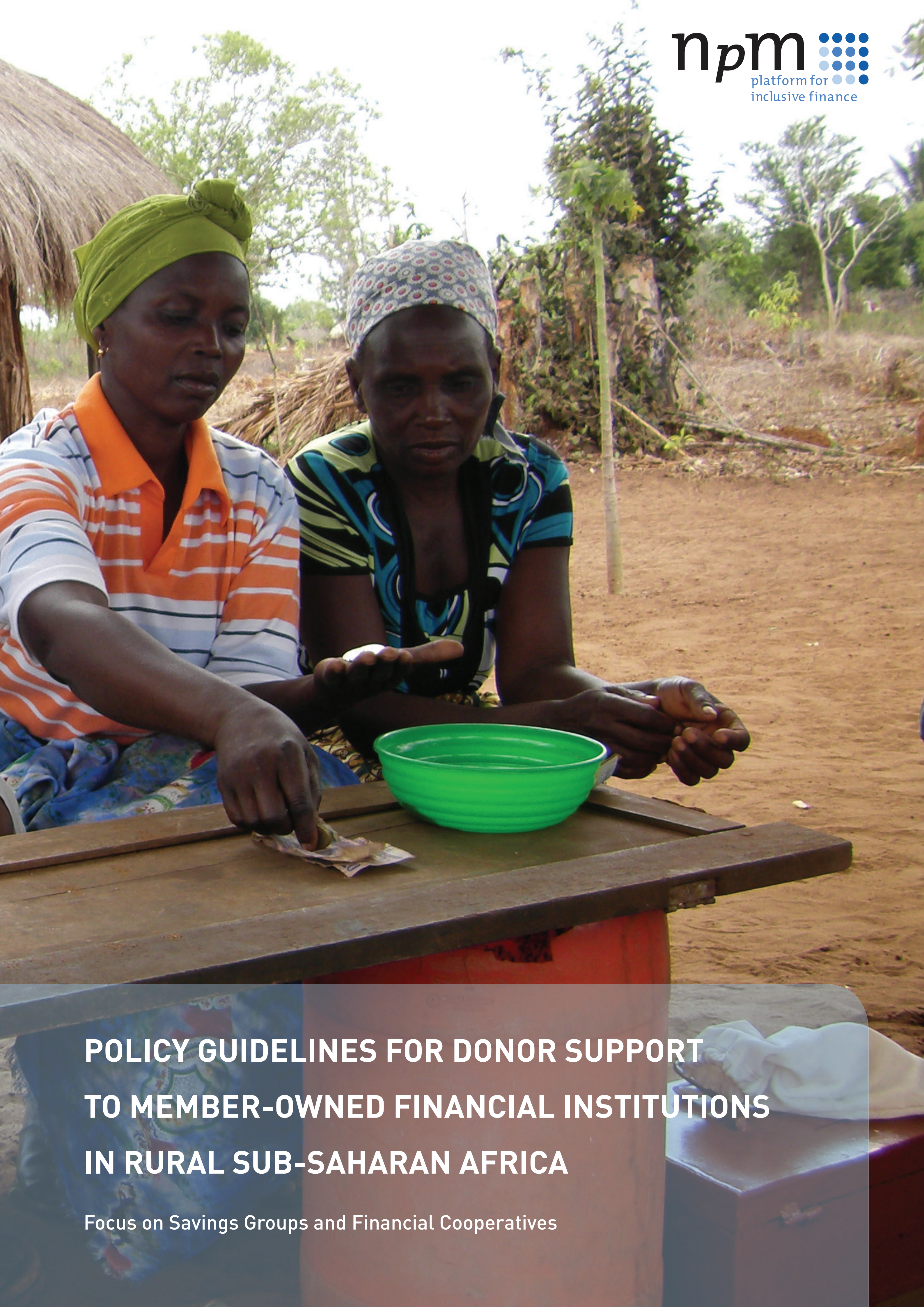

npm platform for inclusive finance

POLICY GUIDELINES FOR DONOR SUPPORT TO MEMBER-OWNED FINANCIAL INSTITUTIONS IN RURAL SUB-SAHARAN AFRICA

Focus on Savings Groups and Financial Cooperatives

POLICY GUIDELINES FOR DONOR SUPPORT TO MEMBER-OWNED FINANCIAL INSTITUTIONS IN RURAL SUB-SAHARAN AFRICA

Focus on Savings Groups and Financial Cooperatives

Commissioned by : Rural Finance Working Group

Led by Terrafina Microfinance

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Rural Finance Working Group:

The Rural Finance Working Group was started in 2006 by Cordaid, Hivos, ICCO and Oxfam Novib and was later joined by Terrafina Microfinance. This study, led by Terrafina Microfinance, is a result of the members' need for policy recommendations on how donors could work with member-owned financial systems which would include savings group methodologies such as Village Savings and Loan Associations (VSLA) and small savings and credit cooperatives (less than 1000 members as a guideline). This policy paper reflects current (international) thinking and the latest insights with regard to savings groups and small cooperatives. It includes guidelines on how to assess and support small member-owned organizations, mostly in rural areas, as a donor, facilitator or broker.

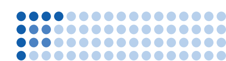
Cordaid is a Dutch development aid organization that endeavors to turn the tide in the battle against poverty and injustice. Cordaid is active in Africa, Asia and Latin America and focuses on the several aspects of development cooperation: conflict transformation, emergency aid and disaster risk reduction, health and well-being and entrepreneurship.
Cordaid's activities in micro and inclusive finance are part of Cordaid Financial Services (CFS), a Cordaid investment vehicle. CFS combines the unique ability to finance its clients/partners with grants, equity and debt instruments in selected countries across three continents.

Hivos is an international development organisation guided by humanist values. Together with local civil society organisations in developing countries, Hivos wants to contribute to a free, fair and sustainable world. Hivos' Green Entrepreneurship programme supports rural entrepreneurs - in particular small-scale producers (M/F), poor women and small and medium enterprises- as key agents in solving rural poverty, climate change, environmental degradation and food insecurity. Building MFIs is one way Hivos is tackling a major obstacle these groups face: limited access to financial services for successfully starting orgrowing businesses and income-generating activities.

ICCO is the interchurch organization for development cooperation. ICCO works towards a world in which people can live in dignity and well-being, a world without poverty and injustice. ICCO gives financial support and advice to local organisations and networks across the globe that are committed to providing access to basic social services, bringing about sustainable equitable economic development and promoting peace and democracy.

Oxfam Novib is one of the 14 national affiliates of the Oxfam International Confederation.
The Oxfam affiliates can speak with one clear and compelling voice on issues of global concern: climate change, health and education for all, agriculture, trade, and conflict and emergencies. With its activities in microfinance, Oxfam Novib wants to support the strengthening of a financial sector in rural areas where 75% of the poorest in the world is living.

Terrafina Microfinance is a consortium program founded by ICCO, Oikocredit and Rabobank Foundation. Terrafina microfinance aims to contribute to rural development and poverty alleviation through improved access to microfinance and the facilitation of expanded rural outreach by sustainable microfinance providers for rural producers and entrepreneurs in selected African countries.



EXECUTIVE SUMMARY

This study proposes policy guidelines for supporting member-owned microfinance institutions, with a focus on promoting Savings Groups and Financial Cooperatives in Sub-Saharan Africa (SSA). The policy guidelines are inspired by six case studies provided by the NPM Rural Finance Working Group and based on good practices and extended experience of the authors.

Savings Groups and Financial Cooperatives: some background

Savings Groups[1] and Financial Cooperatives[2] are both savings-led and member-owned. The importance of member-owned microfinance in Sub-Saharan Africa (SSA) is clear: more people are members of savings-led organisations than of credit-led providers. Financial cooperatives have a membership of 20 million and savings groups around 7 million in SSA[3]. In many Sub-Saharan countries, financial cooperatives dominate the rural microfinance sector.

Savings groups are informal, self-selected groups of 10-30 members, owned and managed by its members. On average, women form the majority of savings group members. Savings groups operate successfully in most rural and urban contexts. It is important to note that they perform well in poor and remote rural areas where (M)FIs are hardly present.

Membership of financial cooperatives is open, in principle anyone can join a financial cooperative, the more the better, as long as they meet certain criteria related to a common bond: e.g. people with the same profession or employer, or living in a certain geographical area. The number of members of a financial cooperative can vary widely, but professionally run cooperatives need a certain minimum size (in terms of savings mobilized, outstanding loan portfolio, number of members) to reach financial sustainability. Their membership profile is very diverse: rural and urban, poor and non-poor. Usually, women are a minority. The profile between savers and borrowers often differs, the borrowers usually being wealthier than those clients who only save.

International and local NGOs have promoted savings groups since the beginning of the nineties. The groups provide basic savings and interest-bearing loan products, and sometimes a basic insurance product. In many rural areas, savings groups form the most convenient, flexible and reliable option to save and to borrow. Savings groups operate in cycles of approximately one year. At the end of the cycle, the members receive their savings plus earnings (from interests and fines). After an initial investment in training during the first cycle, the groups continue on their own. Safety of savings is secured by the transparency of transactions performed in group meetings, simple record-keeping systems and cash boxes with multiple locks. The 'survival' rate of groups proved to be high. Research indicated that three years after their independence, 95% of the trained groups are still operating. International NGOs developed several savings groups' methodologies and delivery models; the methodologies differ in record-keeping complexity and product flexibility. An important trend is the use of community-based trainers, paid by the groups themselves or working on a voluntary basis, which led to savings group replication without NGO intervention and reduced the cost of promotion considerably over the last years.

While savings group promotion started in Africa in the beginning of the nineties, financial cooperatives have a much longer history. This history is quite specific per country, related to external support they received from well-developed financial cooperatives networks and banks from the west, and

[1] In 2010, the SEEP Savings-Led Working Group decided for the generic term 'Savings Groups" (SGs), covering different SG methodologies, such as Village Savings and Loan Associations (VSLA), SILC (Savings and Internal Lending Communities).

[2] Financial Cooperative is a generic term and covers the many names are used in different countries and by different Financial Cooperative promoters: such as SACCOs and Credit Unions in Anglophone countries and Coopec, Clecam, and Mutuelles in francophone countries.

[3] MIX and CGAP analysis of key trends. February 2012. '2011 Sub-Saharan Regional Snapshot'. VSL Associates information on number of savings groups members of International NGOs, March 2013.

the different national policies and regulatory frameworks that evolved. Experience in Sub-Saharan Africa shows that the quality of regulation and supervision are important factors for a healthy financial cooperative sector. Another factor for sustainable development of financial cooperatives, certainly for those active in rural areas in Sub-Saharan Africa, has proved to be the existence of a -well-performing- second tier body (Apex, Union). The additional operational costs are generally offset by the better results in terms of growth and outreach, sustainability and diversified services to members at primary level. Adequate savings mobilisation requires important initial investments, to set up proper systems and build a trustworthy image. Being saving-led is in itself no guarantee for loan portfolio quality, as is sometimes assumed ('hot money').

Related to their saving-led emphasis and history, credit products of financial cooperatives are often underdeveloped. So-called 'easy' loans to salaried and better-off members, based on collateral handled from behind a desk, often dominate credit operations. Financial cooperatives that are able to provide credit to its poor and self-employed members successfully, have a determined mission to do so, as well as qualified management.

As with other financial institutions, good governance and professional management are important factors for sustainability of the financial cooperative. Its democratic, member-owned principles do not in itself guarantee good governance. Abuse of power by elected leaders is a common-enough phenomenon, to be tackled by specific policies addressing governance.

Policy guidelines

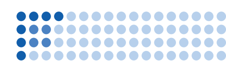
Supporting savings group promotion requires a completely different approach from supporting financial cooperatives. Therefore, the policy guidelines are presented separately. Both the support of savings group promotion and of financial cooperatives requires specific expertise; savings groups and financial cooperatives are part of the microfinance ecosystem and, when performing badly, poor people's savings are at risk.

Policy guidelines on savings groups:

1. Acknowledge that savings groups' promotion is an effective way to expand financial inclusion in rural areas and urban slums. When supporting savings groups' promotion, consider them as part of the microfinance sector; preferably support should be handled by microfinance staff. Savings group promotion can be supported in several ways, for example: support local NGOs with savings group promotion; support innovative initiatives e.g. introduction of mobile phone banking for savings groups; co-finance larger-scale international NGOs programmes; support MFIs to link with interested and qualifying savings groups.

2. Ensure that savings group promotion is handled by (microfinance) staff with expertise on savings groups' programme strategies. NPM members' staff should develop expertise on (emerging) good practices in the field of:

a. Savings methodologies: different methodologies, balance between flexibility of products and complexity of record keeping.
b. Delivery mechanism: training by specialized staff; use of community trainers; case loads.



c. Performance ratios and indicators and the use of the MIS developed for Savings Groups' promotion. Ratios refer to: Member satisfaction, financial performance of groups, operating efficiency of groups, efficiency and productivity of the implementing organisation.
d. Reporting to the Savings Group Information Exchange (SAVIX) and benchmarks for key performance ratios.
e. Type of partner organisation: specialized Savings group promoter, or organisation using Savings Groups as entry points for other development programmes.
f. Linkages with MFIs: criteria for linkage, linkage models, MFIs' product development for savings groups.

3. Promote a demand driven approach when supporting MFIs to link with savings groups, or when supporting savings groups promoting agencies to link with MFIs for savings and credit. Make sure that partners are aware of lessons learned and emerging good practices. Ensure that the MFI develops appropriate products and delivery mechanisms for the savings groups. In case the promoting NGO is a partner of any NPM's member, ensure that clear agreements are made with the MFI about products and delivery mechanisms, and about the role of the NGO to facilitate the linkage process.

4. Give preference to support specialised savings group promoting agencies, as generally they provide better quality against lower costs. When support is provided to multipurpose NGOs, define clearly if the support is primarily aimed to increase access to financial services or to use savings groups' as platform for other development activities. Be aware of the possible consequences of the introduction of these other activities, such as slower expansion of the savings groups' programme, loss of quality in savings group promotion, risks for losing funds when savings groups are encouraged to invest in joint economic activities, limited quality or lack of sustainability of the other development activities.

Policy guidelines on financial cooperatives

1. Acknowledge importance of financial cooperatives for expanding outreach of financial services in rural areas in Sub-Saharan Africa.

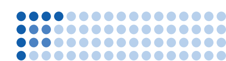
2. Integrate support to financial cooperatives into the NPM members' policies for microfinance sector support: financial cooperatives are first and foremost financial institutions, not general development organisations.

3. To effectively support growth of sustainable financial cooperatives reaching the poor rural population, donors and investors need to take into account the following elements:

a. (in)formal member-based saving & credit groups - beyond the small size of saving groups with their cycle-bound nature and specific trained visual transparency- need adequate accounting and control from the start, to secure members deposits. Some basic physical infrastructure is also needed.
b. Capacity building to financial cooperatives should be provided by qualified specialised technical service providers. In many Sub-Saharan African countries good-quality national technical assistance is available.

c. From the start, the financial cooperative needs to employ professional staff for basic accounting and control. Self-management by (elected) members, no matter how small the financial cooperative, is not sustainable, as shown by overwhelming evidence. Primary financial cooperatives and their second-tier Apex/Union need each at least two, preferably three, employed, qualified staff members. Payment of staff and other operational costs requires sufficient income; hence the financial cooperative should acquire sufficient size to be able to cover necessary costs.
d. An Apex or Union is needed as integral part of the financial cooperative network to provide some essential services to primary members, especially in rural areas for small community-based cooperatives, like adequate accounting systems and procedures, external control, capacity building, financial product development, access to external loans and central liquidity management. This has implications for the required size of the network, since the costs of Apex have to be carried by its primary members.
e. Financial cooperatives need to develop an adequate growth strategy to optimize economies-of-scale, without reducing rural outreach, for example by creating large primary cooperatives with a number of service-points. This reduces costs two-fold: the number of – senior- staff can be reduced and quality can be upgraded. Furthermore, the number of boards can be reduced, which reduces the necessary costs of board member training. A balance between distance and ownership should be maintained.
f. From the start, donors and investors have to demand a clear strategy from the financial cooperative network on a sustainable business model.
g. External refinancing through loans can be an adequate way of accelerating growth of the otherwise slowly growing rural financial cooperative network, but an important condition is that effective accounting and control is in place.
h. To enhance equal gender access to loans, as well as by farmers and producers, most financial cooperative networks need to work on diversification and development of appropriate loan products. This is easier said than done. Adequate capacity building activities are essential to assist the many elements needed for a sustainable loan product, adapted to the clients' needs. There are some successful examples of practical, detailed capacity building programmes for loan diversification (Desjardins, Freedom from Hunger, Terrafina Microfinance).

