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{MICROFINANCE IN AFRICA} **STATE-OF-THE-SECTOR REPORT**

BRINGING FINANCIAL SERVICES TO AFRICA'S POOR

The story of Africa today is often told in grim statistics. Three-quarters of those living on less than 50 cents a day are in sub-Saharan Africa; it has 11 percent of the world's population, but 60 percent of the world's people living with HIV/AIDS, and average life expectancy is actually decreasing in some places.

But there is a different story unfolding on the continent as well. The story of women and families in some of the poorest communities in the world changing their own lives. It is a story of hope, not despair. Meeting these women and girls is one of the great joys of my work, and I've seen firsthand what CARE's experience shows: **empowered, financially literate women and girls are one of world's most powerful forces in the fight against global poverty.**

"Bringing Financial Services to Africa's Poor" focuses on microfinance, a tool that's been proven effective against poverty in the developing world. **Nearly four decades of global microfinance experience have shown that when poor people have access to financial services – secure savings, credit, insurance and other products – they can change their lives and build stronger, more prosperous communities.** They invest wisely, not only in income-generating activities, but also in the welfare of their families. And these are not isolated stories of success; the trend is evident whenever the impact of microfinance is assessed. Increased household income for women translates directly into increased levels of health and education for the entire family.

I visited a small village in Malawi called Chipanga, where CARE helped 11 women create a savings group. Each contributed 19 cents a week to a common fund, so they could give one another loans and begin realizing their dreams. Here is what they have done with their money: A woman named Eneles opened Chipanga's first grocery store, her friend Nelia bought the first TV in town and runs a community cinema, and a woman named Patience earned enough money to raise 19 pigs and 10 goats. Last year, Patience generated more than $350 in savings – that means she has almost a year's income saved away to give her and her family financial security!

Today over 90 women in the village participate in savings groups, following the example of the first 11. More than just a loan, these women are achieving financial freedom – saving their money, planning for their future and, most important, building a new awareness that self-worth is more important than net worth.

CARE's State of the Sector Report highlights the current achievements in microfinance in sub-Saharan Africa. It examines challenges to growth and suggests a path forward based on building the assets of some of the poorest households in the world. This bold investment, along with education and access to safe pregnancies and deliveries, can break the vicious cycle of poverty and contribute significantly to the Millennium Development Goal of cutting in half the proportion of people living on less than $1 a day. Building on the successes chronicled in this report, CARE and our partners are working toward a world filled with hope and prosperity, where villages like Chipanga are the norm, not the exception.

Helene D. Gayle

Helene D. Gayle, MD, MPH
CARE President and CEO

Kristin Helmore *Writer and Researcher*
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EXECUTIVE SUMMARY

Background

Beginning in the 1970s, a microfinance revolution swept through Asia and Latin America, helping countless millions of poor people get the economic boost they needed to start small businesses and work their way out of poverty. Somehow, the revolution bypassed Africa: **While there are more than 300 million economically active individuals in sub-Saharan Africa, only about 20 million of them – less than 10 percent – have access to any kind of formal financial services.**

A 2006 World Bank report shows a strong correlation between reductions in poverty and the development of the financial sector. If African countries are to achieve long-term development more quickly, the poor in Africa – like people everywhere – must have access to an array of flexible, cost-effective financial products and services targeted to their needs, including savings, credit and insurance.

The goal of microfinance is to adapt financial services to meet the needs of poor people who usually lack access to mainstream banks. Microfinance can provide very small loans – for example from $5 to $50 – and accept savings deposits of less than $1, which, despite the small size, can be essential to creating income-generating activities and sustainable livelihoods. **CARE has pioneered a microfinance methodology that has worked for more than 1.6 million people around the world.**

CARE's Experience

Women have long been at the heart of Africa's informal, member-owned, rotating savings cooperatives – among the world's oldest and most prevalent savings mechanisms. These cooperative associations form the foundation for CARE's pioneering approach to microfinance. They are sustainable, self-funded credit sources at the village level, built by members through their own savings.

CARE launched our first microfinance program in Niger in 1991 with a participatory, community-based approach. From the beginning, clients – predominantly women – defined their needs and put parameters around the process. In CARE's Village Savings and Loan Associations (VSLAs), each member contributes to a savings fund with small, regular and mandatory deposits. CARE's comprehensive training program supports the group for up to one year, and includes skills to succeed in saving as well as establishing new businesses.

