Microfinance services: Requirement on a continuous basis but provided by projects which have an end!

Omar Baldeh (omsbaldeh@yahoo.co.uk)
Rural Finance Officer, RFCIP, The Gambia

Abstract

It is well established that the poor requires financial services on a continuous basis. It is further felt that providing microfinance to the rural communities is expensive. However it has been realized that it can be done even if viability and sustainability is even harder to attain in disadvantaged areas. One of the instruments used in enabling access to financial services to the disadvantaged has been projects. However, the question is, how can a project, which has an end provide financial services on continuous basis to the mass of the population? This paper, which is adapted from a presentation I made during the Microcredit Summit+1 In The Gambia, seeks to contribute to the call of the FIDAFRIQUE Rural Finance Channel particularly when we are talking about Projects, Services provision, Sustainability and Impact. The form and content of the paper is entirely the author's. All usual disclaimers apply.

A Introduction

Though there is tremendous development in technology, the world continues to have some of its habitants poor and very poor if not extremely poor. Poverty has been associated essentially to lack of access. In this regards developed and developing nations have committed themselves to improving the living standards of the poor and by so doing making this world a safe place for humanity. The commitment and the will of nations to eliminate poverty are translated into projects to provide the required access and in particular financial services.

B Characteristics of earlier projects providing microfinance.

It is well-known that that the rural people are hardworking and often effective entrepreneurs whether as farmers, fishermen, petty traders or craftsmen. In addition experts agree that

> *'When provided with efficient services*
> *The poor can turn sand into gold'*

The provision of access to financial services by the poor has been considered an important tool for poverty alleviation. According to some studies, earlier projects focused on exclusively on funding agricultural credit either for seasonal inputs or for medium term credit to finance animal traction, irrigation equipment and land preparation. Above all the projects were supply driven. The output of these earlier projects intervention was short-lived but the lessons learnt were fundamental in providing microfinance in a sustainable manner.

C Role of projects in providing microfinance in a sustainable manner!

The limitations of the supply led interventions encouraged donors and developing nations to explore better ways of providing access to microfinance on a continuous basis. Whilst projects have a time frame, the need for financial services by the poor like the rich is something continuous. The paradox is how do we use a project, which is a short-lived tool, to provide services, which are required on a continuous basis. Fundamental questions arose among them:

- What are the financial requirements of the poor?
- What is the delivery strategy to adopt?

The answers to these questions laid the basis for development of **projects and microfinance projects,** which could provide financial resources in a sustainable manner

D What are the financial requirements of the poor?

It was of capital importance to begin by knowing very well what are the main financial requirements of the poor. The poor people's needs like any other human being is as diverse as diverse.

Rural finance is essentially the provision of savings and credit services together with technical services. According to experts the major financial services needs of the mass population tend to comprise of liquidity and working capital, short-term financing in small loans given relatively with little or no restriction as to use; technical and business skills development with the following qualities: (i) safety, (ii) convenience of place (iii) liquidity (iv) timely (v) comprehensive.

In this regards projects of the second generation no longer emphasized on provision of only credit and in particular agricultural credit but rather focused on saving services for diversity of purposes other than agriculture as this service is considered as important as credit for the poor, financial institutions and the economy and above all as Adam Smith puts it:

> *The principle, which prompts us to save, is the desire*
> *To bettering our conditions which though generally*
> *Calm and dispassionate comes from the womb*
> *And never leaves us till the grave'*

This shift in the purposes for which credit was provided was accompanied by a radical change in delivery strategy to ensure that the diverse needs of the poor are attended to through a range of financial and technical services. Projects became increasing focused on building capacity and institutions to provide financial services instead of providing funds to be channeled as credit.

There was a radical rethink thus leading to systematic closure or privatization of most agricultural banks prompting the development of projects seeking new operators to ensure that financial resources reached down to the grass-roots level. The new delivery paradigm for sustainable microfinance consists in working with:

- Professional non-bank rural financial intermediaries, whose main work is the provision of financial services to the poor in a specialised manner: the commercial banks consider the poor unbankable; they consider the village as a place where there is no money. Projects developed specialized institutions relevant to the environment where such institutions do not exist. The strategy consisted in not replicating an alien model without understanding the essence, which animates it.