4. Donors' and investors' staff needs expertise in financial cooperatives. Effective financial and capacity building support –or lack thereof – has a huge influence on the performance of financial cooperatives networks, as shown by three NPM members' cases and also by the history of financial cooperative development. Building a sustainable, financially inclusive financial cooperative network in rural areas is a long-term process (between six to ten years). However, the financial contribution required from donor or investor side is generally speaking not that high, especially not in relation to the potential result: to contribute in a sustainable way to economic development and reduction of poverty in rural Sub-Saharan African areas.



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INTRODUCTION

NPM's rural finance working group considers member-owned microfinance as instrumental for reaching out to remote rural areas. In order to strengthen its contribution to financial inclusion of the rural population, the working group members feel the need for clear policy guidelines on how to assess and support the different types of member-owned microfinance. The group commissioned a study on financial cooperatives[4] and on savings groups[5].
This study's objective is to develop policy guidelines on the basis of internationally acknowledged good practices. NPM members provided cases which are analysed in order to identify strengths and weaknesses of their current policies and practices. The study focuses on Sub-Saharan Africa, as research suggests that 88% of the population in this region is unbanked and the majority of the rural population have no access to any financial services, either formal or informal[6]. The importance of member-owned microfinance is clear: more clients are members of savings-led organisations than of credit-led providers; financial cooperatives have a membership of 20 million and savings groups around 7 million in Sub-Saharan Africa[7].
This report will first summarize the main differences between savings groups and financial cooperatives. Then it will describe key characteristics of savings groups, followed by policy recommendations, illustrated by examples from cases provided by NPM members. For financial cooperatives the same sequence is used: first some general background and characteristics, followed by policy guidelines. A description of the cases related to financial cooperatives is included in the annexes.
Six cases were provided by NPM members: three for saving groups, three for financial cooperatives. For reasons of respect of privacy of the studied organisations, they are given a number in this report: case one to case six. Details of the concerned organisations have been shared with the involved NPM member.

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4. Financial cooperatives is a generic term; this term covers the many names are used in different countries and by different financial cooperative promoters: such as SACCOs and Credit Unions in Anglophone countries and Coopec, Clecam, and Mutuelles in francophone countries.

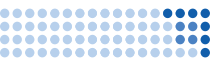
5. In 2010, the SEEP Savings-Led Working Group decided for the generic term 'Savings Groups" (SGs), covering different SG methodologies. Before, different terminologies were used, such as community managed microfinance, community-based microfinance, community-based Savings and Credit Groups, managed ASCAs (Accumulating Savings and Credit Associations) etc.

6. FinScope Africa Brief, November 2007. MIX and CGAP analysis of key trends. February 2012. '2011 Sub-Saharan Regional Snapshot'.

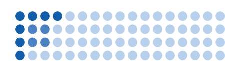
7. MIX and CGAP analysis of key trends. February 2012. '2011 Sub-Saharan Regional Snapshot'. VSL Associates information on number of savings groups members of International NGOs, March 2013.

1. SUMMARY OF CHARACTERISTICS OF SAVINGS GROUPS (SG) AND FINANCIAL COOPERATIVES (FC)

SUBJECT	SAVINGS GROUPS (SG)	FINANCIAL COOPERATIVE (FC)
LEGAL SITUATION	SGs are informal groups and in most countries do not need any registration or license. SGs are time-bound and operate in cycles of approximately one year. At the end of the cycle, the members receive their savings plus earnings and start the following cycle.	FCs are legal institutions that need to obtain legal recognition. They aim at sustainability. License requirements are dependent on the legislation and regulations for FCs and cooperatives in general, very different from one country to the next. FCs are usually under a kind of supervisory framework.
MEMBER-OWNED AND MEMBER-MANAGED	SGs are member-owned and managed by its members. Group members are self-selected. Management Committee is elected from among the members.	FCs are member-owned. Oversight and control are through representative bodies, membership of which is elected according to the 'one member one vote'-principle. No external parties can be appointed to positions in the regular organs/ committees. Sometimes FCs are also -partly- member-managed. In that case elected members perform -certain- operational tasks of a FC. This is usually the case for small or starting FCs. There are also many FCs in which elected members are not at all engaged in operational daily tasks, but



MEMBERSHIP	Typically between 10 and 25 self-selected members. To keep the group manageable and ensure transparency of transactions by witnessing, memorization and simple record keeping, the total number of members should be limited.	Membership is open to anyone that meets certain criteria. These criteria vary per FC: • in the case of 'employment-based' FC; people with the same profession/ employer; • In the case of 'community-based' FCs: limited to a certain geographical area.
PROFILE OF MEMBERS	SG mostly promoted among the rural, remote and/or poor population, but also in urban environment, like city slums. Some promoters explicitly target women.	Membership profile of FCs is very diverse; rural and urban, poor and non-poor. Among cooperative members, there is often a difference in profile between savers and borrowers; borrowers are usually the better-off or salaried members.
SECURITY OF SAVINGS	Cash and records are kept in a box with multiple locks. Cash boxes rarely get lost. Sometimes groups open bank accounts.	Good governance, professional management, effective internal control, external audit, and legislation and supervision have to ensure security of savings. When these requirements are not fulfilled there are higher risks of fraud, abuse and default, with subsequent risks for depositors.
SOURCE OF LOAN FUND	SGs provide loans based on their savings, sometimes linked for refinancing to MFI's (mature groups).	FCs are traditionally and legally also saving-led (often 2x or 3x size of loan). However a source of loan fund of the FC can also be contracted through external loan.



PRODUCTS	Flexibility of savings products vary according to savings group methodology. Savings is the most preferred product. Average loan size usually small. Both consumptive and productive loan uses. Return on savings because of interest (or service fee) charged on loans. Net earnings are divided proportionally to savings among members at the share-out at the end of each cycle. Social fund caters to emergencies.	Loan size is dependent on liquidity, loan policy, regulation and what products are developed. Individual loans can vary between 200 to 10.000 euro. If the FC has introduced solidarity lending, the loan amounts are lower. Consumption loans and lending to salaried people may be favoured in view of less risks and operational costs. Interest on loans is usually lower than in commercial banks or MFIs. Interest given on savings is also usually quite low, and current savings accounts often dominate. Depending on how much profit is made, dividend is distributed to members, based on their shares.
INTEGRATION IN WIDER SYSTEM	SGs operate independently after an initial training and supervision investment of 9 to 12 months. Survival rate of groups is high; dropout rate of members is low.	FCs can be stand-alone cooperatives, not associated or integrated into a wider cooperative system. They can also be part of a (three- or two-tier) -nation- or region-wide-, integrated FC network, with degrees of autonomy for the primary society. Some FC networks have their own banks, full-fledged parts of the financial sector.

2. SAVINGS GROUPS

2. 1. Key characteristics

International NGOs have developed different types of savings groups methodologies that have the following characteristics in common:

- *Self-selected*: typically between 10 – 25 members, single sex or mixed groups.
- *Self-managed*: groups elect a management committee and define their rules.
- *Savings are used for internal lending*: The loan fund consists of fines, savings and interest that is earned on loans to group members.
- *Transparent transactions*: all transactions are carried out in the presence of group members; record-keeping systems are simple.
- *Cash box*: cash and records are kept in a box, generally with multiple locks.
- *Self-reliant*: groups function independently after an initial training and supervision investment of 9 – 12 months. Research indicates that survival of Savings Groups is high (90%)[8].
- *Time-bound*: groups operate in 'cycles' of 9 – 12 months. At the end of a cycle, the group organises a share-out, also called 'action audit'; the members receive their savings plus the groups' earnings from interest and fines, which are divided in proportion to the amount saved[9]. The fund distribution is essential; outstanding issues are resolved and group members may leave the group and new members can come in.

The savings group methodology is inspired by the traditional ROSCAs (Rotating Savings and Credit Associations) and evolved to the ASCA model (Accumulating Savings and Credit Associations). ROSCAs disburse the money according to an agreed schedule or by lottery, not by member's needs; contributions are fixed; no interest is earned on the savings. Moreover, in many contexts ROSCAs operate mostly in urban or densely populated rural areas where people have a steady income. Traditional ASCAs, where savings are accumulated and used for lending, are less common than ROSCAs and often collapse as its management is more complex. Savings groups are more responsive to its members' needs than ROSCAs while the management issues of ASCAs are addressed by the development of savings group methodologies.

Over the last two decades, a lot of work has been done by international NGOs to develop savings methodologies that balance record-keeping complexity with product flexibility. Poor people need flexible products, but by increasing product flexibility, record keeping tends to become more complex, which consequently reduces the group's transactions' transparency and accountability.

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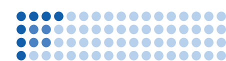
8. The SAVIX (Savings Group Information Exchange website: www.savingsgroups.com) selected in 2009 a random sample of independent groups (332 groups, 6 countries, 33 project) to track performance over time and group survival rate. After 3 years (2012), group survival rate was 95%; retention rate within the groups was 98.8%. Another in-depth research carried out is for CARE's project in Zanzibar: after 4 years of project withdrawal, all groups of the sample (25) survived and were performing well. Moreover, total membership rose with 258%. DFID Financial Sector Deepening Project for Uganda, 2007 "Village Savings and Loan Associations in Zanzibar. Anyago, Esipisu, Opoku, Susan Johnson, Malkamaki, Musoke.

9. Except for PACT - Worth, there is no share out but members are paid dividends. Source: Hugh Allen and David Panetta, 2010: Savings Groups – What are they? The SEEP Network Savings-Led Financial Services Working Group



Most commonly used is the VSLA methodology (Village Savings and Loan Associations)[10] that has been tested and adapted over many years starting with the savings methodology developed by CARE in Niger in the beginning of the nineties. The record-keeping system is simple, using individual passbooks as the main record keeping instrument. Essential is that group members witness all the transactions. Over the years, the methodology became more and more streamlined; as a result, time investment for training and supervision has reduced significantly.

Other methodologies developed by international NGOs include: Savings for Change (developed by Oxfam, FFH and Stromme Foundation), the PACT Worth project and CRS' Savings and Internal Lending Communities (SILC) model. Savings for Change in West Africa uses a methodology that is completely based on memorization and oral record keeping, targeting rural illiterate women. The PACT Worth project is the opposite, it has the most comprehensive record-keeping system; it also targets low literacy rural population but provides literacy training. Because of its record-keeping system, PACT groups take longer to become independent; around two years[11].

2.2. Products

All savings groups offer two basic financial products: savings and credit. Interest rate is set by the group and is generally 10% or 5% per month, either flat or on declining balance. As mentioned above, the flexibility of these services depend on the methodology used. Savings for Change in West Africa uses the less flexible product, given that record keeping is completely oral. All group members save the same amount that is defined by the group. Maximum loan amount is defined by the group, typically three or four times the saved amount; loan period is one month. In a VSLA group, members save through the purchase of shares (a maximum of five per meeting), represented by stamps in their passbooks. Savings can be withdrawn. Maximum loan amount is three times the savings, for a period of one to three months (first cycle) and up to six months (subsequent cycles). The VSLA methodology also includes a social or insurance fund that provides grants (sometimes loans) to members in case there is a pre-defined emergency. CRS' SILC model is similar to the VSLA model, but does not use shares. Members save any amount, up to five times the minimum amount, which is defined by group members. The maximum savings amount limits the domination of the group by wealthier group members. Moreover, it prevents group members from saving large amounts at the end of the cycle in order to receive a high proportion of the groups' earnings.

10. Used by CARE, PLAN, World Vision and its local partners. Hugh Allen (VSL Associates) played a major role in developing and fine tuning the methodology on the basis of experiences of these organisations. Training manuals and other tools can be downloaded for free from www.vsla.net

11. Source: Hugh Allen and David Panetta, 2010: Savings Groups – What are they? The SEEP Network Savings-Led Financial Services Working Group.

2.3. Which members' needs are met

Savings groups fill a gap between the (semi-)formal sector and money lenders and informal savings mechanisms as ROSCAs. They cater to the most commonly felt need among poor people: a relatively safe place to keep savings, so that money is not spent on less important expenditures and can accumulate to 'useful lump sums'. A savings group not only permits, but also motivates its members to save.

In many rural areas, savings groups form the most convenient, flexible and reliable option to save and to borrow. The groups enable its members to manage their money on a regular basis, which is essential for consumption smoothing. The importance of consumption smoothing is often underestimated. However, it is absolutely vital for improving the quality of life and prevents vulnerable poor to fall into the poverty trap. Lump sums in the form of loans or savings are used for e.g. school fees, health, asset building and house improvement, agriculture and business investments. Moreover, savings groups strengthen the social capital of the groups' members by increasing mutual trust, strengthening social networks and organisational and leadership capacities. Women's participation in savings groups gives women the opportunity to occupy leadership positions. The social capital in combination with the insurance fund supports its members in case of emergencies. Savings groups do not cater to all members' possible needs, e.g. not for longer term saving (e.g. for retirement) or for large and longer term investments.

The available information indicates members prefer the savings product. According to SAVIX data, for Africa, savings constitute 146% of the value of loans outstanding and 49% of the members have an outstanding loan[12].

2.4. Outreach

According to the latest figures collected from international NGOs[13] or its partners, savings groups have seven million members, of which 90% are from Africa. Given the fact that also local NGOs – not only those linked to any international NGO – implement savings group programmes, this number is likely to be much higher. CARE is the largest facilitating agency, having facilitated the training of 53% of the members, followed by CRS which operates in the largest number of countries (33).

Savings groups do well in most environments, but it is important to note that the groups can operate in remote rural areas and urban slums where MFIs or other financial institutions do not operate. The average loan and savings amounts of savings groups are much lower than those of MFIs, suggesting that savings groups have a deeper outreach than MFIs (average savings: 22 USD per member, average outstanding loan size 31 USD[14]).

Some savings group promoters started to measure the poverty level of group members, by using the poverty scorecard developed by Mark Schreiner and promoted by the Grameen Foundation among

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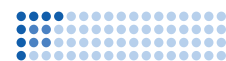
12. SAVIX, first quarter 2012

13. March 2013, collected by VSL Associates from: Aka Khan Foundation, CARE, CRS, SIC Consortium (Oxfam, FFH, Stromme Foundation), PACT, PLAN, World Vision, IRC (International Rescue Committee), FARM Africa, Peace Corps, CLP/DFID, IED, NUDIPU, Shigikirana)

14. First quarter 2012, SAVIX



Microfinance Practitioners (Progress out of Poverty Index, PPI[15]). The CRS research suggests that Savings Groups consist of a typical cross-section of rural villagers; the choice of geographic area determines if poverty levels of savings group members are lower or similar to the population on a national level[16]. A concern is that the currently felt pressure to reduce costs per member, could discourage programmes to operate in the most remote and poor areas, where promotion costs are higher and where it generally takes longer before the population adhere to groups. Some programmes, such as CARE in Rwanda, target poor members specifically, by a combination of geographically targeting and selection on the basis of a set of criteria, with the support of community leaders[17].

Most savings groups programmes reach a high percentage of women (average 80%[18]), while outreach to women is often a challenge for MFIs operating in rural areas. One of the reasons is that savings group promoters target a minimum percentage of women, or, as in the case of Oxfam in West Africa, are targeting women only. Another reason could be that in many environments, women are the most active users of informal systems such as ROSCAs.

Well-managed programmes can rapidly reach considerable size. For example, after four years, the Savings for Change programme from Oxfam had trained around 300,000 savings group members in Mali, Senegal and Burkina Faso[19]. CRS achieved 356,000 savings group members in less than four years of operation in Kenya, Tanzania and Uganda[20].

2.5. Delivery mechanisms and efficiency of savings group promoting agencies

Some international NGOs started implementing savings group programmes through their own (field) staff; however the trend is to implement through local partner NGOs. The role of the international NGOs is fundraising, grant management and technical assistance to local partners. They develop national and international savings group strategies and become the so-called 'Facilitating Agencies'.
In this way, local NGOs are capacitated to continue the savings group promotion after the international NGO's project funding ended. Local NGOs are sometimes in a better position to access funding. Increasingly, other local NGOs who were not involved in any international NGO project start with Savings Group implementation, inspired by the success of their peers.
Another trend is the savings group promotion by community-based trainers; group members or people identified in the communities are trained to train new savings groups. These community-based trainers are called Village Agents by CARE, and Private Sector Providers (PSP) by CRS. They are paid by group members. CRS's PSP model added an interesting feature: certified PSPs group themselves in informal networks. Each certified PSP can attract one or more apprentices who are in turn certified by the network and continue to form groups.