It's women who are first to reap the benefits. As primary members of VSLAs, women receive training, benefit from group solidarity, earn their own income and invest in what matters most to them: their families. The result is enhanced self-esteem, greater participation in public life, better nutrition, health and education for children, and new dynamics in their relationships with men. **The societies that lag furthest behind are those where laws or traditional practices hinder women's economic empowerment, while communities and nations that are willing to create new spaces for poor women to become entrepreneurs are advancing.**

State of Microfinance in Africa

Today, most Africans – well over 50 percent – live on less than $2 a day. Moreover, all of the 21 countries listed in the United Nations' low human development ranking are in sub-Saharan Africa. However, there are several positive signs: More than 35 percent of Africans live in economies that have seen sustained growth of more than 4 percent a year for the last 10 years, setting the stage for many Africans to enjoy a better life.

However, the continent is still under-served by financial services. The cost of bringing microfinance services to Africa is higher than in other regions of the world because Africa has many vast and sparsely populated rural areas, higher rates of illiteracy and HIV/AIDS and a widespread lack of identity documents.

Without access to basic financial services, Africans are at risk of remaining at the margins of economic opportunity with little hope of realizing their tremendous creative potential. In the past, most poor Africans relied on home-grown, often unreliable and exploitative traditional services in the form of deposit collectors and moneylenders. Now microfinance is a big part of the picture.

Increasingly, more structured, flexible VSLAs are beginning to proliferate, and microfinance institutions that offer more diverse and sophisticated financial services to the poor are reaching more and more people. Financial services, and all that they portend for increased economic security, prosperity and productivity, are finally beginning to reach the world's poorest people.

Best Practices

The report highlights the best practices from five successful microfinance institutions in Africa. While they are all different in how and where they operate, they are among the most successful microfinance institutions in Africa and share some common traits. They know their clients – the poor in urban slums or in hard-to-reach rural areas – and have tailored their operations to reach them where they live and offer the most appropriate services. They reach their clients by public buses in South Africa, motor scooters in Togo and banks-on-wheels in Mozambique. They offer loans geared to the needs and production cycles of farmers, and they require their loan clients to save. They offer both group loans and individual loans, with many actively promoting the solidarity and mutual support that groups of savers and borrowers provide. Insurance programs are often included to cover emergencies – illnesses, funerals, house fires and other catastrophes both natural and manmade. They use technology as appropriate to ensure safety, efficiency and transparency in their work.

The importance of rigorous training of clients to the success of microfinance cannot be overemphasized. The most successful programs and institutions train their staff and train their clients, both initially and in stages, over time. Training includes diverse topics such as customer service, purchasing stock, marketing, time management, bookkeeping and planning for the future.

In the end, a successful microfinance institution must achieve the "double bottom-line" – economic growth without compromising their core mission of serving poor clients. This doesn't come easily and has demanded innovative thinking of these and indeed all microfinance organizations.

CARE's Goals

In mid-2008, CARE launched ACCESS AFRICA. **Over the next decade, ACCESS AFRICA will provide basic financial services for 30 million of Africa's poorest people – at least 70 percent of whom will be women.**

CARE will do this by expanding our village savings and loan associations to 39 countries across Africa and by building the capacity of microfinance institutions to develop and deliver the products and services these clients need.

Among the critical issues CARE will be addressing in the years ahead is the question of the "tipping point," the amount of outside investment and time that are required before CARE and other organizations can pull out – leaving behind strong, self-sufficient VSLAs and well-trained and motivated local champions who can create and train new groups. ACCESS AFRICA will ensure that such groups can link up with a complete range of financial products and services to meet their needs, taking advantage of the latest technological innovations. We invite all partners to join us.

ACKNOWLEDGEMENTS

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This report would not have been possible without the openness, patience and generosity of the staff of the five microfinance institutions profiled in its pages. I am grateful not only for the help but also for the friendship of Mekonnen Yelewumwosen and Getachew Andarghe of ACSI in Ethiopia, Anthony Fosu and Kwaku Acheampong of Sinapi Aba Trust in Ghana, Ramanou Nassirou and Abdella Oura Djobo of WAGES in Togo, John de Wit of SEF in South Africa, and Wesley Jordan of BOM in Mozambique.

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Kristin Helmore, *Writer and Researcher*

INTRODUCTION

April 2009

Microfinance – providing financial services to the poor – stands at the threshold of a new era. Decades after the first experiment in non-collateralized credit was launched in Bangladesh and the approach went on to proliferate throughout Asia and Latin America, microfinance has yet to reach those who need it most: millions of the world's poorest people in Africa.