- A range of other organisations such as non-governmental organizations, civil society organisations, farmer organizations, specialized apex bodies and agribusinesses whose principal activity is not financial services provision but has an interest in the access of financial services to the disadvantaged. The democratization process facilitates the establishment of such institutions.
- Responsive technical services providers such as specialized capacity building institutions and regulatory and supervisory institutions whose principal interest is to provide the required capacity and culture to ensure that the environment is enabling. In areas where these institutions do not exist projects place strong emphasis therein.

It is noteworthy that projects and other initiatives now place strong emphasis on the promotion of membership organizations, grass-roots groups and religious associations. Unlike the earlier strategies where groups or local institutions were simply considered as a channel for credit, current projects seek to build the capacity and knowledge of the local population so that they can become financial intermediaries. This is considered very relevant, as it is better to teach people how to fish than to give them fish. In the Gambia, the case of the Credit Unions, the Village Savings and Credit Associations (VISACAs) and the Group Lending mechanism (GAWFA) are examples of this new paradigm in seeking to address access to financial services to the majority of the population in a viable manner. In the case of Mali, Benin and Ghana, community associations and grassroots organizations have been created and strengthened to become financial intermediaries. The Financial Services Associations (Benin), the OSUSUs and Rural and Community Banks, Savings and Loan Companies, (Ghana) the VISACAs (Mali) have been established and supported by different development partners among them IFAD. According to experts as far as capacity building is concerned

> *what is important is not to fall between two stools:*
> *failing to reach the poor on one hand - as so many projects of the larger programmes do- while failing at the same time to provide the comprehensive package of services necessary for the enterprise development*.

E How can projects provide microfinance in a sustainable manner?

In essence projects develop the necessary tools in a systematic manner to provide sustainable microfinance. In simple term a sustainable microfinance attains the required management and governance standard. It is able to provide services and quality services on a continuous basis. On the other hand a project has a lifetime and a definite one for that matter.

In order for projects to provide sustainable microfinance services most of the projects work within an existing environment thereby avoiding the transfer of an alien model without understanding the substance which animates it. The experience gained in working with existing infrastructure or local institutions such as membership organisations has proved to be a cost-effective way of building up local capacity and providing microfinance services. This is because these organizations have a huge social capital and also play a crucial role in empowering the rural poor.

In addition to the integration of saving services and shifting the purpose of credit as conditions of best practices, projects also provide lines of credit whose management is very carefully addressed to prevent the *father Christmas or baba nata syndrome* and patronage. This facility serves as incentive for good performance and a tool to address liquidity crisis during peak periods among others

Further each project and especially microfinance projects seek to focus on best practices in the industry. Microfinance projects develop an in-built institutionalization process, which is a condition of best practices and a requirement by donors and define the relationship of the different partners in the form of contractualisation, internalization,externalization and or transformation. Depending on the type of delivery model or strategy promoted, the instiutionalisation process captures the quintessence of the governance and management structure and the necessary inputs such as capacity building is provided accordingly. The instutionalisation process defines the situation of the services provided during and after project period.

F. Conclusion

Projects are tools to support the process of access to financial services. Projects are not themselves microfinance institutions. When a project seeks to do the work of a microfinance institution it could be setting a dangerous precedent. Microfinance system development requires a time horizon that is usually longer than a project period. Thus the process of allocating 3-5 years of project to provide sustainable microfinance could be sheer romantism! However with the idea of institutionalization as a requirement by donors and practitioners microfinance projects though of short duration could build the necessary infrastructure to ensure the provision of sustainable service provision.

Reference:

Baldeh, O. (1997) **Recent innovative approaches in rural financing-Theory and practice: some possible replications in The Gambia**. MSc dissertation, Department of Project Planning Centre (DPPC), University of Bradford, DPPC, Bradford

IFAD (2003) **Regional strategy for rural finance for western and central Africa**, IFAD, Rome