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15. See website: www.progressoutofpoverty.org
16. CRS, SILC Innovations Research Brief 1, February 2012
17. Mfoniso Umoh, Satyam Bakliwal, July 2011. Learning document on poverty targeting and financial inclusion. This document is part of the case provided by Terrafina.
18. Source: SAVIX (www.savingsgroups.com) unweighted average of the 5 Facilitating Agencies.
19. Mali 263,705, Senegal: 32,564, Burkina Faso: 4,000. Source: presentation OXFAM America.
20. March 2012 data. Email communication Guy Vanmeenen of CRS, June 2012

Oxfam America incorporated group replication in their promotion methodology: the group leaders of each group commit to train another group on a voluntary basis.
The use of community-based trainers, together with the streamlining of methodologies, reduced the costs of Savings Group promotion considerably over the last years (currently averaging at 24 USD[21]). These costs are calculated on the basis of the number of members trained during the project period. However, Savings Groups formation continues beyond the project period, through the community trainers operating on a fee for service basis. The example of the PSPs in CRS's projects in Kenya, Uganda and Tanzania provides an indication of the community trainers' potential: PSPs certified by CRS and paid by group members trained 62,000 new members in six months[22].

The use of mobile phones as electronic wallets and electronic savings boxes can potentially increase the savings groups' efficiency and security while keeping its transparency. There is still little project experience with the use of mobile phones for savings groups. CARE, in cooperation with the Equity Bank and the mobile phone provider Orange, launched a savings group product in Kenya in early 2012. Orange designed a special SIM card for savings groups, to be used as alternative savings box. Moreover, all group members receive a SMS for each transaction made to the group account. The Equity bank facilitated the opening of a group account and individual member accounts[23].

2.6. Performance Monitoring and benchmarking

The financial and operational efficiency ratios developed for MFIs inspired savings group practitioners to create a similar set of performance ratios adapted to the needs of Savings Groups and Savings Group Promoters. A standardized MIS[24] is developed that is used by most of the Savings Group promoters and produces reports of different level of detail, for different levels of users (field staff, project management, microfinance industry), and includes indicators and financial ratios developed for Savings Groups' performance analysis. This contributed largely to the professionalization of Savings Groups promoters. The use of the MIS facilitates programme management greatly and hence improves performance. Moreover, performance of different Savings Group promoting agencies can easily be compared.
The performance ratio report, one of the reports generated by the MIS, facilitates comparing programmes and intends to inform donor agencies and the microfinance sector at large. It covers the following:

1) *Member satisfaction*: attendance rate; retention rate and membership growth rate
2) *Financial performance of groups*: average savings per member; (annualised) return on assets; return on savings; average outstanding loan size

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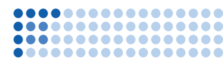
21. From SAVIX (www.savingsgroups.com), accessed May 28, 2012. This amount is based on information provided by 5 Savings Group Facilitating Agencies: Aga Khan Foundation, CARE, CRS, Oxfam, Plan. The information is: project costs to date /divided by the number of members assisted by the project. The projects operate for 3 to 4 years.

22. From September 2011 – March 2012, email communication Guy Vanmeenen CRS

23. Source: savings-revolution.org, accessed august 2012

24. The MIS is developed by Hugh Allen and Chuck Waterfield, founders of VSL Associates, with the support of Bill and Milanda Gates Foundation, CARE USA, Oxfam-America, Plan International. It is freely downloadable at www.vsla.net.
A web based MIS is launched in early 2013



3) *Operating efficiency of the groups*: percentage of members with loans outstanding; loans outstanding as percentage of total assets
4) *Efficiency and productivity of implementing organisation*: Caseload: average number of groups and number of members per field staff member; ratio of all paid field staff to total staff; cost per member assisted.

Five Savings Group Facilitating Agencies who promote Savings groups in several countries, exchange their MIS reports through the Savings Group Information Exchange (SAVIX) website. The aim of the website is to 'facilitate analysis, develop norms and improve performance across the sector'[25]. It is envisioned to open the website for all savings group promoting NGOs, which will increase the visibility of this emerging savings group industry and will facilitate the development of norms and benchmarks per peer group. The website currently covers more than 1.9 million members, trained by 154 projects (average of 12,350 members per project). One of the indicators showing that the members earn considerably on their savings is the average return on assets (ROA) which is 35%[26]. Loan losses are generally minor or non-existent; savings group members borrow from their neighbours' money and are generally careful in meeting the repayment requirements.

25. Home page www.savingsgroups.com accessed 28-05-2012
26. SAVIX, accessed 18-12- 2012

3. POLICY GUIDELINES WITH REGARD TO SAVINGS GROUP PROMOTION

The following chapter provides policy guidelines for NPM members. These policy guidelines are inspired by the three cases provided by the working group members; in boxes examples will be provided from these cases. The areas for policy guidelines are the following:
1. Savings groups and financial Inclusion
2. NPM members' expertise in assessing and supporting savings group promotion
3. Linkages between savings groups and Financial Institutions
4. Savings groups as Platform for other Development Activities

3.1. Savings groups and financial Inclusion

Acknowledge that savings groups' promotion is an effective way to expand financial inclusion in rural areas and urban slums. When supporting savings groups' promotion, consider Savings groups as part of the microfinance sector; preferably support should be handled by microfinance staff.

Financial inclusion is often understood as inclusion into the formal sector. This is because the generally accepted principle is that microfinance services have to be delivered by professional and specialized institutions. However, savings groups have proven to be able to respond in a sustainable way to needs of the rural poor which were not met by these institutions, because of the high costs of reaching out to rural areas. Savings groups' promoters argue that access to appropriate products should be the focus for financial inclusion, instead of inclusion to formal financial institutions. Appropriate products can be delivered by either formal or informal providers. In fact, the definition of financial inclusion of the 'Centre of Financial Inclusion[27]' focuses on access to financial services, delivered by a range of providers. CGAP also considers savings groups as part of the 'ecosystem of financial services providers[28]'.

Donors and microfinance consultants often insist or advice savings groups' promoters to institutionalize savings groups by creating federations, merging all savings groups into a formal financial institution such as a financial cooperative, or to link all the groups to MFIs. However, the fact that savings groups are small autonomous informal self-replicating institutions constitutes its fundamental strength that allows rapid expansion of basic financial services to underserved rural areas. Important characteristics of the groups such as transparency, no costs, trust in a small group, joint decision making are easily lost as soon as a federation or financial cooperative is formed (for linkages with MFIs, see policy guideline 3).

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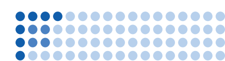
27. Definition financial inclusion at www.centreforfinancialinclusion.org: *A state in which all people who can use them have access to a full suite of quality financial services, provided at affordable prices, in a convenient manner, and with dignity for the clients. Financial services are delivered by a range of providers, most of them private, and reach everyone who can use them, including disabled, poor, rural, and other excluded populations*

28. Source: CGAP and MIX analysis of key trends, February 2012: 2011 Sub-Saharan Africa Regional Snapshot. CGAP is a policy and research center dedicated to advancing financial access for the world's poor, housed in the World Bank.



Savings groups' promotion can be supported in several ways. Currently, NPM working group members support local NGOs to start or to expand savings groups' promotion. Moreover, one of the NPM members supports an MFI to develop savings and credit products for interested VSLA groups. NPM members could also co-finance larger-scale programmes from international NGOs in a specific country or region. Moreover, NPM members can support innovation initiatives, e.g. the introduction of mobile phones for savings groups.

Case 1: Savings Group Promoter in Malawi

LEGAL STATUS	LOCAL NGO
Number of Savings groups, number of members	590 groups, 6,795 members (72% women)[29]
Savings Methodology	VSLA

Does the VSLA model fit in our microfinance programme?

During the intake of this project by the NPM member's programme staff, the question arose if Savings Group promotion could be considered as a microfinance project. At the end it was considered as microfinance, although the staff observed that the microfinance programme goals hardly applied to this project, since these are mainly formulated at institutional level and rarely at target group level. Nevertheless, the staff felt that the importance of capacity building at grassroots' level was being recognized more and more, because of the NPM member's increasing focus on rural finance in Africa. Therefore they thought that this type of project could contribute significantly to the innovation of the microfinance programme[30].

3. 2. NPM members' expertise in assessing and supporting savings group promotion

Strengthen the expertise of NPM members (microfinance) staff. Ensure that savings groups promotion is handled by staff with expertise in savings group methodologies and savings groups programme strategies. Ensure that partners promote an efficient and adequate savings methodology that complies with good practices.

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29. Report from case 1, July 2011
30. Intake Formulier; 20-05-2009.; Eindafweging Intake; Projectkenschets.

Strengthen the expertise of NPM members (microfinance) staff

The emerging industry of Savings Groups Facilitating Agencies uses other platforms for discussion, information and exchange than the regular Microfinance Industry. This means that the microfinance staff is often not aware of good practices of savings groups' promotion, or of important performance indicators, tools, current debates, literature and websites[31]. The NPM secretariat could organize training on methodologies, programme strategies and MIS, and/or invite Facilitating Agencies to explain their programmes. NPM members' (microfinance) staff could attend one of the trainings regularly organized by the service provider VSL Associates and /or the Carsey Institute on savings groups in different countries in Africa, or attend the savings' groups / Community Managed Microfinance training in Boulder.

NPM members' microfinance staff should develop expertise on (emerging) good practices in the following areas:

1. Savings group methodologies: e.g. balance between flexibility of products and complexity of record keeping
2. Delivery mechanism: training by specialized staff; use of community trainers; case loads.
3. MIS: the use of the MIS developed for Savings groups' promotion.
4. Reporting to the SAVIX and benchmarks for key performance ratios (Ratio's referring to: Member satisfaction, financial performance of groups, operating efficiency of groups, efficiency and productivity of the implementing organisation, e.g. cost per member); reporting to the SAVIX
5. Implementing Organisation: specialized savings groups' promoter, or using savings groups as entry points for other development programmes
6. Linkages with MFIs: criteria for linkage, linkage models, MFIs' product development for Savings groups.

Ensure that partners promote an efficient and adequate savings methodology that complies with good practices.

NGOs sometimes develop their own methodologies that often are much more expensive and cumbersome, or risky for their members. These NGOs might not have included a careful testing period and often have not benefitted from lessons learned internationally. Most commonly, these methodologies have a complex record-keeping system that reduces transparency and makes the programme more expensive due to higher training costs. Sometimes, NGOs continue accompanying groups in their second or third cycle, at the cost of training new groups.

Savings group promoters generally need technical assistance on the following:

- Savings group methodologies, e.g. to be updated on improvements made on savings groups methodologies,

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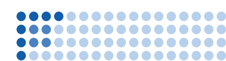
[31] websites:www.savings-revolution.org; www.savingsgroups.com; http://www.seepnetwork.org/savings-led-financial-working-group-resources--pages-335.php
Most recent publication on savings groups: 'Savings Groups at the Frontier'. Edited by Candace Nelson. SEEP 2013

- Delivery mechanisms: what are lessons learned on the use of community-based trainers (training needs, fee structures, case loads, certification)
- Monitoring and evaluation: the use of the savings groups' MIS for improving productivity and quality (not only to store data, as often happens)
- Design of an efficient savings group programme.

Microfinance Consultants, even those with expertise in some type of community managed microfinance, are often not aware of good practices and lessons learned by the savings group community. Experience teaches that savings programmes are often inadequately evaluated; donor agencies might not be aware of the necessity of specific expertise. In some countries, international NGOs as CARE and CRS have set up a VSLA Technical Assistance team to support their partner NGOs with programme design, training, performance monitoring and evaluation. NPM members could link up their partners to these international NGOs, in case this link does not exist. Otherwise (international) expertise should be hired.

Savings group promoter in Malawi.

Rationale for support of member NPM:

Financial institutions are concentrated in the main town in the area. The rural households are hardly reached by these institutions. A recent study of FINSCOPE showed that 54% of Malawi's population has no access to any form of formal, semi-formal or informal financial services. The rural population is mainly left on its own.

Indicators for monitoring[32] :

- Number of people attending VS&L training; value of savings; value of loans;
- Number of beneficiaries engaging in IGAs; number of newly established IGAs; number of IGAs expanded or improved; estimated amount of earnings.
- 90 % of the VSLAs continue their operations independently

Observations on the indicators:

The project proposal submitted by the partner organisation contains an empty copy of one of the reports (overall VSL Project Performance) generated by the MIS software developed for Savings Group promoters (see section 2.6). Apart from the number of VSLAs and the value of savings and loans, this MIS report would provide more insightful information on the project's performance, and would make it possible to compare the partners' performance with the performance of other Savings Groups Facilitating agencies. However, in the partner's reports, these MIS reports are not included.

32. From: Projectkenschets

Observations on technical assistance and evaluation:
This particular NPM member recognized the need for Technical Assistance and facilitated the contact with CARE in Malawi for assistance with the development of the programme, for fundraising and monitoring. Moreover, CARE's technical unit was contracted to evaluate the programme of its partner organisation, due to its expertise in Savings Group promotion.

3.3 Linkages between Savings Groups and Financial Institutions

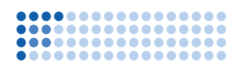
Promote a demand driven approach when you are supporting MFIs to link with savings groups, or when supporting Savings Group Promoting Agencies to link with MFIs for savings and credit. Make sure that partners are aware of lessons learned and emerging good practices. Ensure that the MFI develops appropriate products and delivery mechanisms for the savings groups. In case the promoting NGO is partner, ensure that clear agreements are made with the MFI about products and delivery mechanisms, and about the role of the NGO to facilitate the linkage process.

Most Savings Group Facilitating Agencies do not promote linkages of Savings Groups with Financial Institutions but consider it the best option that individual members approach MFIs for loans and savings products, if their needs exceed the VSLA's capacity. CARE is the only Facilitating Agency with documented linkage experience in Africa and developed guiding principles on the basis of their experiences.

Linkage between MFIs and savings groups can be a win-win situation: an advantage for savings groups to secure their excess liquidity or to increase their loan fund by borrowing from the MFI, and an advantage for the MFIs to deepen their (rural) outreach. However, many groups will never want to link to MFIs, because the savings group is already responding to their needs or the (transportation) costs are found prohibitive. Other groups' performance will not justify external loans (e.g. little use of their own loan fund). For MFIs, linkage with savings groups mean the need for product development and high costs to reach out to remote rural areas, in combination with relatively low loan amounts. The use of mobile phones can potentially facilitate the linkage process, but experience with this practice is still limited.

Experiences with linkages show that a careful approach is necessary. If not approached carefully, the savings groups risk having to deal with one or more of the following risks: reduced motivation for savings; over- indebtedness of group members or of the entire group; loss of the groups' independency; more complicated bookkeeping systems and loss of transparency; easy money affecting group solidarity; a small group of influential members taking advantage of the linkage at the costs of poorer members; high dropout rates because of credit stress or decreasing group coherency.

[31] websites: www.savings-revolution.org; www.savingsgroups.com; http://www.seepnetwork.org/savings-led-financial-working-group-resources--pages-335.php
Most recent publication on savings groups: 'Savings Groups at the Frontier'. Edited by Candace Nelson. SEEP 2013



Linkage experiences in Niger[33] were not positive, many groups encountered repayment problems, dropout rates increased (even among groups with no repayment problems) and many groups collapsed. Groups took loans from several sources and became over-indebted. In the case of CARE's linkage experience in Rwanda with the Unions des Banques Populaires de Rwanda (UBPR), repayment rates of the savings groups were better but still low (93%). Moreover, the linkage was not sustainable as the UBPR did not want to lend without loans being secured by a guarantee fund that was provided by CARE. Based on lessons learned from these and other experiences, CARE developed the following principles for linkages with financial institutions[34]:

1. Link groups, not the individuals. The group receives a lump sum into their common pool, and on-lend this to their members according to their usual procedures. This is different from a group methodology where the group loan consists of the sum of individual loan applications. In fact, it is micro wholesale lending.

2. Only link mature groups. Minimum age of groups is one year, preferably two to three years. The group should have experience with fund management before attracting external funds. Moreover, demand for loans increases generally per cycle. CARE developed a 'group readiness assessment tool' for the selection of groups

3. Focus on demand rather than supply: products and services offered should be based on the needs and demands of the groups.

4. Provide financial literacy to groups before linking them; groups should be trained before the linkage and should receive transparent information on the products and services, and the costs involved

5. Protect core savings group principles; groups should maintain its methodology and governance structure. Decision on linkage should be taken by consensus.

6. Start with savings linkage in order to not undermine the groups' focus on savings

7. Maintain a conservative debt- to-equity ratio to prevent over-indebtedness; maximum 2 to 1 for the first loan (maximum loan amount twice the previous share-out amount); maximum of 5: 1 for subsequent loans.

8. Limit collateral deposits: forced savings reduces the accessibility of savings and the volume of the loan fund and therefore also the potential return on savings. Group members' records reduce collateral requirements.

33. Source: 'Key Findings and Recommendations from the Study on the Impact of Exterior Loans on the MMD Groups and Networks And Measures to Minimize Risks', P. Rippey 2008

34. Sources: 'Village savings and loans: a pathway to financial inclusion for Africa's poorest households'. Lauren Hendricks, Sybil Chidiac. Enterprise development & Microfinance, number 2, June 2011. 'Connecting the World's Poorest People to the Global Economy, new models for linking informal savings groups to formal financial services.' CARE, February 2013

The box below summarizes experiences with linkage between savings groups and an MFI in Rwanda. The MFI (case study 2) is supported by a NPM member. This linkage experience was facilitated by CARE and followed most of the above mentioned principles. In Rwanda, the maximum debt –equity ratio was defined more cautiously as in the principles mentioned above: 1 to 1, meaning that the maximum loan amount should not exceed the group share-out amount in the last cycle. Some practitioners consider even a 1 to 1 debt- equity ratio as too risky, and argue that the maximum loan amount should be half the share-out amount, given the fact that the groups proved to be able to manage the share -out amount and that a higher ratio could lead to discouragement of saving.