As this report will describe, **CARE, a leader in international development, long ago recognized the power of microfinance as a development tool. Not only does microfinance enable the poor to build their assets and invest in income-generating activities, but it has also proved to be remarkably effective as a vehicle for human empowerment, especially for women who have been found to benefit most from microfinance services and to make the best use of them in lifting their families out of poverty.**

The last frontier in the provision of microfinance to the world's poorest people has been the remote villages and teeming slums of Africa. Traditional banking has not penetrated most of Africa, and microfinance in Africa has only reached a fraction of those who need it. *But in 1991, in a dirt-poor village in southern Niger, CARE discovered a way to harness the ancient practice of group savings and create a sustainable system of home-grown microfinance.* In the 18 years since then, CARE has established more than 54,000 such groups in 21 African countries, serving over 1 million members.

CARE's Village Savings and Loan Associations (VSLAs) are built entirely on member savings and interest from loans; they receive no direct capital investment from CARE. However, their members do receive a year of intensive training from CARE in group dynamics and governance and in money management. This training enables the groups to become self-supporting, to flourish and even to establish and train other groups.

The VSLA approach has unique features that make it a powerful tool both for broadening financial inclusion and for development:

- It is simple and easily adapted to illiterate group members.
- It promotes group solidarity and learning and establishes a vehicle for addressing community development issues.
- It relies on no infusions of outside funds.
- It requires no physical infrastructure.

CARE has found that VSLAs meet the need for savings and credit at the very bottom rung of the world's economic ladder. They create a platform from which the poor can advance to receive the more sophisticated financial services that they inevitably need as their resources, skills and confidence grow. The next step, therefore, is the linking of VSLAs to microfinance institutions and banks so that the poorest people in Africa can have access to all of the financial services that can help them improve their lives.

To take this next step, in 2008 CARE launched an ambitious 10-year program called ACCESS AFRICA that will expand the reach of VSLAs to 30 million Africans in 39 countries and link them with microfinance institutions, banks and banking technologies.

The purpose of this report, prepared as ACCESS AFRICA enters its second year, is to take stock of microfinance in Africa at this time, to examine some best-practice examples of microfinance around the continent, to chronicle the origins of the VSLA movement and describe the components of the VSLA methodology. The report is designed to be a benchmark indicating where microfinance in Africa stands today and setting the stage for a new era of development, empowerment and increased access to financial services for all Africans in the years to come.

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FREQUENTLY USED ACRONYMS

APR	Annual percentage rate
ASCA	Accumulated Savings and Credit Association
CEDAW	Convention for the Elimination of all Forms of Discrimination Against Women
CGAP	Consultative Group to Assist the Poor (World Bank)
COOPEC	Cooperative d'Epargne et de Credit (Savings and Credit Cooperative)
DCOF	Displaced Children and Orphans Fund (U.S.)
DFID	Department for International Development (U.K.)
DRC	Democratic Republic of the Congo (formerly Zaire)
HDI	Human Development Index
IGA	Income-generating Activity
IPA	Innovations for Poverty Action
KfW	German Development Bank
MFI	Microfinance Institution
MMD	Mata Masu Dubara (Hausa for "Women on the Move," CARE project in Niger that launched VSLAs)
NBFI	Non-banking financial institution
NGO	Nongovernmental Organization
PCI	Project Concern International
PEPFAR	President's Emergency Plan for AIDS Relief (U.S.)
ROSCA	Rotating Savings and Credit Association
SACCO	Savings and Credit Cooperative Organization
SII	Strategic Impact Inquiry
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
VA	Village Agents
VSLA	Village Savings and Loan Association

Part I

Africa: The Last Frontier of Microfinance

Since the early 1970s, a quiet revolution – microfinance – has been sweeping the globe. Poverty can now, in part, be redefined as a lack of access to reliable, affordable financial services that enables people to build economic security and improve their lives. Microfinance, which has evolved in an array of formats, from regulated banks to Village Savings and Loan Associations (VSlAs), has made life better for millions, first through access to credit, but increasingly through savings, insurance and pension schemes as well. Primarily in Asia and Latin America, millions who formerly struggled merely to survive, hopelessly indebted to rapacious money lenders and incapable of providing for their families, now have access to affordable credit.

