme. Credit unions receive educational assistance directed at installing accounting systems and updated policies. Relationships between participating organizations are contractually defined, with continued participation dependent on performance.

Credit Union Development in Niger

WOCCU began developing credit unions (*caisses populaires*) in Niger in 1989 as part of a pilot programme funded by USAID. A follow-up programme began in 1992 to create a network of credit unions that are member-owned and driven, sustainable and built on a savings-first, rather than a credit-first, approach. When the project ended in June 1997, members numbered 12,700, 35% of whom were women. Savings totaled 400 million CFAF (US $800,000), and 190 million CFAF (US $380,000) were loaned out to 1,200 borrowers. Overall loan repayment was 95%. Relying solely on member savings as the source for loans and paying market interest rates to savers has proven very successful. Although the January 1996 coup d'état led to an early termination of the project, the large credit unions continue to thrive with no external assistance.

A Savings First Approach in Madagascar

The World Bank funded Madagascar Project focuses on building sustainable credit unions and creating a regional association to provide them with needed services. Of the four development organizations contracted by the World Bank, only WOCCU requires that the credit unions it advises concentrate on mobilizing savings rather than relying on external sources for loanable funds.

Microfinance Expansion in Kenya

The Microfinance Expansion Programme (MEP) in Kenya has concentrated on working directly with savings and credit cooperative societies (SACCOS). The programme assists credit unions to develop the capacity to provide open-end, or revolving, lines of credit for microentrepreneurial working capital. The Kenyan Union of Savings and Credit Cooperatives (KUSCCO) and the World Council of Credit Unions (WOCCU) have conducted a series of countrywide workshops to formally announce the programme and recruit SACCOS. They have collaborated with the Co-operative Bank of Kenya, the Ministry of Co-operative Development, the Kenya Union of Savings and Credit Co-operatives Limited, and other microfinance organizations in Kenya to facilitate implementation of MEP.

Source*: Adapted from programme description, http://www.woccu.org.* ***Contact****: World Council of Credit Unions Inc., 5710 Mineral Point Road, Madison, WI 53705, USA. Tel: 608-231-7130, Fax: 608-238-8020, Email: mail@woccu.org*

Women's World Banking (WWB) International

Background

The idea of providing banking services for poor women on a global scale germinated during the first United Nations Conference on Women held in Mexico City in 1975. Four years later, the idea became a reality when Women's World Banking (WWB) was officially formed in Amsterdam. WWB was founded on the premise that in order to fully participate in the economic development of their countries women need greater access to credit and other tools of the formal money economy. Working as a local/global organization, WWB strives to increase women entrepreneurs' access to finance, information and markets.

WWB Approach

WWB believes low-income women are dynamic economic agents, not passive beneficiaries of social services. This translates into supporting local initiative, and trusting that local practitioners and institutions are best able to decide the right mix of credit, savings, training and commercial links, as well as the most appropriate delivery mechanisms that will move their clients from survival to growth.

WWB works toward achieving its goal in two ways: by providing technical support to affiliates who in turn offer direct services to low income women, and by influencing the global policy agenda. In practical terms this means creating an environment that will help a low income woman to build her business, improve her living conditions, keep her family well-fed and healthy, educate her children, develop respect at home and in her community, and secure a political voice.

Supporting Microfinance Affiliates

WWB is made up of a network of over 50 affiliates in over 40 countries throughout the world. Each affiliate is an independent, not-for-profit institution within the global WWB network with autonomy over decision-making and finances. Over the past 14 years, WWB and its affiliates have provided financial and business services to over 500,000 female microenterprise clients. Based on annual self-assessments, about 80% of affiliate clients are poor. Of the total, about 65 percent are self-employed, and most of the remaining clients operate microenterprises with one to five employees.

WWB affiliates provide their clients with a range of direct- lending, savings, training and commercial-linkage services. Affiliates have made, brokered or guaranteed over 200,000 loans averaging approximately US $350 each. The weighted average repayment rate is over 95%, with less than 1% in defaults. The total value of loans disbursed is about US $150,000,000.

Typically, a WWB affiliate determines that there is local demand for financial services, and then identifies potential loan recipients and assess their creditworthiness. Low-income women are usually asset-poor, and therefore affiliate collateral requirements are creative. Affiliates may for example accept personal and group guarantees, jewelry, and tools, instead of land or other traditional guarantees. Since savings are also important in terms of building income and assets, affiliates find ways to help poor women establish either group or individual savings accounts.

In Africa and elsewhere, WWB affiliates often establish themselves as financial intermediaries by on-lending funds to grassroots organizations, rural banks, and women's savings groups. Many affiliates have access to local and foreign capital and have financial management know-how. Informal organizations have clients in areas not yet reached by WWB affiliates. By combining these advantages, WWB affiliates can reach greater numbers of poor women entrepreneurs.

Keys to Microfinance Success

- **Financial Partnerships**: WWB encourages partnerships in banking and business to financially serve the grassroots. WWB affiliates leverage their successful experience in direct lending to microenterprise clients and expanding capital bases to negotiate credit lines with local banks. Affiliates then use these credit lines to scale-up their micro loan programmes. This arrangement satisfies the major needs of the key players in delivering financial services to poor women entrepreneurs.

- **Loan Guarantees**: With the backing of WWB loans guarantees, local banks loan to an affiliate between prime and bank interest rates. Affiliates on-lend to clients at market interest rates or slightly higher, using the money earned to cover costs and expand services. As affiliates build their credibility, they are able to establish independent relationships with the local banking community and expand their services to low income women entrepreneurs.

- **Capitalization**: Funding partners are recognizing that one of the most strategic means of funding with a strong track record is through affiliate capitalization. With a strong track record, a sound business plan, and network inputs specified under the WWB Affiliate-Network Partnership Agreement, affiliate capital funds can be used to build self-sustaining institutions. Capitalization enables affiliates to generate income for basic operating costs, expand direct lending, and leverage substantial local resources. In 1996, WWB created a Facility for Affiliate Capitalization with an initial US $5 million infusion of CGAP funds from the World Bank and the Dutch Government.

Policy Impact Initiatives in Africa

WWB policy impact initiatives seek to build a global consensus on international standards for the microfinance industry, and a set of actions that support a range of financial intermediaries for the poor. Initiatives include creating coalitions of microfinance organizations, holding policy forums and workshops, and influencing the media. In June 1996, the WWB along with UNDP organized the Best Practice Workshop of African Microfinance Practitioners held in Bamako, Mali. Participants were selected using an inventory of leading microfinance practitioners in Africa developed by WWB and UNDP to establish a basis for a strong network of microfinance and rural finance organizations in West, East, and South Africa. The workshop focused on four substantive areas in microfinance:

1. **Sustainability**, exchanging experience and strategies on achieving high repayment, scaling-up operations, and improving service delivery.

2. **Structures**, learning from different legal and organizational structures for microfinance, including credit unions, NGOs, and banks.

3. **Practitioner networks**, examining the value added of existing and potential local, regional, and global practitioner networks, and determining what practitioners needed from these networks.

4. **Policy change**, identifying the key policy changes necessary to enable and support build-up of strong microfinance institutions.

Source/Contact*: Adapted from programme description, Women's World Banking, 8 West 40th Street, New York, NY 10018 Tel: 212-768-8513, Fax: 212-768-8519, Email: wwb@igc.apc.org, and "Report of the Workshop of African Microfinance Practitioners," WWB: 1996.*