Case study 2: MFI linking with VSLAs, the linkage process is facilitated by CARE, the MFI is NPM's partner

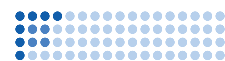
Rationale for support of member NPM:
Financial institutions are concentrated in the main town in the area. The rural households are hardly reached by these institutions. A recent study of FINSCOPE showed that 54% of Malawi's population has no access to any form of formal, semi-formal or informal financial services. The rural population is mainly left on its own.
Most Savings Group Facilitating Agencies do not promote linkages of Savings Groups with Financial Institutions but consider it the best option that individual members approach MFIs for loans and savings products, if their needs exceed the VSLA's capacity. CARE is the only Facilitating Agency with

Results of linkage of VSLAs after a six-month pilot (as of June 2011):

Number of VSLAs linked for Savings	308
Number of VSLAs linked for Savings and Loans	51
Total amount saved by the groups in the MFIs' accounts	USD 30,160
Total of credit provided to the groups by the MFI	USD 10,340
Portfolio at risk of credit provided to groups	0%

Support mechanism and rationale:
The NPM member supports the business plan of the MFI and writes positively about supporting linkages with the following rationale (from the project document):
Supporting linkages to VSLAs is in line with our intention to reach out to more remote rural clients. Linkages with VSLAs through CARE has the 'potential of over 108,000 clients being linked to the MFI in the coming years'

[31] websites: www.savings-revolution.org; www.savingsgroups.com; http://www.seepnetwork.org/savings-led-financial-working-group-resources--pages-335.php
Most recent publication on savings groups: 'Savings Groups at the Frontier'. Edited by Candace Nelson. SEEP 2013



Observation on the rationale:

The 108,000 clients constitute all members of all VSLAs that were planned to be created over a period of three years, meaning it was assumed that all the members would be linked. However, experience shows that linkage of savings groups to MFIs should not be automatic, but demand driven and performance based. Moreover, groups are linked and become clients of the MFI – not the individual members. Another limiting factor for linkage is the remoteness of a part of the groups, involving high costs and logistical challenges for the MFI.

Product development by the MFI

The MFI developed the following product for VSLAs:
Five modules training on linkage; group savings account; credit to VSLA after three months savings account if requested and approved; max. loan amount equal to groups share-out amount in last cycle; loan term 3 – 4 months; monthly repayments; interest rate 2.5% flat per month; 3% commission upfront, 1.5% insurance.

Observation on product development:

In practice, CARE's Field Officers administer the first two training and the last three training modules are delivered by the MFIs' Credit Officers. CARE's Learning Document points to the necessity of the MFI delivering all modules, given the fact that the MFI is bearing the risk.

Observations on sustainability of the linkage model:

According to the MFI, its services to VSLAs are not yet profitable, because of the large distances and the fact that savings and credit amounts of VSLAs are fairly small. However, CARE's facilitating role in the linkage process considerably reduces the MFIs' costs; CARE's project staff selects eligible groups and trains the groups (on linkages, financial education, business training). From the CARE's learning documents it became clear that its SAFI project was funded up to January 2012; and by July 2011, sustainable linkage mechanisms were yet to be developed[35]. CARE's learning document on this linkage initiative recommends involving the Village Agents (community-based trainers who train VSLA groups for a fee), however, it would take considerable time to set up an appropriate system and to train the village agents.

3.4 Savings groups used as platform for other development activities

Give preference to support specialised savings groups' promoting agencies, as they generally provide better quality against lower costs. When support is provided to multipurpose NGOs, define clearly if the support is primarily meant to increase access to financial services or to use Savings groups as platform for other development activities.

[35] On the SAVIX, the most recent data of the SAFI programme date from the last quarter of 2011 (accessed July 2012)

Be aware of the possible consequences of the introduction of these other activities, such as slower expansion of the savings group programme, loss of quality in savings group promotion, risks for losing savings group's funds, limited quality or lack of sustainability of other development activities.

In the context of this policy report, savings groups' promotion is described as an effective way of increasing access to financial services in underserved areas. NGOs focused on savings groups' promotion, with specialized staff, are more likely to deliver quality services and to be efficient. However, many NGOs promoting savings groups use the groups as entry point to introduce a variety of other services, either delivered by their own staff or by linkages of the groups to other initiatives. The other services can include gender empowerment training, malaria or HIV/AIDS training, BDS, agricultural marketing etc. These other activities can form an important added value for the group members, but often NGOs undertake more activities than it can manage and overall programme quality will deteriorate.

When other activities are implemented through linkages with other specialized agencies, this will not slow down the savings groups' promotion and quality remains high. However, other services might not be available in the area. Even if they are available, the NGO delivering those services might not have the capacity to cover all the savings groups. If the savings groups' promoting agency is implementing the activities itself, this is sometimes done by specialized staff (parallel delivery model)[36] or by the same staff member that is specialized in the promotion of savings groups (unified delivery model). It will depend on the complexity of the other activity if a parallel or unified delivery model is more appropriate.

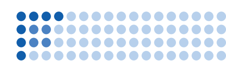
Recently, a study has been published by the Aga Khan Foundation (AKF) on the integration of savings groups and other developmental activities. The study includes lessons learned and principles that should be taken into account when offering other activities to savings group members.[37]

One of the guidelines is that savings groups' promoting organisations should assess and manage the risk of the development activity for the group members. The study differentiates risk levels: training activities entails low risk, as only the time of group members is at stake, while the highest risk is when the group funds are placed at stake, as in the case of groups businesses (e.g. joint marketing through an APEX organisation) and external credit.

Another important guideline is to measure the cost of savings groups' promotion and other activities separately. This will enable the donor agency to assess the efficiency of the savings groups' promotion in relation to the promotion of other activities.

[36.] Terminology from: Paul Rippey and Ben Fowler: "Beyond Financial Services. A Synthesis of Studies on the integration of savings groups and Other Development Activities" Aka Khan Foundation 2011

[37.] Aga Khan Foundation: april 2011. Rippey and Fowler: Beyond Financial Services. http://www.akdn.org/publications/2011_akf_beyond_financial_services.pdf



NGO promoting savings groups and using savings groups as platform for other activities, Uganda

LEGAL STATUS	NGO
Number of Savings Groups, number of members	2100 groups, 63,000 members[38]
Savings Methodology	VSLA (stamp based record keeping) and Self Help Affinity Groups (numerical record keeping, not all money distributed at the end of the cycle, but groups are encouraged to leave large amounts in the group fund, in order to allow for fund growth[39].
Other activities	Other activities include: BDS training, Women's empowerment training through the Gender Action Learning System (GALS) tools; HIV/Aids Training; enhance participation in development and governance issues; use of environmental resources training including the sale of solar lamps; agricultural marketing, water and sanitation.

The NPM member supports the following programmes of this NGO:

1. Community empowerment Gender HIV Mainstreaming and GALS: GALS training, Women Rights, Advocacy and We can Campaign, Gender sensitive HIV mainstreaming in Institution and Programmes
2. Economic Empowerment of the Community: Self Help Affinity Groups; Agricultural marketing; Village Savings and Loans Association
3. Environmental Conservation Awareness Creation

Rationale for support[40]

This project contributes to the NPM member's strategic objectives related to:

- Gender equity in the access to markets, ensuring food and income security;
- Equal use of financial services by men and women in rural areas;
- Poverty outreach of financial services;
- Mainstreaming HIV/AIDS

38. From: End 2010. Information on total number of savings groups was not found in project documents. This number is from: Paul Rippey and Candace Nelson, 2011:" Beyond Financial Services, Marketing Solar Lamps among Savings Groups", Aka Khan Foundation

39. From: Information on the differences and pro- and cons of the two savings methodologies was not found in the project documents, not even in the project evaluation. This information is derived from: Paul Rippey and Candace Nelson, 2011:" Beyond Financial Services, Marketing Solar Lamps among Savings Groups", Aka Khan Foundation

40 From: Opportunity and Risk appraisal

Observations on rationale for support

After having trained the groups in the savings methodology, the NGO maintains contact and provides other type of training and services to the savings groups[41]. The budget shows that the programme costs of the financial services promotion is about half of all costs. In the approval documents it is not specified if the main objective for support is to increase poverty outreach of financial services in rural areas, or to implement the other developmental activities. In the 'external advice memo', it was questioned if the limited number of new groups justifies the investments.

Other observations:

Separation of costs for savings groups' promotion and other activities

In the approval documents, cost per member is mentioned but this contains all programme activities, meaning that it is difficult to assess the efficiency of savings groups' promotion and to compare the costs with other Savings Group Facilitating Agencies through the SAVIX.

Sustainability of other activities versus sustainability of the savings groups

The NGO introduced the Village Agent model in order to make group replication sustainable; the groups pay a fee for the training to the village agents. From the project documents, it did not become clear if a similar model is used for the other training activities, or if these training activities will stop after the end of project funding.

Risk of the 'other activities' for group member: the solar lamps

Through the programme 'Environmental Conservation Awareness Creation' the NPM member supports the NGO to sell solar lamps to members of savings groups and the rural population at large. This initiative is analysed as one of the case studies in the above mentioned publication on integration of savings groups and other developmental activities[42]. The NGO intermediates between the solar lamps wholesaler and groups; the village agents are selling the solar lamps and the commissions paid to the village agents constitute an extra income additional to the training fees they receive from group members. The AKF study classified this project as 'moderate risk'. The NGO promotes the solar lamps, but group members decide individually if they want to purchase it. The risk lays in the absence of after sales and repair services. When the lamp fails, the member loses his/her investment. It is too early to evaluate (the sustainability of) the project, but it seems to be an interesting innovation. At the longer term, the NGO expects that the gains will enable it to continue with their activities without donor funding.

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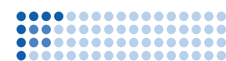
41. From: Paul Rippey and Candace Nelson, 2011:" Beyond Financial Services, Marketing Solar Lamps among Savings Groups", Aka Khan Foundation

42. Paul Rippey and Candace Nelson, 2011:" Beyond Financial Services, Marketing Solar Lamps among Savings Groups", Aka Khan Foundation



4 BACKGROUND AND CHARACTERISTICS OF FINANCIAL COOPERATIVES (FCs)

Below some general information on financial cooperatives is given. Elements are highlighted that are deemed useful for NPM staff, engaged in support to financial cooperatives, to understand. Some of this information is not always common knowledge, as study of the three cases revealed (information on the three cases is given in the Annex).

4.1 Long and rich history; good to be informed about country specifics

Financial cooperatives in general have a long history. The first ones were agricultural credit cooperatives set up in Germany under the guidance of Friedrich Raiffeisen. From these beginnings, cooperatives in Europe, parts of North America and Canada have progressed steadily from village based organisations to full-scale commercial banks, that are since long supervised by the central bank as full participants in financial sectors. The development of many financial cooperatives outside the West can often be traced back to these mature cooperative banks, usually through direct inspiration by their achievements. In several countries the western cooperative partners have supported local cooperative networks through long-term financial and technical support.

In contrast to the early cooperative sector in Europe, cooperatives in developing countries were often promoted and closely regulated by governments, and used for their political and economic purposes. Cooperative systems for example have been used as distribution channels for state-subsidised inputs or monopoly marketing agents for agricultural crops. The liberalisation of the 1980s and 1990s inspired a move back towards more autonomy for cooperatives, also for financial cooperatives.

Most developing countries, including African countries, have had experience with financial cooperatives since the 1960s. In each country development of this sector took its own course, depending on different political and historical factors, resulting in very strong to very weak financial cooperative sectors.
For example: the outreach of the financial cooperative sector in West and Central Sub-Sahara Africa represents respectively between approximately 35% and 66 % of total financial services in concerned regions (borrowers and depositors). In East and Southern African regions total outreach of financial cooperatives represents between 2 % and 11% respectively[43]. As explained in the MIX SSA Microfinance report 2010, the first microfinance providers in West and Central Africa were created by the French and Canadian cooperative movements. This also influenced the microfinance laws governing the sector, being geared towards financial cooperatives only.

It is good to be informed about national context and main experiences so far when supporting financial cooperatives in a specific country. It helps to avoid pitfalls and build on lessons learned.

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[43] Source: MIX Microfinance World: Sub-Saharan Africa Microfinance Analysis and Benchmarking Report 2010

Cooperative Principles on membership

Voluntary & open membership: open to all persons able to use their services and willing to accept responsibility of membership, without any discrimination (social, racial, gender etc)

1. **Democratic member control.** Cooperatives are democratic organisations, controlled by their members. Elected representatives are accountable to its membership. Members have equal voting rights: one-member-one-vote
2. **Members contribute equally to and democratically control** their cooperative
3. Cooperatives are **autonomous, self-help organisations**. If they enter into agreements with other organisations, including government, they do so on terms that ensure democratic control by their members and maintain cooperative autonomy.

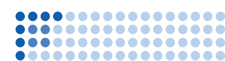
Some financial principles:

- Institutional capital reserves are held jointly and are indivisible, i.e. they cannot be distributed to members etc.
- Distribution of profits: dividend on member shares

4.2 Saving-led: a stable source of fund, but no guarantee for portfolio quality

One of the key characteristics of financial cooperatives is their saving-first approach. Members have to regularly save substantial amounts, before they can access credit. Furthermore, mobilised savings usually constitute the most important source for the credit fund. This is a difference with many microfinance institutions that often have a so-called credit-led methodology.
The saving-led approach has many acknowledged strong points. Savings are supposed to underwrite strong financial discipline ('hot money'). This may however not always be the case. Studies show that repayment rates of saving-led financial cooperatives are not necessarily better than of credit-led institutions. Factors explaining default level are more related to professionalism of management and quality of governance, than to either saving- or credit-led. In two of the three cases studied for this research, default was high, even when the loan portfolio was solely build on savings.
Another perceived strong point: savings are seen to be a stable source of fund and relatively less costly for the financial institution than external loans. Regarding the low costs of saving, a saving-led approach requires important initial investments in infrastructure (tellers, safes, MIS systems, adequate buildings) and in – national- coverage, needed to inspire confidence among potential savers, so as to be able to attract sufficient savings in the first place. However, once the systems are set up, savings constitute in general a more reliable and often cheaper source of fund for the institution than external loans.

Good to realise that adequate saving mobilisation requires initial resources, to build trustworthy image of the financial cooperative, and is in itself no guarantee for portfolio quality



4.3 Importance of good governance

Cooperatives are democratic organisations. In financial cooperatives like in all type of cooperatives, the General Assembly of members, according to the one member-one-vote principle, elects their Board of Directors (BOD), as well as the main committees for the functioning of the cooperative (credit and internal control committee). If there is an Apex body, the Apex's General Assembly (made up of representatives of the primaries) elect the BOD of their institution.

In financial cooperatives, like in any other type of cooperative, there is a regular change of governance since the mandated period for board members is usually three to four years, so there is a regular turnover of members of the cooperative organs.

In Worldbank and other studies[44], it is observed that the quality of governance has proved to be crucial for the success of financial cooperatives. Quality of governance is a challenge, especially when the educational background of Board members is low and when responsibilities are complex. Training of BOD and main committees' members is a massive and constant requirement in an environment of low literacy and no financial skills training opportunities, as noted in most of these studies. This is also expensive.

Even when trained, low motivation level, and hence not fulfilling basic tasks of leadership, may be another challenge for - effective- governance. Board members of financial cooperatives are usually not paid, but they may receive sitting allowances, cost compensation etc. Wanting to contribute to development of their region and people, - along with acquiring some influence-, is usually a main motivation. If the work as a Board member becomes really demanding, without compensation, initial high motivation levels can easily drop in time (as shown in all three studied cases).

Possibility of abuse by elected leaders is not to be ignored either. In two of the three cases studied, the Board members, who had approved loans to themselves, were among the main defaulters. The external promoters seemed not very aware of this possible governance abuse. WOCCU identified four frequently observed abuses of governance in Credit Unions: abuse of power, of resources, of products and services and of the institution. Main remedies are introduction of policies, indicators and code of ethics related to governance behaviour.

It is good to realise that the democratic principle of cooperatives, with all its strong points, has shown in itself to be no guarantee for good governance and good financial performance.

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44. "Providing financial services in rural areas: a fresh look at financial cooperatives". World Bank, Agricultural and Rural Development Department, 2007.

4.4 ´Employment´ versus ´Community-based´ financial cooperative: from simple to more complex management....