Because of microfinance, the poor can invest in income-generating activities that increase their economic security; provide more nutritious food for their families; send their children to school instead of to work; pay for their families' health care; and, increasingly, provide sanitation and clean drinking water for their homes – all of which are essential building blocks for a life of dignity and hope. Indeed, the need for financial services is so fundamental that one leading expert on the subject calls it "a basic requirement of everyday life for most poor people."[1]

Access to microfinance services can end the marginalization of the poor and include them in mainstream society, encourage responsibility and promote economic activity. Moreover, access to financial services has a particularly strong catalytic effect when these services are targeted toward women. Thanks to their own efforts and the availability of financial services geared to their needs, it is estimated that by 2007, 100 million of the world's poorest families were able to improve their lives.[2]

And there are the less tangible but no less revolutionary personal gains arising from microfinance: increased self-confidence, pride, respect and independence, as well as reduced anxiety and friction within families – especially for women, who benefit most from microfinance programs. The financial independence that comes with access to credit and savings increases women's self-confidence and enables them to develop their skills. Women who are thus empowered gain respect and improved status in their families and communities, even in societies where the status of women has traditionally been low. Women become decision makers, role models and political actors and are less vulnerable to violence and injustice.

1 Rutherford, Stuart, *The Poor and Their Money: An Essay about Financial Services for Poor People*, Institute of Development Policy and Management, University of Manchester, Manchester, U.K., 1999.

2 *State of the Microcredit Summit Campaign Report, 2008*, Microcredit Summit Campaign, Washington, D.C., 2008.

Why Does Microfinance Focus on Women?

Since microfinance began in the early 1970s, approximately 70 percent of the clients of microfinance institutions (MFIs) – and often 100 percent – have been women. The reason for this is deliberate and strategic. It was soon recognized that women are the best conduit for ensuring that microfinance confers the greatest possible benefit on the greatest number of people.

Throughout the world, women are responsible for the well-being of their families. Most girls are obliged to start performing household chores at an early age – sometimes as soon as they can walk – and this develops a work ethic and a sense of responsibility as nurturers, caregivers and educators of their young siblings. When women earn money, they invariably invest their earnings in improving the lives of their children and families: in better food, clothing, shelter, health care and educational opportunities. When women earn, everyone benefits.

Moreover, poor women who have access to financial services have proven themselves to be highly creditworthy. Anecdotal evidence indicates that women repay their loans more consistently than do men. Necessity has made women careful strategists who plan for the future, shrewd risk-takers with an eye for economic opportunities and hard workers who put their families' welfare first. Investing in the earning power of women pays big dividends for families, for society and for microfinance institutions, enabling them to serve more and more clients.

Thanks to microfinance, married women often gain greater control over household assets, a more equal share in family decision-making, and greater freedom to engage in and control income-generating activities. Moreover, women involved in microfinance groups are more motivated to take action to improve their lives and those of their families and are more able to engage in social and political activities.[3]

The miracle of microfinance is also evident in the extraordinary efficiency of the transactions: Very small investments yield large benefits in terms of family income and well-being. Typical microfinance loans can be as small as $50 or even less – which is one reason why banks have not been interested in microfinance: Such small amounts are simply not profitable for banks – yet these tiny sums can have an amazing impact on people's lives.

Next Stop: Africa

But in Africa, microfinance has caught on more slowly than in other regions of the developing world. While it has made some inroads, primarily in urban areas, most Africans, who live off the land and in small towns and villages, have yet to be reached. Until very recently, the cost of bringing financial services – even microfinance services – to remote parts of Africa has been prohibitive, and the logistics of doing so daunting. In Africa's vast rural areas, where the world's poorest people eke out a subsistence living in sparsely populated communities, lack of infrastructure and untenably high costs per transaction have kept MFIs away. The low levels of savings and demand for credit generated by such clients are usually not viable, even for nimble MFIs that operate efficiently. In Africa, and indeed worldwide, success in reaching the poorest of the poor has been limited because, in general, the scale and structure of microfinance programs have been defined as much by the need to build healthy institutions as by a commitment to provide services to the enormous population of unserved rural poor.[4]

Investing in the earning power of women pays big dividends for families and for society.

3 *Strategic Impact Inquiry: Summary of Findings in VSLA and Women's Empowerment,* CARE, Atlanta, Ga., 2008.

4 Allen, Hugh, *CARE International's Village Savings and Loans Programs in Africa: Microfinance for the Rural Poor that Works,* CARE, Tanzania, 2002.