An *employment*- (or sometimes called *workplace*-) based financial cooperative, is offering services exclusively to members that share a common tie, such as a place of employment or a profession (such as teachers). These members are salaried, *formally employed*, either by government or private sector. Most employment-based cooperatives are to be found in urban areas. The so-called Credit Unions, as promoted by WOCCU, were originally mostly employment- based cooperatives.

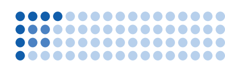
A so-called '*community-based*' cooperative is open to all members of a certain community or geographical area, irrespective of economic activities or professional background. Members of financial cooperatives in rural areas are usually to a large extent '*self-employed*': small and medium-sized female and male-headed farming households, traders, live-stock keepers, small entrepreneurs etc. reflecting the composition of economic activities in those areas. In rural regions in poor countries the number of jobs in the formal employment sector is usually low. The percentage of the self-employed can be as high as 90% of the active population.

This different socio-economic profile of members has many consequences. In an *employment-based* cooperative, members usually have a higher level of education. This implies that it is more likely that the governing bodies have higher education as well, and are more able to understand basics of a financial cooperative. Control by and quality of governance is likely to be better.

Another difference is related to loan product: employment-based financial cooperatives grant loans to their salaried members merely based on the guarantee provided by the employer to retain loan repayment instalments from the salary. This guarantee is the main consideration in lending. All loan transactions can be dealt with from behind the desk of the financial cooperative. The large number of teacher financial cooperatives in Africa is a point in case.

Granting loans to *self-employed* people that usually do not dispose of recognised collateral requires a -type of- solidarity lending methodology to replace physical guarantee. Solidarity lending is a more costly and complicated approach than providing loans to salaried people. It implies proximity and mobility of well-trained and supervised loan officers, engaged in intensive pre- and post-credit monitoring. This is to ensure sound portfolio quality, despite lack of collateral. Management of a portfolio that consists of loans to the self-employed is much more demanding than management of a portfolio based on salaried loans.

It also has implications for access by women. When main loan products are constituted by individual (salaried- or collateral based-) loans, access by women is usually low. A majority of women in most developing countries is active as micro or small-scale entrepreneur in the informal sector.



However, not all community-based financial cooperatives serve the majority of their members - the self-employed- with loans. Often they serve the majority of their members with saving services, but only a minority is provided access to loans. For example, the many community-based financial cooperative networks in francophone Africa, where they occupy a dominant position in the microfinance sector, provide mainly loans to the salaried and relatively wealthy among their membership, although these constitute only a minority. The financial cooperatives lack a mission/vision (mission is merely: sustainability of the cooperative network itself), nor are they exposed or did they acquire the special skills needed for other types of lending methodologies. Consumption and housing loans are often their main credit products. Hence women constitute a minority among their borrowers.

If the community-based financial cooperative does practise pro-poor 'inclusive finance' with respect to access to loans, they need as a consequence more sophisticated management and qualified staff. At least if they want to succeed in that endeavour with acceptable default.

With respect to qualified staff, rural institutions have more difficulty to find qualified staff than urban-based financial cooperatives. And these staffs have to be relatively well-paid to be maintained. Longer distances between clients in rural areas add again to higher operational costs, plus the risks of an economy based mainly on agriculture. So the cooperative has to generate sufficient income to cover those unavoidable costs of lending to the non-salaried. To realise this, a certain portfolio seize has to be reached and interest rates need to be higher than in the case of salaried lending. This often also goes against the traditional 'philosophy' of the financial cooperative.

Donors, such as the working group members, usually have clear target groups and are interested to promote and finance pro-poor, gender balanced, rural finance, and are less interested to contribute to consumption loans for salaried people.

Good to bear in mind that a sustainable rural financial cooperative, able to provide credit to its poor, self-employed members, requires a determined mission/vision from the cooperative to do so, as well as qualified management and skills. Higher operational costs than in the case of lending to salaried members are unavoidable, even if the organisation is very efficient. This implies necessity for higher interest rates on loans and certain minimum scale.

4.5 'Atomic' versus 'integrated' cooperative networks: integrated ones show better results

Two basic models and related ' schools of thought' can be distinguished with respect to the institutional setup of financial cooperatives, related to the level of autonomy and mutual obligations of the primary members in a cooperative network: the so-called *atomic/competitive* model versus the *federated/ integrated* model. As much in life, this division represents a continuum, with extremes on both ends.

In an atomic cooperative network, the primary societies operate on individual basis, there are no standardised products, systems, policies, there is no common image. The role of the second-tier Apex body (usually called Union) is limited to lobby, representation, and sometimes training of the primary members.

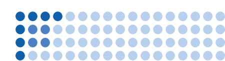
In an integrated approach, the Apex supervises, trains, develops financial products and ensures auditing of the primary cooperatives, and there are standardised norms for all aspects. There is also often centralised liquidity management by the Apex, and there are mutual contracts and clear mechanisms for (dis)affiliation of primary members.

An extensive Worldbank study investigated the results of *atomic* versus *integrated* financial cooperative networks worldwide. The main conclusion is that integration has wide ranging benefits: a strong second tier helps to build quality of governance at all levels, improves the financial situation including default, contributes to professional capacities and the ability to provide more diversified financial products, hence is more attractive to members and contributes to growth.

However, an integrated cooperative network, as compared to an atomic or 'stand-alone' cooperative, *requires an overall larger-size to become financially sustainable*. The additional operational costs of the Apex have to be carried by the primary cooperatives that provide the actual financial services. So development of an integrated network is more sustainable, and creates more and diversified outreach, but is also a more complex and longer-term institution building process.

In view of experienced risks of stand-alone cooperatives, a number of specialised donors and capacity builders in financial cooperative development (such as DID, Aquadev, IFAD, but also Terrafina Microfinance) prefer to support integrated networks, especially when it comes to rural cooperatives. Furthermore, stand-alone primary – rural - cooperatives are often too small an entity for external investors.

Good to bear in mind that sustainable development of rural financial cooperatives involves the development of an Apex body/Union from the start. This implies additional operational costs to cover and often more time to become sustainable. However, in the long run, the results in terms of growth, sustainability and diversified services to members are – usually- better.



4.6 Legal status and regulatory framework

Cooperatives are specific legal entities, able to enter into contracts with external parties. All countries nowadays have laws and regulations on cooperatives. The extent to which this regulation addresses the unique nature of financial cooperatives, as both financial institutions and cooperatives, differs per country. For example, the *financial* cooperative sector in the eight French-speaking West African countries, that all fall under responsibility of the same Central Bank BCEAO, is highly regulated. That includes many prudential norms and ratios to be respected. Elsewhere in Africa, for example in Ethiopia, there is as yet no specific regulation for financial cooperatives. It is very easy to obtain a licence, and there are no prudential norms and standards.

Not only regulation, but also effective supervision of implementation of the legal requirements for financial cooperatives, varies enormously per country, dependent on the financial and institutional capacities of the supervising body.

Evidence from different studies shows that regulation and supervision are essential for the growth of a healthy and sustainable financial cooperative sector. Powers and duties of member-owned financial institutions need to be clear, as well as governance and supervisory responsibilities and protection of depositors. Regulatory requirements can be relatively light initially, but as financial cooperatives grow into broader financial institutions, they should progressively come under financial sector regulations. If networks are made responsible for supervision of primary cooperatives, they need to be empowered with a clear legal mandate and capacity building.

Good to be aware that national adequate regulatory framework and supervision are important factors for healthy growth of the financial cooperative sector.

5 POLICY GUIDELINES FOR NPM WITH RESPECT TO EFFECTIVE SUPPORT OF SUSTAINABLE FINANCIAL COOPERATIVES IN RURAL AREAS

5.1 Acknowledge that financial cooperatives are important institutions for creating outreach in rural areas in Sub-Saharan Africa

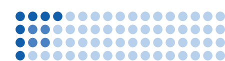
The most commonly found financial institutions in rural areas in Sub-Saharan Africa are financial cooperatives. This is probably for a combination of reasons: cooperatives can be established by the local population and demand fewer resources than banks/MFIs. The existence of community identity, an interest in owning the institution, other known examples, traditions and governing microfinance laws are additional reasons. If NPM members want to contribute to an expansion of financial services in SSA rural areas, especially by locally rooted actors, the choice to support financial cooperatives is a logical one.

Financial cooperatives are first and foremost financial institutions. The fact that they are member-owned does not imply that they are less complicated or function on very different grounds than for example MFIs. To arrive at a sustainable situation, financial cooperatives have to fulfil the same requirements of credible and transparent financial administration. They need to have clear ideas about the future (business plans), they go through the same kind of life-cycle institution building etc. In a growing number of countries, financial cooperatives are under Central Bank supervision.

Financial cooperatives as financial institutions do have some very specific institutional characteristics, related to their member-owned, democratic nature. To be able as a NPM member to shape support to financial cooperatives effectively, it is good to understand the nature of these characteristics, as argued in Chapter 4.

5.2 Integrate support to financial cooperatives in NPM members' sector approach for microfinance.

Support to financial cooperatives has to be part of the NPM members' sector approach developed for microfinance, refined or adapted to the institutional specifics of the nature of cooperatives. As with MFIs, **specialised policies and staff** are needed from the side of the donor, to be able to shape support adequately and contribute in an effective and efficient way to development of sustainable and pro-poor financial cooperatives. In two of the three cases studied, this specialised understanding was absent, and the weak setup of these interventions resulted in non-sustainable entities. The cases also show that, besides expertise, the donor staff needs sufficient time to monitor the use made of their support and react adequately to – unexpected- developments at field level.



As argued in former chapter, it is also good for staff to be well-informed about country specifics of financial cooperatives, including history and legal framework, to avoid pitfalls and build upon lessons learned. A national association or Federation, if present, and the supervisory body can be consulted, as well as websites of recognised financial cooperative supporters. These sites contain best practices, research and statistical data, assessment methodologies etc. (www.woccu.org; http://did.qc.ca/en/) and can help donor staff to get acquainted with the specifics, strengths, & weaknesses of financial cooperatives in that particular environment.

5.3 Effective support by NPM members of financial cooperatives has to take into account the following elements:

a) Financial cooperatives need effective accounting and control systems from the start, to safeguard member and depositors interests. This is also the case when they are -still- informal saving & credit groups.

NPM members have to realize that saving & credit groups beyond the size and *cycle-bound nature of saving groups* need adequate accountancy and financial statements right from the start, as well as regular control of validity of their accounting, in order to secure members deposits. This is the only way to have transparency and prevent and detect fraud and abuse. This is also the case for (pre-cooperative) informal groups, which might become in time legally recognised financial cooperatives. Furthermore, some (basic) physical infrastructure is needed for securing savings.

Why beyond the size of saving groups? As explained in the first chapter, saving groups through their small size (max 30 people) and related methodology (operating in cycles of around one year, a box with two keys, all members visually witnessing all transactions, training) have their specific way of securing savings, *which is obviously not possible for larger saving & credit groups*. In saving groups accumulation of capital is limited and no institution is being built. Why *cycle-bound nature*: also because no capital accumulation takes place. Furthermore, members that do not respect the rules set by the saving group can be easily expelled from a next cycle.

Even if the saving group (above 30 max size and not cycle-bound) is -initially- only engaged in saving and not in credit provision, accountancy and control are required. That is because anyone handling the savings can misuse them if discovery is not likely or far away. And if consequences are not clear or severe, this is even more tempting.

If credit becomes part of the transactions, the risk of default is added. Practice shows that development organisations sometimes assume that credit will be repaid, *because the credit taker 'knows' the money is coming from deposits of people from his/her community* (so-called 'hot' money). This is simply not the case. The defaulter often has no clue about 'whose money precisely' is at stake. Furthermore his or her power position in the community may make sanctions complicated. Without proper records and control, misuse can go on for a long time, is difficult to precisely reconstruct, and usually goes unpunished.

Two of the studied financial cooperative cases (see Annex) clearly show the risk of misuse if correct accounting and control systems are not there from the start. In both cases important fraud and default have been discovered, but too late, and by experts from outside the promoting NGOs. As could be expected, it was also difficult to reconstruct and pinpoint the responsible persons, in view of absence of effective accounts. In both cases it is not clear (from the documentation) who will suffer and lose their savings.

If NGOs promote member-owned saving & credit groups (formal or informal) they have a responsibility to safeguard depositors' interests. People may trust the security of the savings in these groups, based on the reputation and assets of this NGO, and therefore become a member and save there. The promoting organisations must make sure that adequate security measures are installed right from the start.

b) Promotion and capacity building of financial cooperatives needs to be done by specialised professionals, not by generalist NGO staff.

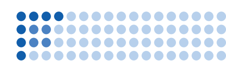
Practice in general and the three studied cases in particular, clearly show the need for specialists to assist (pre) financial cooperatives with the basics required, from institutional setup to effective accounting and control.

Often NGOs do not have these skills, and they have to mobilise financial and managerial specialists from the private sector.

In two cases limitations of unspecialized support are very evident. Years after (expensive) initial promotion and support by these NGOs of 'their' (pre)credit unions, outside experts were still needed to provide the minimum of technical support. These experts were in both cases also the first to detect the important misuses going on.

Even if a generalist NGO employs some specialised staff, as the organisations did in both cases, the donor/investor has to make sure the capacities of this staff are adequate. The management of a generalist developmental NGO is often not in a position to sufficiently assess and monitor the performance required of its specialist staff. The risk of underestimation of what is needed is high, since it not their main expertise and core business.

It is therefore recommended to make use of experts in microfinance and financial cooperatives when promoting cooperatives. Much regional/national expertise is nowadays available in most SSA countries.



They are usually to be found in the private sector: in a consultancy or technical service provider agency.

c) Financial cooperatives themselves need to employ some professional staff from the start: hence need for income and scale.

Not only the promoters, also the cooperatives themselves need to employ professional staff. And this is needed from the start to implement the basic accounting & control needed, as argued under a).

Self-management of a saving fund by – elected- members, (above saving group size!), is simply not a real possibility, as practice has shown beyond doubt. All financial cooperatives that adhered to the belief of member- **self-management** in West and Central-Africa (where it was a 'school of thought' for some time, and there were many self-managed credit unions), have by now disappeared. Two of the three studied cases, where no professional staff was employed and where the elected members were responsible for many management activities, risk the same scenario.

It is beyond the scope of this study to provide detailed guidelines here on type and number of functions and positions required, as financial cooperatives grow. Besides some general best practices, specific external and internal circumstances have to be taken into account for institutional and operational development.

It can however be said that for a primary financial cooperative two to preferably three paid staff members are needed, even at its earliest state, to fulfil basic functions (manager, bookkeeper, cashier, credit agent) and comply with non-compatibility of certain functions for security reasons. Some of these functions can be combined, depending on size etc.

For an Apex institution of primaries, also a minimum of at least three paid staff members are initially needed to secure, promote and grow the network: general/operational manager, accountant and internal auditor. If the number of primaries in the network to control becomes larger than around six or seven, and depending on distances, more internal auditors are required to conduct minimal control etc.

Payment of these employed staff members with their transport etc. requires sufficient income, of course. The effective yield on the outstanding portfolio determines to a large degree the income of the primary financial cooperative.

This implies that a certain size of portfolio (scale) is needed to reach financial self-sustainability, assuming that the yield on portfolio as well as all costs (operational, provisions for portfolio at risk, costs of capital) are reasonable or average, as compared to peer institutions.

In West Africa calculations were done, based on practice, showing that a primary cooperative needs around € 200,000 to 300.000 outstanding portfolio to achieve FSS. In two of the three cases studied here, the notion of necessity of minimum scale was not taken into account and the primary entities that were promoted were very tiny; portfolios of often less than € 5,000 per entity (credit union or microfinance association). These entities will never be able to achieve the minimal size required.

In a saving-led approach, the growth of portfolio is dependent on the growth of deposit mobilisation. Here rural cooperatives have a disadvantage compared to urban ones, as is also shown by all three cases studied, where saving mobilisation remains – far- behind the basic targets defined, targets that seemed in themselves modest and realistic.

In general, evidence shows that saving mobilisation goes slower in rural than in urban circumstances. This is due to a number of factors: lower population density and cash-flow level, often higher poverty level, the presence of rural alternatives for saving (investing in small livestock) etc. Furthermore, as stated, the infrastructure and (professional) image of the cooperative have to generate sufficient confidence among potential members and savers.

Community-based financial cooperatives in rural areas have a tendency for slow growth, whereas at the same time a certain scale is needed to be able to finance the staff required to manage and safeguard depositors' interests. These factors contribute to making the development of sustainable financial cooperative in rural areas a worthy, but complex endeavour.

Donors and investors in FCs need to understand the necessity of staff and thus the necessity of scale.

d) Apex is needed as integral part of the FC network.

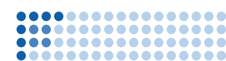
As argued in the former chapter, an atomic or 'stand-alone' financial cooperative is a risky business, especially in the case of a cooperative that is serving self-employed people (in rural areas). **A second-tier body, called Apex or Union** (sometimes Federation), **is needed to provide some essential functions to primaries:** i. external control, ii. assist the primary cooperative with capacity building, also through instalment of policies, procedures, saving and credit products, beyond the capacity of a single small cooperative, iii. trouble shooting iv. access to external loans and v. liquidity management.

The implication of this Apex requirement for sustainability of the primary cooperative is that the scale required to achieve financial sustainability becomes even larger. The relatively high costs of the Apex have to be shouldered by the primaries, direct or indirect (paying interest margin on external loans, acquired by the Apex). A higher number and larger average size of primary cooperatives in the network, reduces the costs that each individual primary cooperative has to pay for Apex services.

In only one case an Apex was an integral part of the cooperative network, right from the start. In the other two cases the external NGO, with donations from the donor, continued to provide the services of the Apex. In both these cases, the NGO exit strategy was not clear, although in one case the donor had been repeatedly asking for it.

e) Strategic – geographical - growth: a financial cooperative needs to optimise economies-of-scale without reducing outreach: create large(r) primary societies with service-points.

As indicated, scale is required to finance professional management, good governance and the Apex of the cooperative network. Strategies to make optimal use of economies-of-scale, without reducing

outreach to remote, rural areas (and hence reduce socio-economic impact), are important for long-term financial and institutional sustainability.

Here a lesson can be learned from the large cooperative networks in francophone Africa: they are all engaged in a process of restructuration : from a three-tier network (a national federation with a number of regional Unions, and a total membership of some hundred(s) primaries), to a two-tier network: one Apex/ Union with a reduced – merged- number of larger primaries (so-called 'mother cooperatives'), that serve a number of so-called 'service points', which replace the former primaries. These service points are staffed by cashiers and – sometimes- credit officers, who are under the control and governance of the 'mother-cooperative' with its Board and general manager, accountant etc.

The advantages of economies-of-scale are two-fold: the number of – senior- staff can be reduced as well as upgraded: only one general manager, accountant etc. is needed for the primary and its service points.

Furthermore: the number of Boards of Directors (BOD) is reduced. Instead of three or four BODs for each small primary, there is only one BOD for the larger primary. As argued, quality of governance has proved to be vital for the survival chances of financial cooperatives. To assure this quality as much as possible, one of the elements needed is -constant- training. Especially because the limited mandate of the Board membership leads to a continuous arrival of new blood. **Training is a high but necessary cost to be borne.** Furthermore, for governance to function well, some **adequate motivational rewards have to be developed, usually involving some costs.** The amount of work that can be accomplished on voluntary basis without any (material) reward is limited in most societies.

Of course, a certain balance has to be maintained between distance and member-ownership, to keep member-ownership meaningful. It is not good to go to the other extreme either.

In one of the case studies, this notion of economy-of-scale and adequate governance levels was not respected, having BODs at all (three) levels of the tiny microfinance associations within one sub-county. The monitoring reports by the national experts that came in later, show that the capacity building support for the BODs needed to go 'down' to the first level in view of their vital role in the whole functioning, but that recommendation was too costly to finance. The number of tiny entities was simply much too large and wide-spread for any capacity building to take place.

Weak governance, inter alia due to low motivation of board members, was also identified as a serious problem in another case. Board members said they had to wait for the NGO support to finance any activity they had formulated in their annual plan, such as marketing to gain new members, and visiting defaulters. They did not have any minimum resource at their disposal, also because their credit unions were very tiny entities.

The third case study shows an example of a better practice. In this case, seven primary cooperatives merged into three organisations, serving the four former ones as service points (a feasibility study was instrumental in the merger; it was done to find out what kind of mergers/service points would be

best). However, it has to be kept in mind that these merging processes of already established primary organizations, each with its own history and ownership, are complicated, time consuming and costly.

Better to avoid merging processes and have smart strategies for economies-of-scale and outreach right from the start.

f) NPM members have to demand from the cooperative clarity on and a strategy towards a sustainable business-model.

Financial cooperatives have to develop mission, vision and strategies on a medium-term sustainable business-model, taking into account their specific circumstances: in other words a clear business plan for the cooperative network. Specific attention has to be given to its institutional setup, role of Apex, mutual obligations etc. in the network.

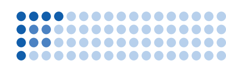
Donors and investors in financial cooperatives have to require this clarity, if they want to have sustainable returns on their donations/investments. (A certain balance is of course also required here: avoid being rigid and imposing best practices that have only been proved in another context. It is the experience and expertise of donors that enable them to read each specific situation well).

Elements of this business plan for the cooperative network can be reviewed and adapted as work in progress, but a strategy with a clear perspective, built on realistic financial assumptions and projections, has to be developed and supported by the main actors: governance, management, and if possible membership (through Annual Assembly). To develop a realistic and yet a sufficiently ambitious business plan usually requires some external technical assistance in the initial years.

Once transparent, credible and timely financial statements and sufficient controls are in place, external refinancing of portfolio through loans can be an adequate way of accelerating growth of the otherwise very slowly growing rural cooperative network, without sacrificing depositors safety.
Of course, the financial cooperative has to set interest rates that permit covering the cost of – external – loan. A larger loan outreach increases the interests of potential members to become a member and to save money there. One can often observe important increases in membership and saving mobilised after an increase in loan portfolio took place.

g) Gender-balanced and pro-poor credit outreach: special efforts and capacity building required.

As observed in the former chapter: most financial cooperatives are saving-led and are less focused on diversified loan products. Individual consumption & housing loans for salaried members, and some business loans for (medium-large-scale) entrepreneurs with sufficient guarantees or co-guarantors, usually constitute the loan portfolio. Sometimes farmers in well-organised value-chains of export crops (coffee, cotton) have access.



Research among the cooperative networks in West Africa and the Great Lakes region showed that on average around 20% of members/active savers in financial cooperatives are borrowers[45].
Figures of the Central Banks, including BCEAO, confirm these figures. The same pattern can be observed in other countries, including countries in Asia. Access of poor self-employed members to loan service in financial cooperatives is often low, women in particular.

The emphasis in financial cooperatives is traditionally on low interest rates for loans, implying low related operational costs. Looking for example at MixMarket figures, the operational efficiency ratio (operational costs/average portfolio outstanding) for financial cooperative networks is on average 10 to 15 % lower than for company MFIs type, depending on continent. Although there are clear positive points related to these lower operational costs, it also reflects the situation of a small number of staff employed by financial cooperatives compared to MFIs, *especially staff active in the credit side of the operations.* (MixMarket also confirms the lower credit outreach for financial cooperatives than for MFIs).

The number of credit agents in financial cooperatives is usually small compared to overall staff. Furthermore they often do not dispose of transport, and conduct their analysis of credit demand from behind their desk, hence the tendency to provide loans to salaried people. This cooperative culture is different from the usual culture in credit-led MFIs, where in fact the opposite can often be observed.

Women are not necessarily underrepresented among savers, since financial cooperatives usually have low barriers in access to saving accounts (in terms of minimum amount required on current account, costs to be paid etc), unlike many banks in developing countries.

NPM members often require the financial institutions they support to be gender sensitive and create equal access for women as well as for the poor(est), also with respect to loans. It is good to realise that requiring this is a lot easier than actually implementing it. Poor women and men have no access to loans that are based on individual material collateral (salaries, title deeds). Solidarity lending methodologies can replace these collateral requirements.

One has to bear in mind however, that for **most** financial cooperatives **introduction of solidarity lending requires a whole new way of working**: a new methodology for which additional staff has to be employed, and many new procedures, tools and formats need to be introduced. Furthermore, the product is only cost-covering in the medium-term, so some initial investments are required before it becomes profitable for the institution. For the traditional financial cooperative, this usually represents a totally new way of looking at things.

Sometimes cooperatives start some attempts at solidarity lending, without being well-informed

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45. “Le mouvement des ressources entre le milieu urbain et rural. La portée des IMFs au Burkina Faso » Annace Zongo, 2009. (Commandité par Terrafina Microfinance et Min de l’Economie et des Finances);
« Cartographie, portée et rentabilité des SFD Maliennes. Dans les régions Tomboctou, Segou, Mopti et Gao » Ibrahim Maré et Valerie Dumans, 2007 ». Les chiffres publié dans le rapport annuel par le Réseau des IMFs au Burundi (2011) ; Les chiffres sur portée des 7 Réseaux Coopératives au Sénégal (2010).

about all its aspects, whereas the success of the methodology lies in its respect of details. Solidarity lending has to be implemented quite professional to be sustainable. A whole series of best practices regarding group size, constitution, self-selection, pre-credit information sessions, loan sizes, repayment schedules, attitude, skills and HRD management of loan officers, different monitoring requirements, costing and pricing, have to be implemented to make solidarity lending successful, especially in the longer term, both for the client and for the institution.

In two cases studied the financial cooperatives started attempts at solidarity lending. However, the credit products introduced suffered from lack of product detail; hardly any - social or physical guarantees- were developed, nor monitored. Furthermore, in both cases basic management capacities of the cooperatives were lacking. As could be expected, default raised high and quick.

There have been some attempts by donors to introduce solidarity lending in financial cooperatives, through design and financing of specific medium-term capacity building programmes, from Desjardins and Freedom from Hunger in the past, to more recently by Terrafina Microfinance. If well-implemented, the results are good and sustainable access of women has been enhanced.

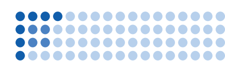
5.4 The members of the Rural Finance Working Group realize: development of a sustainable cooperative network in rural areas is a long-term process, requiring sustained adequate technical and financial support in that period.

The implication of all elements mentioned above is the time required to develop a sustainable cooperative network, especially in rural areas, where saving mobilisation, as indicated, usually turns out to be slow.

Experience shows that the time required for a rural network to reach sufficient scale and professionalism, including the need for diversified inclusive loan products as argued above, and to become financially and institutionally self-sustainable, is around six to ten years. To reach this mature state, adequate external support is essential. There are no mature financial cooperative networks anywhere in the developing world that have arrived at this stage without having received substantial external and partly subsidised support.

Financial cooperatives need first and foremost good-quality capacity building and technical assistance. Continuous but evolving professional capacity building, to be provided by - if available regional/national-experts, if not sufficiently, combined with international expertise- including on product diversification.

Furthermore, the network needs some financial support: both subsidy and access to loans. However, the total subsidy (including costs of the capacity building and technical assistance) needed in that time-frame is not that huge: based on experience with a lot of cases, it can be said that the subsidy needed is between € 30.000 to 10.000 per year, depending on the scale (number of primaries etc) of the network. So for 6-10 years a total of € 180. 000 to max 600.000. After that the financial cooperative network can continue and grow on its own.



Besides the capacity building and assistance, subsidies are needed for:

- some – initial - investments in infrastructure (small buildings, motorbikes, computers);
- automation (MIS) ;
- contribution to operational costs on a declining basis, related to business plan projections;
- contribution to costs of external audit for initial years (declining).

Furthermore, at some stage the cooperative needs access to a loan to boost the portfolio (size depending of course). For this the institution needs to be credible: not necessarily OSS, but proving that basic management and governance is in place to secure funds. Loan size needs to be determined also in relation to size of equity of the institution.

The result of course is a sustainable, independent financial cooperative network, able to address the financing needs of its diverse rural members, and as such to reduce poverty and contribute to socio-economic development of the rural region(s). This remains a very worthy endeavour.

Importance of access to finance to rural development

The vital role of rural finance derives from its contribution to rural development and poverty reduction. Access to financial services helps small farmers to improve productivity through investments and ability to buy required inputs etc. Substantial agricultural development (and related marketing & processing facilities) and real increases of the incomes of rural families, have happened almost nowhere without access to financial services.

Where rural finance has been able to include the rural poor, it has helped to resolve a key constraint to poverty reduction. Access to financial services also reduces vulnerability: manage seasonal liquidity shortages, meet planned life events (marriage, childbirth) and unplanned (health emergency, death). Well-functioning rural financial systems can also help poor families receive remittances in a reliable way and at a low cost.

ANNEX CASE STUDY 1 FINANCIAL COOPERATIVES

1 Background

The case concerns an indigenous NGO in East Africa operating in a predominantly agricultural region since its inception in 1996.

The NGO strives to improve quality of life of poor people in that region through empowering civil society organisations by research and data dissemination, organisation development, the formation of a network of trainers in sustainable agriculture, networking & advocating, an association of human rights organisations, a platform to articulate views regarding civil conflicts in the region, and gender empowerment.

2 Start of the Microfinance Associations

The microfinance association program started around 2002, and promotes four to five solidarity groups to organise themselves into larger groups of approximately 30 people. All groups within a sub-county then form a microfinance association (MFA). On average an MFA has around 420 members, 10 – 15 subgroups and 50 - 90 solidarity groups.

Group members save with their MFA, can get a loan and own shares. Interest is paid on savings and value of shares increases according to profits made. Groups decide among themselves who is eligible for a loan.

Once an MFA has become fully operational and reached certain targets, it can sign a contract with the promoting NGO, committing itself to a set of rules in exchange for training as well as resources such as safes. Training is on membership education, recordkeeping, business skills and farmer group trainings. In a later stage it was agreed that MFAs, on their fulfilment of certain conditions, can receive a top-up incentive loan fund from the foundation to max around 2,500 euro.

MFAs seem to be informal organisations, maybe registered as Associations (?). In the documentation they are one time referred to as SACCOs, but there is no reference to any legal status nor to an intention to acquire one.

In 2005 the NGO has set up the Federation of Microfinance Organisations (FORMA), intended to be an Apex body of MFAs and to oversee MFAs activities following the NGO-MFA contract period. The vision and mission of FORMA are: to develop a sustainable microfinance federation, providing financial and technical assistance services to member organisations, that are serving the rural communities. FORMA is supposed to continue in the long term as an independent body, also able to extract external funding and allow the NGO to exit from the financial services in 2012.

It is expected that FORMA will gradually take over some roles of KRC, especially with respect to

auditing of the MFAs, resolving internal conflicts and certain monitoring, and also offer new services. E.g.: FORMA is expected to develop a central banking function: use over-liquidity in a member MFA to provide loan (with interest) another member MFA in need of loan fund.

Initially it is foreseen that FORMA will register as a "tertiary cooperative union". In November 2006 this changed to a Company Limited by Shares, MFAs being the members. The annual general Assemblée comprised of all members is the supreme decision-making organ, electing the Board.

3 Profile of target group

Majority of MFA membership are rural women (around 68%), presumably from farmer households, and mostly illiterate.

4 Support provided by the working group member

The NPM member has supported the NGO for most of its activities since 1998.

The NGO-MFA program is specifically supported from 2002 onwards with three contracts:

- from July 2002 to December 2005 : € 105,000
- from January 2006 to December 2008 (seed capital contract): € 131,430
- From September 2010 to August 2011 : € 50,000

Total: € 286.430 +

An external evaluation of the MFA program in 2005 showed that the "programme is reaching large numbers of very poor women and men in rural areas" and that there is "high local ownership, commitment, integrity and enthusiasm" at all levels. However, there is slow progress towards financial and institutional sustainability of the program. Increase in savings and shares are low, while costs of transport, communication and training are higher than expected.
Main reasons for low saving levels are related to "low level of loan fund, leading to disincentive for savings, saving & loan conditions which give less incentive for new members to join, high levels of poverty that limit capacity for savings & shares, competition from Rosca's and high levels of mistrust from MFIs, and considerable stress and overwork on the part of NGO and MFA staff ".

In the second contract 2006-2008 a large number of performance targets are agreed with the NGO. One part is relating to MFAs: improved capacities in recordkeeping and business skills, more women in leadership positions, increase in membership, savings and FSS, and reduction of PAR. Another part is related directly to the NGO: improved MIS and financial reporting, and increased recurrent costs being met from income from service fees from the MFAs. It is also mentioned that FORMA is expected to become OSS within three years. For most of the targets no baseline data is available.

Besides financial support, the NPM member contracts a local consultant firm to conduct bi-annual visits during 2006 – 2008 to monitor and verify reports from NGO-MFAP and to advise the NGO on their activities and organisation development. His six monitoring reports have been shared with the NPM member.

A third contract with the NGO takes time (1,5 year) related to negotiations on phasing out of the MFA program and transfer of microfinance activities to FORMA. The 2010-2011 contract should allow the NGO to operationalize an exit strategy, allowing FORMA to continue as an independent body. A business plan with financial projections for FORMA is not yet available and has to be prepared during this contract period. It is mentioned in NPM assessment project document that "it is questionable if FORMA will have the capacity to develop into an independently functioning microfinance institution. This contract period should bring more clarity to this and to the future relationship between NPM and FORMA/NGO." The donor intends to hire an external microfinance consultant during this period to assist NGO and Forma with role division and strategic planning, and FORMA with business planning and projections. However, due to reductions in general budget of donor and shift of responsibilities for this program to the field office in East-Africa, this has as yet not taken place.