In densely populated areas of Asia and Latin America, providing credit has been the driving force of microfinance because opportunities to invest in income-generating activities are many. But rural Africans have been left out, both because they have been hard to reach and because their bottom-rung economic status makes savings – often a hedge against starvation itself – a higher priority than credit. Up to now, most efforts have been focused on overcoming the obstacles involved in bringing banking and microfinance to Africa's poor. In 2006, CGAP[5] conducted a global survey of formal institutions that offer savings and credit services to lower-income people, including microfinance institutions, postal savings banks, state-owned banks, rural banks, credit unions and financial cooperatives. Sub-Saharan African countries accounted for only 4 percent of the global total, with an average of four savings or loan accounts per 100 people, compared to 17 accounts per 100 people in Asia and the Pacific.[6] In rural Niger, for example, there is one bank branch for every 844,000 people.[7]

CARE's Innovative Contribution: Village Savings And Loans Reach Rural Africans

CARE has developed a radically different approach to building the financial health of Africa's poorest. It has found a way to enable the poor – isolated, often illiterate, mostly women and totally lacking in outside sources of funding – to be their own bankers. CARE's experience has shown that the answer is not necessarily to bring banks or MFIs to Africa's poor, but instead to make it possible for Africa's poor to create their own basic VSLAs without any outside funding.[8] By mobilizing small amounts in savings and interest accrued from loans, CARE's VSLAs are already laying a foundation of economic security and expanding economic opportunities for more than 1 million Africans. In Niger, the world's poorest country and the site of the first VSLAs, nearly 200,000 women have collectively amassed $14 million in savings. Moreover, 60 percent of the money these groups save is loaned out to members. (See Table 11, p. 72.) The rest is redistributed to the savers with interest.

Since 1991, CARE has implemented, in 21 African countries so far, an approach based on savings, that is providing financial services – savings, credit and insurance – to subsistence farmers (primarily women) in the subcontinent's least developed regions. CARE's VSLAs build their assets and disburse credit solely from member savings. The self-managed, flexible system enables VSLA members to take advantage of economic opportunities that present themselves, as well as to respond to unforeseen shocks such as illness that would otherwise drive them into a cycle of uncontrollable, unpayable debt.

The VSLAs are not in competition with MFIs but complementary to them. Over time, the VSLAs help create pools of clients who can graduate to use the services of MFIs. CARE estimates that between 20 and 30 percent of VSLA members are, with time, likely to want a greater array of financial services than those offered by VSLAs.

The Impact of VSLAs on Communities

While systematic studies of the impact of CARE's VSLAs are still ongoing, extensive anecdotal evidence gathered by observers on the ground indicates that their impact has been significant and far-reaching. One such observer is Rahila Mamane, a former VSLA facilitator and trainer with CARE in Niger who is currently doing similar work for Plan International. In the 18 years since she trained women in CARE's first VSLAs in six villages in Niger, she has witnessed marked improvements in the lives of the people in these villages.

> *"We should abandon the notion that it is necessary to create an institutional edifice rooted in the formal sector to deliver financial services to the poorest."*
>
> **Hugh Allen,**
> **Director of Program Quality,**
> **Access Africa, CARE**

5 CGAP (Consultative Group to Assist the Poor) is an independent policy and research center dedicated to advancing financial access for the world's poor.

6 Helms, Brigit, Consultative Group to Assist the Poor (CGAP), *Access for All: Building Inclusive Financial Systems,* International Bank for Reconstruction and Development/World Bank, Washington, D.C., 2006.

7 *Niger: Selected Issues and Statistical Appendix* (IMF Country Report 07/114, December 6, 2006), International Monetary Fund, Washington, D.C., 2007.

8 All of the money in a VSLA comes from member savings. However, VSLA members do receive up to a year of training in financial literacy, budgeting, accounting, business negotiations and the selection, planning and management of income-generating activities, all of which has a cost.

To begin with, all of the groups that CARE established in 1991 are still functioning; the members are still accumulating savings – now larger amounts – and taking and repaying loans with interest. In fact, following the women's lead, men in these villages have now started their own VSLAs. And young people, who 18 years ago were infants and toddlers clinging to their mothers during group meetings, have also started VSLAs of their own.

When Ms. Mamane visits these villages today, she is warmly welcomed. "The women tell me that since we started these groups their lives have completely changed," she says. "For example, before, they used to cook one meal and it had to last three days. Now everybody cooks every day. In the past, people didn't take their children to the hospital. Now they do. In the past, almost all of the women were illiterate and many children did not attend school. Today many women have joined literacy groups and they insist that their children go to school. In the old days, most of the houses were made of straw. Now, lots of people have built brick houses. Some people have bought goats, some have bought calves, and these things multiply. I met one woman who has seven milk cows – all because of a savings group. It was really amazing."