After the third contract finishing in 2011, there is no continuation of support by the NPM member. It seems doubtful whether the NGO reported specifically on MFA program results/progress during the third contract.

5 Microfinance Associations: Evolution of membership, saving mobilized, shares & portfolio outstanding

In the local firm monitoring reports 2007-2008 some data on the performance of the MFAs is provided:

	AUGUST 2005	JUNE 2007	JUNE 2008
# MFAs Contracted By NGO	15	20	21
Total Membership MFAs	6.334	9.913	10.462
Average Membership per MFA	422	495	498
Total MFA savings approx. €	-	82.500	83.900
Average saving € per MFA	-	4.125	4.000
Total MFA shares Approx. €	-	46.000	50.640
Average shares per MFA €	-	2.300	2.400
Total MFA portfolio Ap-prox.€	72.000	178.750	155.230
Average portfolio per MFA €	4.800	8.940	7.400

Regarding credit outreach: Number of credit clients is not given (known?) in any report[46].

In the above table, averages per MFA are given, to provide some indication on scale of MFAs. However, it has to be kept in mind that there are big differences between MFAs. According to the monitoring report of June 2008, the largest MFA had a loan portfolio of around € 21,500, the smallest of € 600. The largest saving amount per MFA is € 10,000, while the smallest MFA mobilised € 1,000. On the whole, MFAs are very small financial entities.

The total MFA membership increased from 6,344 in 2005 to 10,462 in 2008. Total MFA savings and outstanding loan do not increase much during the contract period 2006-2008.
The monitoring reports show that around half of the 21 MFAs are able to achieve the contracted performance indicators: → 12,5% increase savings and 5% growth shares per six months.
Inability to get access to loans is cited most frequently as reason for members to stop saving with MFAs.

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[46]. Figure 2005: from NPM Organisation assessment report. Figures 2007-2008 calculated from national firm monitoring reports. n these reports only local currency is given. The € amount based on calculation of average exchange rate in this period. € 1 = 2145 August 2005. € 1 = 2900 August 2010.

7 Financial and Institutional sustainability MFAs

7.1 Financial sustainability

If you want to say something meaningful about OSS/FSS, you need credible financial figures. According to the local monitoring firm the standard of bookkeeping at MFA level was very poor.. Bookkeeping improved after the firm trained the NGO staff that was responsible for assisting the MFAs. Capacity of NGO staff with respect to financial administration of saving & credit organisations seems questionable.

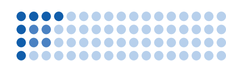
Some summary of data from national firm reports:

- Income MFAs: ranging from € 100 to € 1,500 per month, MFA average: € 250 per month.
- Operational Expenses: average € 500 per month. In operational expenses covered: depreciation, service fee NGO and centralised training costs of NGO. Costs of the monitoring visits of NGO staff are not included.
- MFA FSS: Figures from June 2008 show that halve of the twenty MFAs achieve the target of 100% FSS, lowest 41%, highest 326 %.
  The main observation to be made about the calculation of FSS in the monitoring report is that no provisions for bad debt are included, whereas the PAR turned out to be very high. Unfortunately, with provisions for PAR included, no MFA would be FSS.
  PAR increased during 2006-2008 to the extent that of the total loan portfolio of € 155,230 in 2008, 58% was at risk. The average PAR% for those with delinquency problems was 76%. Only six MFAs have a PAR ←5%, as is the performance target.

Furthermore, with five of the MFAs that had been visited by a national firm, clear fraud was discovered. Group leaders agreed to fake savings & shares equal to loans, to qualify for top-up of the NGO. In other MFAs the MFO (Microfinance Officer partly on pay-roll NGO) worked alone in fraud, groups and BOD overly trusting her. The initial answer from NGO to fraudulent MFAs was to give them more training. When we explained further that they had deliberately deceived KRC, contracts were terminated, according to national firm.
The firm makes some recommendations: it is crucial for transparent transaction of business that NGO staff is present at sub-group level (of around 30 persons). This is more important than at MFA Board level. And: workers must be both technically competent and honest. Accountability to the Board must be real and effective. It is recommended to have two NGO staff experts: one financial expert and one on governance coaching issues. This is however a very costly and non-sustainable solution.

7.2 Institutional sustainability

In the MFA set up, MFA Board members are physically involved in distribution and repayment of loans. Together with the Micro Finance Officer they have to go to the 10 – 15 groups in their county and give the loans to each individual, who signs for it. Repayment works the same way. Distances between the (sub)groups in a county are not mentioned, but seem quite important. If these BOD visits to the groups are not made regularly, this leads to poor repayment rates and demoralization. Some Boards agreed to appoint one member as a "loan officer" who would do all the groups. However, there is no income to pay for this job.



The general trend among MFA leaders seems that initially there is fear because of bad experiences in the past: banks, Sacco's that run off with their savings. After that phase there is increased enthusiasm with growth of savings, training and confidence building, and getting contracts from the NGO. However, motivation levels drop again after some time. They give the following reasons: "there is a lot of work for the Board members to do, the work is voluntary, we are busy, have our own activities to do, there is no allowance, no incentive at all. At first, I could see how the MFA had grown from nothing to something in just three or so years. I expected a similar rate of growth and improvement, but it slowed down, Now it's not so exciting, got disappointed, lost steam". The local consultancy firm calls it in their report a catch 22: no effort from Board members leads to no income. No income leads to no remuneration. No remuneration leads to no effort.

Discussions with these MFAs show according to the firm that "they clearly thought of the NGO as the donor, among others because the marketing association, member of the MFA, received grants for sustainable livelihoods program from this donor". The microfinance program tried to develop a different language, "such as father and investor, who nurtures children to independence, which is a more business-like relationship, with clear expectation of return or performance". To counter these institutional problems, the NGO intensifies training to the BODs and MFOs, as well as regularity and effectiveness of monitoring visits by NGO staff. But as the consultancy firm observes: the NGO monitoring visits are spent on controlling the figures with the MFO, no time left for analysing what the figures are showing, and do follow-up with the MFAs to ensure they are implementing the agreed actions. Furthermore: increasing NGO operational support is a costly and non-sustainable solution.

8 Sustainability of FORMA

MFAs that have been contracted by the NGO, based on certain criteria, and received a grant, are supposed to join FORMA in a next phase. They will then receive more specialised TA and access to loan funds. FORMA is critical to the NGO's exit strategy. The setup is that MFAs buy shares in, make savings with, and take loans from FORMA, which in turn provides TA and carries out monitoring, financed by the interest from the loans they give to the MFAs.

The staff of FORMA consists of three persons, including one full-time expat, paid by DED. However, from the local consultancy firm report it becomes clear that the professional level of Forma is doubtful. For example, the firm they had to review basic accounting practices. The report also notes that there is considerable overlap in strategies and activities between the NGO and FORMA, and a lack of joint planning and communication.

It also becomes clear that "a practice of borrowing from MFA cash had become common practice among MFA staff from the NGO and among Forma staff". This came to light because of Excel programmes introduced by the local consultants' missions.

Financial sustainability of FORMA is doubtful late 2008. No info is given on number of MFAs joining FORMA, nor on OSS/FSS situation of Forma. It is just mentioned that interest income of Forma is increasing, but insufficient to cover operating cost. One explanation is that not enough creditworthy MFAs are joining. They continue to manage on a grant from the NGO, soon to be cut.

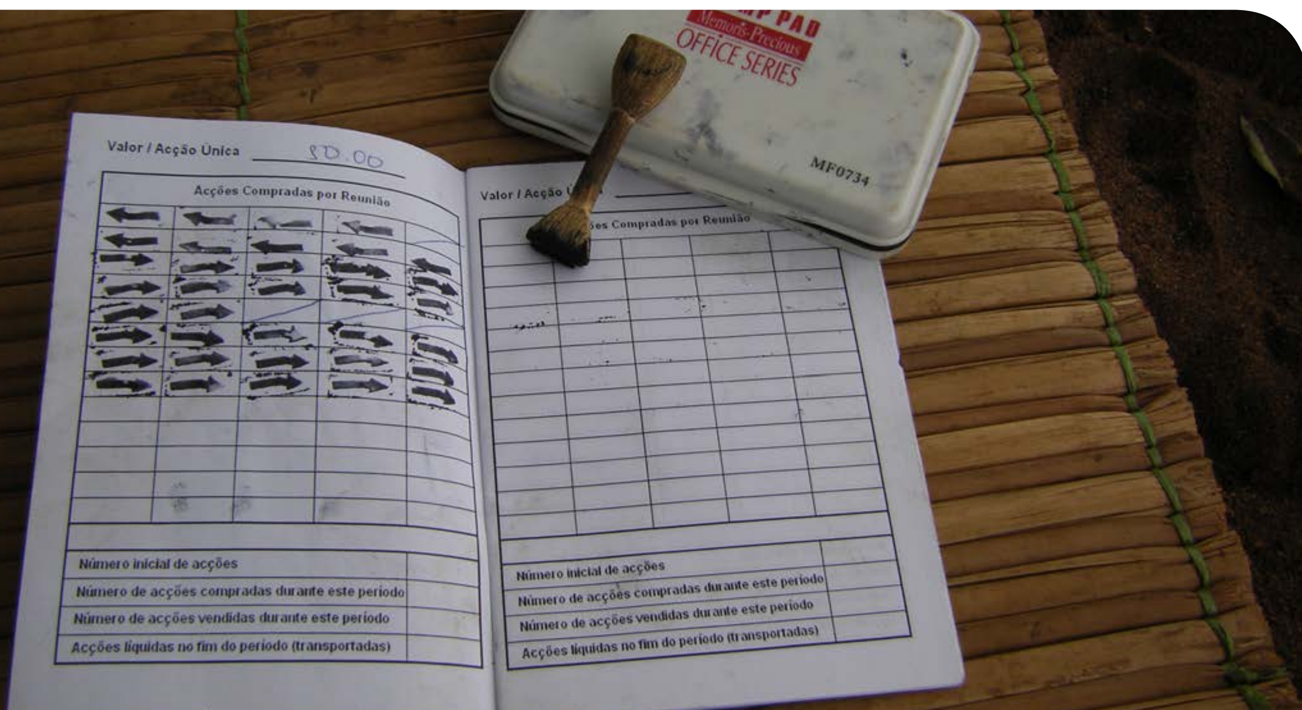
Another report by the consultancy firm mentioned that "most of the MFA members had not heard of Forma".

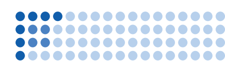
9 Lessons to be drawn

The results initially looked promising, group leaders of MFAs are on the whole motivated and hardworking, but the set-up turned out to be unsustainable. The current situation of the MFAs is not known, but in view of the high PAR and detected fraud, it is not unlikely that – some- members will have lost savings and that the concerned rural population in that area will have had – yet another- disappointment regarding possibility to develop adequate member-owned financial institutions. 'Yet another' because there is reference in documentation to SACCOs and 'banks' in the region that took savings and disappeared.

In analysing this case study, the following lessons can be drawn: The most fundamental one: It is not within the possibilities of a generalist NGO like X, oriented towards civil peace building, to promote and develop sustainable member-owned financial institutions. X did not have the required knowledge on what a potentially sustainable business-model for such an endeavour entails. From the start there was no vision on necessary elements to respect in order to achieve – medium-term- sustainability, in terms of minimum scale of associations, distances involved, level of professionalization needed, and related size of savings, portfolio, and income needed. Furthermore, X clearly lacked basic technical capacities that were needed to provide capacity building. Despite the fact that X had been financed for years to provide MFA capacity building, it took another institution (the local consultancy firm) to install basic required accounting and control systems etc.

For the involved NPM member: supporting the development of a sustainable member-owned financial institution is not less (financially and institutionally) complicated than supporting an MFI, especially when the institution has to start from scratch and in rural circumstances. It needs (microfinance) specialised program officers, able to design effective support and sufficiently guide and monitor the effects of its support, and adapt where needed.





CASE STUDY 2 FINANCIAL COOPERATIVES

1 Background

Foundation West Africa started a programme in this country in 2008.

The NPM member member assisted Z to develop a 'Livelihood Security Promotion Programme' for Eastern Province, with a 10-year perspective. This province is one of the most remote areas in the country and is suffering from post-war effects.

The general objectives of the Z livelihood programme were:
- increase rice production and income of rice producers through value chain development;
- increase income, food and nutrition security of members of newly promoted occupational and women's associations (farmers, millers, cooked food sellers, blacksmith);
- increase gender equality through different activities;
- increase accountability and transparency of the district council and strengthen the effectiveness of women's ward development committees.

The program is being implemented using a 'livelihood empowerment framework' that involves building the capacity of political, economic and social actors in the area.

2 Start of Credit Unions (CBCUs) and microfinance scheme for women

The first phase of the Z programme 2008-2011 included facilitating the formation of new Community-Based Credit Unions: CBCUs.

Besides the CBCUs, the livelihood programme also started a 'microfinance scheme' in recognition of the barriers facing in general women's participation in credit unions. A Rural Commercial Women´s Association (RCWA) was organised, with Credit & Savings Associations (CSAs) as its members, comprising women involved in various businesses.

The CSAs are solidarity groups, voluntarily organised comprising between seven and fifteen members. To register as a member of the RCWA one must be a member of a CSA. A General Assemblée of members elects the Executive Committee of the RCWA. CSAs must undergo six weeks of training (with two days a week) by Z staff in business management skills. The CSA group can obtain a loan of up to SLL 400.000 (around 75 €). The CSA and RCWA are informal groups without legal status.

3 Profile of target group

The target group are men and especially women from remote rural area, engaged in various economical activities. Agriculture is obviously an important activity.

4 Support provided by donor

The first phase of the NGO's livelihood programme was 2008-2011. The second phase covers 2011-2014 and is supported with € 200,000 for one year (October 2011- October 2012).

For the next two years, the same kind of amount is foreseen, so total around € 600,000. How much of this amount is specifically for the Credit Union promotion component in the livelihood programme is not clear from documentation.
Disbursement of second year depends on the achievement of performance indicators mentioned in the contract.
With respect to the credit unions these are:

- Base-line to be set up, providing data for first year and targets for third year (nature of base-line is not specified);
- A 6 month report per Credit Union, providing an analysis and explanation of current performance against targets in business plan.

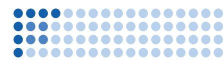
5 CBCUs and microfinance scheme: evolution of outreach, saving mobilized, portfolio

5.1 CBCUs

Z has a few staff members (3-5?) involved specifically in the promotion and capacity building of the three CCBUs. With the assistance of one staff member from the national Credit Union Association, a one year Business plan July 2010 – June 2011 was prepared with each of the three Unions. This was the first time, it seems, that it was tried to collect data from the three Unions. An evaluative exercise (called 'audit') with more or less the same participants was carried out one year later to analyse achievement of targets set in the BP.

Based on the diverse figures in these six reports written by CUA, the following table can be made:

Credit Union	Chiefdom A	Chiefdom B	Chiefdom C
Membership i. Actual June 2010 ii. Target BP 2011 iii. Realized June 2011	i. 120 ii. 450 iii. 185	i. 90 ii. 500 iii. 138	i. 100 ii. 500 **iii.** 172
Shares in approx.€ i. Actual June 2010 ii. Target BP 2011 iii. Realized June 2011	i. 1.500 € ii. 2.200 € iii. 2.350 €	i. 1.050 € ii. 5.500 € iii. 1.650 €	i. 1.400 € ii. 6.600 € **iii.** 2.300 €
Savings in approx. € i. Actual June 2010 ii. Target BP 2011 iii. Realized June 2011	i. 8.800 € ii. 18.200 € iii. 16.000 €	i. 6.400 € ii. 36.400 € iii. 10.350 €	i. 6.600 € ii. 27.300 € **iii.** 15.000 €
Loan outstanding in approx. € i. Actual June 2010 ii. Target BP June 2011 iii. Realized June 2011	i. 1.800 € ii. 12.750 € iii. 6.000 €	i. 2.850 € ii. 27.300 € iii 1.530 €	i. 1.600 € ii. 18.200 € **iii.** 7.200 €
Outstanding loans June 2011	**25**	**19**	**24**



As we see: Membership CCBU in 2010 was on average 103 members, with an average increase to 165 one year later, far below the average target set in the Business Plans of 483.

The same goes for savings: from average € 7,200 per CCBU in June 2010 to one year later average of € 13,800, far below the target set of average € 27,300. Outstanding loan idem: from average € 2,100 to almost € 5,000, whereas the target set was around € 19,500.

The number of outstanding loans/credit clients (this was not reported specifically, but can be deduced from the reports) is very small, it might be that there are groups among these loans.

Furthermore it can be seen that there is relative over-liquidity: a high percentage of collected savings just rests in the safe of the CCBU and is not transformed into loans (esp. Chiefdom B). This is often the case in self-managed credit unions: it takes regular and active management/ loan committees to transform savings into loans. Obviously low transformation reflects negatively on the income of the CCBU.

5.2 Microfinance scheme

With respect to outreach of the microfinance scheme: total membership of the Rural Commercial Women's Associations and its member associations is 1,169 in September 2011.

Total number of outstanding loans is given as 87 in March 2011 external evaluation, and as 400 in Z proposal second phase (this might be groups versus individuals).

6 Financial sustainability of the three CCBUs

The -road towards- financial sustainability of the CCBUs is not given any specific attention in the project documentation.

The Terms of Reference for the evaluation of the first phase of the Z program stated: "it is expected that within 10 years Z will become a self-sustaining community driven development program, managed by its beneficiaries". Sustainability is seen more at overall level of the NGO than at the level of the CCBUs.

With respect to CCBU income and expenditure, the following table can be constructed, based on the six CUA reports:

Credit Union	Chiefdom A CU	Chiefdom B CU	Chiefdom C CU
CU annual income: Interest on loans appr. € i. 2009-2010 June ii. 2010-2011 June	 i. 456 ii. 931	 i. 136 ii. 868	 i. 96 ii. 988
Total annual Expenditure Total (Cost of saving 4%, 0% Prov. for loan losses, some admin): i. 2009-2010 June ii. 2010-2011 June	 i. 182 ii. N.a	 i. 133 ii. N.a.	 i. 139 ii. N.a.

As can be expected, in terms of income and expenditure, the CCBUs are very tiny entities.

Average annual income increases from € 230 to € 930. It might be that the first average reflects only halve a year, this is not clear., anyway, this is quite an increase, but of course still small, not even € 100 per month.
Main costs seem to be interest paid on savings, but the accounts are not clear. No staff costs, no loan loss provisions, and hardly any general admin costs (not even 10 € on average).

What is clear, is that " Z Foundation is totally relied upon at present to fund all activities of the credit unions" as stated in the credit union SWOT analysis in the external evaluation report. There is no reference to the costs of Z staff involved in support to the three CCBUs.

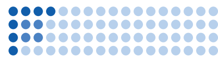
Portfolio quality

In the three CUA audit reports, recovery rates for each CCBU are mentioned: 70% (A), 69% % (B) and 55% (C). The first two rates are called: 'encouraging'. For the 55% it is said: 'quite good, considering the fact that most loans were the first of its kind to the borrowers'.
Obviously, this high PAR situation poses a real threat to the security of the savings.

Lack of internal control and missing cash/fraud

None of the three Unions has a functioning basic internal cash control system (e.g. reconciling daily cash receipts and payments with the cash balance on hand), nor is it regularly monitored by the Supervisory Committee, as they are supposed to do. The CUA auditor did some cash control. In two of the Unions serious problems were detected: In A an amount of approx. € 5,300,- could not be accounted for. After quite some investigation it turned out to be a combined embezzlement by a staff member of Z and the cashier of the CCBU. It is said in the CUA report that "Z will deal with the situation, without any problem for the CU". In Chiefdom B CU around € 650 was unaccounted for, which was related to the Cashier.

Again it can be said, that the security of savings is problematic



6.1 Financial sustainability of the Z Microfinance Scheme

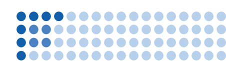
Regarding financial sustainability of the RCWA: no figures are given on related costs and income of the scheme, nor on portfolio outstanding. It is also not clear who is now doing record keeping of this component. Most likely Z, but this information is not shared with the donor. Role division between Z and RCWA is not reported upon.

7 Institutional sustainability of the CBCUs

An external evaluation of the whole livelihood programme took place in March 2011, 2.5 year after the operational start of the programme.
The evaluators were asked to conduct a SWOT analysis of the CBCUs and assess their performance.

The main SWOT outcome in the report is related to institutional issues:

Strengths of the CBCUs	Weaknesses of the CBCUs
The credit union has provided avenues of self-employment for many members, in a community with no major source of employment.	Presently, Z Foundation is the only funder of activities of the credit unions.
Members of the credit unions view the scheme as a sustainable means of savings and credit facilities.	The Education committees have no plans on how to increase membership and rely on the Z Foundation for transport to go to the neighbouring communities.
To a large extent the Boards of the Unions were meeting as planned. Minutes of Board Meetings were reviewed, which attests to meetings being held.	No electricity, computers and accessories, within the credit union / local Z offices in the chiefdoms.
Members have possibilities to select their desired trades or businesses to support their families.	Meetings of committees of the Union (except the Board) are irregular and only tied around loan approvals.
	Low membership of the credit union: 466, while the target is 1,000 (so it's less than 50% of the initial target set for the three unions).
	Delays in tackling already emerging issues within the Unions e. g. that some members of credit union would like to already receive interests on their saving.
	Over-reliance on Z for paying all costs for outreach and membership recruitment



Opportunities of the CBCUs:	Threats of the CBCUs:
The availability of required local knowledge and skills; local staff recruitment and job creation. Establishment of additional institutions involved in some form of micro credit / micro finance activities; e. g. Farmers based organisation in Chiefdom A has already opened up a Bank Account in the newly established IFAD rural bank nearby. As the economy is based on agriculture, there is vast potential for the credit unions to become viable through increased agricultural productivity, marketing or other related innovative activities, i. e. food processing. The RCWA constitutes a major potential for increase in membership and eventually increase the loan portfolio of the unions.	A lack of trust and confidence exists in many of these communities as previous attempts to set up cooperatives / credit unions by some organisations resulted in collection of money and disappearance of the funds. Any instability in the country could undermine all existing efforts of the unions.

The CUA auditing reports and the evaluation report show that most of the CU voluntary committees (education, control, credit) hardly function. The Board of Directors is somewhat of an exception: there are regular meetings, but no PVs are available etc. The BOD has no clue about the financial situation of the CU. Furthermore, it would not be surprising if most of the defaulters are to be found among BOD members.

The many activities and strategies, identified in the BP 2010-2011 to increase volume of each CU as well as more active functioning of the committees, have not been carried out. The committees seem to lack motivation, time, capacity, and funds.

The documentation regarding institutional sustainability of the Credit Unions has no reflection or strategy. To what extent can they be professionalised (since the voluntary self-management hardly works), what minimum scale is required, what is feasibility in view of context etc.

7.1 Institutional sustainability of Z microfinance scheme

The SWOT analysis of the RCWA/CSA intervention mentions many positive points related to (excluded) women having access to financial services: “women can now purchase in bulk instead of retail; take care of the health needs of their families, through groups are able to show solidarity and identify with problems of others, able to realize profits, expand business etc”.

On the weakness side: "There are less frequent meetings among the executives of the RCWA. The CSAs meet regularly to collect loan repayments. There was no record seen of any meeting of the CSAs or the executives. There is lack of clarity about the services offered by the credit union as compared to those offered by microfinance" (pp 29).

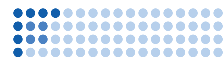
With respect to the RCWA, the future or exit institutional sustainability strategy is not clear either. Will it continue as a programme element of the livelihood program? What happens if Z subsidies come to an end? Has RCWA to become an independent financial organisation, or to be related to the Credit Unions? How? Management of the programme component is not clear: what is role division between Associations and Z?

8 Lessons to be drawn

The situation of the CBCUs in 2012 is not known, but in view of the tiny entities, lack of income and capacities, high PAR and fraud detected, a sustainable future for the CBCUs seems very unlikely. Moreover, it is not clear whether and how savings that is at risk, will be secured.

In analysing this case study, the following major lessons can be drawn:
1. Most fundamental one: It is not within the possibilities of a generalist NGO like Z, oriented towards 'livelihood empowerment', to promote and develop sustainable member-owned financial institutions. Nowhere in the Z documentation a vision can be detected on what a sustainable business-model for community-based FC entails: no vision on necessary elements to install and respect in order to achieve – medium-term- financial and institutional sustainability. Nothing in terms of minimum accounting and control needed, scale of CBCUs, distances involved, level of professionalization needed, and related required size of savings, portfolio, and income. Furthermore, basic Z clearly lacked basic technical capacities that were needed to provide capacity building to the CBCUs. Despite the fact that Z has been financed for years to do CBCU promotion and development, it took another institution (CUA) to assist CBCUs with developing a simple business plan and reconstructing some basic accounts. (Even the CUA TA support lacked basic expertise). Worse, the CUA detected fraud on the side of Z staff.

2. For the donor in question: supporting the development of sustainable FC is not less complicated than supporting a MFI, both financially and institutionally, especially when the institutions have to start from scratch and in rural circumstances. As with MFIs, it needs (microfinance) specialised program officers, able (time wise also!) to design effective support and sufficiently guide and monitor the effects of its support, and adapt support where needed.



CASE STUDY 3 FINANCIAL COOPERATIVES

1 Background and evolution

Y is the Union of a number of financial cooperatives, operating in the remote south west area in Central Africa.

Y emerged out of over 100 small rural Saving & Credit Associations, promoted by a number of local and international NGOs in the early nineties of last century. It was estimated that together the associations had more than 35,000 members. Different development actors in the area came together in order to fuse and transform these small informal associations into a number of licenced saving and credit cooperatives, so called CLECAMs. This transformation was necessary to respect the new legislation of the Central Bank, responsible for supervision of financial cooperatives. Informal financial associations would no longer be permitted.

During a long transformation process, the groups have been clustered into seven financial Clecams and in 2004 their second tier level, the Union was officially installed. The Clecams continued to serve the associations as members.

2 Profile of target group and mission of the Union

The main target group of Y are small rural producers, livestock keepers and agricultural traders in two districts that have a lot of border trade with Congo. The mission is to contribute to poverty reduction of local population by facilitating access to close by financial services to improve and commercialise their production. There are hardly any or no financial services available in this region.

3 Support provided by NPM member

The NPM member came into contact with Y through a program, supporting different farmer organisations and marketing cooperatives. Through strengthening rural financial cooperatives, and connection with marketing cooperatives, it was hoped that agricultural production could be stimulated. It appeared very soon however that intensive capacity building was needed for Y to ever become a sustainable FC network.

3.1 Capacity building (CB) for six rural financial cooperatives, including Y

The donor/investor developed a common capacity building program 2006-2007 for six rural FC networks, among whom Y. The program was designed and closely monitored by the donor, and implemented by local financial cooperative experts. A whole series of class-room training for staff and governance were alternated with coaching visits to the participating cooperatives.

An external evaluation of the program took place in 2008. The mission lauded the achievements of the first phase, stressed the need to continue the training and support, and recommended more focused interventions at individual FC level to ensure ownership of the acquired knowledge in daily work.

The second phase of a common CB program started in August 2009 for 2.5 years. A national Steering Committee was installed, and a local coordinator was hired. Different specialised local TA providers played an important part. Results foreseen of the CB program include: clear vision and mission in place, production of comprehensive business plans, a whole set of targets for OSS, FSS and PAR for primaries and Unions, computerisation, monthly financial reports, and product diversification. Activities included, besides a series of class-room trainings for staff and elected leaders on different subjects, also quarterly monitoring of financial and institutional progress, streamlining accounting systems, introduction of financial ratios (BRS-factsheet), MIS introduction,, and up-dating of different manuals.

In January 2012 an external evaluation was conducted of this second phase. Most institutional and financial targets foreseen have been achieved. Main disappointments according to the evaluation mission: all six FCs have surpassed the targeted 80% growth in savings, but the mission finds the savings figures still disappointing. Lack of sufficient attention for attractive saving products might be a probable reason. Second weakness observed: no new lending products were introduced, especially in agricultural credit and value chain financing. However, somewhat below in the report it is also stated that: "a substantial part of existing loans is in the agricultural sector and terms and conditions have been altered, following market conditions or after requests from members. Also: mobile banking has been introduced as well as VSLA accounts through Care International, after mediation and facilitation by the NPM CB program".

A third phase common CB program with some changes is recommended, a.o. to introduce comprehensive HR policy, have in-depth refresher courses in certain topics, to engage a wider circle of specialised local TA providers and give more attention to individual coaching and counselling (instead of merely: monitoring & controlling). This program has recently started.

3.2 Financial support to Y

Besides participation in the common CB programmes, the NPM member initiated and supported two specific missions for Y.
The first mission was in April 2009: a 'verification mission about the transfer of assets from the 67 associations that officially joined the 7 Clecams that have been installed'. It had become clear, also through supervision activities of Central Bank, that many of the associations had only very partially transferred their assets (savings, loan fund, offices, equipment), to the newly installed Clecams. These assets had mostly been acquired through donations over the years from different donors. Moreover, default within the associations turned out to be very high, but not clear in view of lack of credible financial administration and no follow-up of repayment was done by leadership of the associations. Central Bank protested against this lawless situation. Furthermore, it contributed to a very weak starting financial situation of the seven Clecams. The verification mission took five weeks, with six full-time auditors to reconstruct and audit the financial situation of 67 associations. A whole series of measures had to be taken afterwards, in close consultation with Central Bank and local authorities.

End of 2010 the NPM member commissioned a second mission by two national consultants, to do a feasibility study of the seven Y Clecams to determine detailed prospects for viability, both financially and socially and the preferred institutional setup. One of their main conclusions was to remain only with the

four viable Clecams, and to transform the other three non-viable ones into service points of these four primary cooperatives. Furthermore, the scenario to establish a strong supportive Union was favoured. These recommendations were put in practice by Y Union during 2011, involving a whole restructuration process.

The first financial support from the donor to Y was € 40,000 for 2009-2010 to improve certain specific performances, especially making available credible portfolio and audited financial reports, and maintaining staff at Union level for support and control of the Clecams. The above mentioned audit exercise was part of this, as were the follow-up activities. The monitoring donor sheet shows that most of the foreseen results have been achieved.

A second financial support was provided for 2011 - 2012 of € 150,000, of which 80,000 for (declining) contribution to operational deficit (Y produced a BP), and furthermore for the investment in the reorganisation and automation. A loan of € 66,000,- is foreseen in 2012.

4 Evolution of outreach, saving mobilized, portfolio;

As an input for the design of the first common CB program in 2006, a Y participative diagnosis was done and a subsequent BP developed for 2007-2011. It turned out that the provided figures were not very reliable, much of the savings and portfolio being managed and (not) recorded at association level. According to these figures the number of Y active credit and saving clients was around 40,000 at the end of 2006, with consolidated savings and shares of approx. € 200,000, and a consolidated portfolio of around € 165,000.

Audited figures Y for 2011 show:

	# members	# active savers	# active credit clients (incl some groups)	Savings mobilised Approx. €	Portfolio outstanding Approx. €
2011	13000	8066	900	120.000	102.000

It is acknowledged in the Y Business Plan 2011-2013 that the number of credit clients is low, also related to type of (classical, individual) cooperative credit products and prudency acquired.

The targets in the BP for late 2013 are to reach almost 15,000 active savers, 3,500 active credit clients, and to almost triple the savings and portfolio outstanding. However, NPM member considered these projections to be too ambitious, especially the ones for 2012, and had to be reviewed by Y (on-going?). It is also foreseen in the BP to do product development, increasing access of women and increase the number of credit agents.

5 Financial sustainability

The OSS / FSS situation of the – consolidated – cooperative network is around 60%, end of 2011.

For the end of 2013 this is projected to become 115% (FSS) and 130% (OSS). Increasing portfolio through increasing saving and especially through access to external loans is a crucial factor to arrive a higher financial sustainability.

Consolidated PAR 30 days is 5,1 % in 2011, and is projected to become 4% in 2013.

6 Institutional sustainability

Although the history of the saving and credit associations goes back a long time (early 2000), it was only in August 2008 that the seven constituted Clecams obtained their legal recognition. The process of transfer of equity of the associations to the cooperatives was a long and complex one.

The seven primaries formed officially the Union in a general Assemblée August 2009. However, the Union still has not acquired its official legal recognition, until now (it seems). Their application is still being held at district level and not yet approved by the Central Bank.

In 2011 the seven Clecams were reconstituted into four (viable) Clecams with in total nine service points. Each Clecams and the Union have their Board of Directors and Internal control Committee.

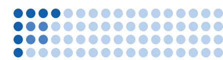
In 2011 professional staff at Union level consisted of two persons and total staff for the four Clecams was 14. Total Y staff foreseen for end of 2013 would be 35, according to the (in the process of being revised) Business Plan.

It is clear that it is still a quite fragile cooperative network. However, all basics seem to be in place now and (reasonable) growth should be possible, without too much of a risk. Product development (like professional solidarity lending) should enable growth of credit outreach, especially for women.

7 Lessons to be drawn

In this case adequate capacity building by local experts and monitoring initiated by this specialised donor took place.

This first phase of Y was specifically difficult and labour intensive for the donor in view of the complex transformation process of around 70 small informal saving and credit associations into finally four primary FCs with nine service points and one Union. The finances spent by this donor are less than in the two other cases. The prospect of Y becoming a sustainable FC network in medium term now seems reasonable. Product diversification and increasing access to especially loans still needs quite some attention.

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