Ms. Mamane says that the government of Niger has brought many improvements to the villages during the last 18 years: Wells have been dug, health clinics have been installed and schools have been built. While VSLAs cannot take direct credit for these advances, in a poor country like Niger such government projects depend in large part on local contributions in addition to government spending. The comparative wealth of VSLA villages enables them to take full advantage of government initiatives. "Every time a project comes into a village, they have to get contributions from the people," Ms. Mamane explains. "The people have to do their part. So if it weren't for the VSLAs, the people wouldn't be able to make the necessary contributions because they wouldn't know how to save. But these villages have immediate access to these projects."

In some instances, the government accepts free labor from villagers in lieu of a monetary contribution to a local infrastructure project. But in VSLA villages where people can contribute funds to a project, local workers are paid to do the work. Thus, the new installation not only provides clean water, health care or schooling, it generates employment.

Ms. Mamane was also struck by changes in the behavior of the VSLA women themselves. In the past, many of the women never left their homes. But now she sees women going about their business all over the villages – something women seldom did before. "In the past, the women were ashamed," she says. "They wouldn't go out. They wouldn't even speak in front of their husbands. They are more self-confident now, more aware, more comfortable when they're out in public. These women have evolved. Now they stand up for their rights."

Ms. Mamane attributes the success of VSLAs to the fact that, instead of simply providing infusions of cash to the village groups, CARE's emphasis was on training – how to save, how to make loans, how to manage funds – and on the personal development of the members. "The success of the VSLAs is due to the fact that the method is very simple and participative," says Ms. Mamane. "We did not bring in money from the outside. What we brought was a sustainable system. If we had brought in money, the women would not have had to learn, and the groups would not have survived."

Scaling up microfinance:

CARE's ACCESS AFRICA program

ACCESS AFRICA aims to create access to financial services that will ultimately benefit 150 million people in 39 sub-Saharan African countries.

In 2008, CARE launched an ambitious new program, ACCESS AFRICA, a 10-year investment whose returns should be dramatic. It aims to create access to financial services for 30 million people (in households of approximately five members each) in 39 sub-Saharan African countries by rapidly expanding numbers of VSLAs, strengthening MFIs and making them more responsive to the needs of existing and potential low-income clients. CARE believes this strategy will give Africans the means to break the vicious cycle of poverty and transform it into a virtuous cycle of rising incomes, improved health, better education and greater participation in their communities and nations.

To help set the stage for this initiative, this report takes stock of where African microfinance stands today and how it needs to develop – through the efforts of practitioners from a variety of organizations and governments – if all Africans are to benefit from its services.

Part II

Overview of Microfinance in Africa

Sub-Saharan Africa is a vast expanse of 45 countries spread over 24 million square kilometers with a total population of more than 730 million[9] people. According to the World Bank, this number will double by 2036. Even so, population density in many parts of the subcontinent will remain relatively low, a factor that inhibits development. Today, most Africans – well over 50 percent – live on less than $2 a day. Moreover, all of the 21 countries listed in the United Nations' low human development ranking are in sub-Saharan Africa.

But Africa is on the move. More than 35 percent of Africans live in economies that have seen sustained growth of more than 4 percent a year for the last 10 years. Total gross dometic product (GDP) in the region is currently growing at 5.7 percent,[10] although the country-by-country distribution of this growth is quite uneven. Governance is improving, food security is a growing priority of policymakers, and commitments to universal primary education have increased dramatically. The stage is set for many Africans to enjoy a better life. But without access to basic financial services – savings, credit, insurance – Africans will remain at the margins of economic opportunity with little hope of realizing their tremendous creative potential.

An Unbanked Continent

Sub-Saharan Africa is the most unbanked region in the world. Poor infrastructure, vast distances, low population density and poverty have kept full-service commercial banks out of African communities. The overwhelming majority of Africans have no access to formal financial institutions, often because they live in remote areas that lack modern amenities and infrastructure. In Ethiopia, for example, it is estimated that 1 percent of rural households maintain bank accounts.[11] But even in Africa's teeming cities, the poor feel alienated, intimidated and excluded by banks; and banks have traditionally made little effort to serve the poor. While a handful of established African companies and estates and a sliver of upper-income people use the services of commercial banks, most of Africans turn to moneylenders or do-it-yourself cooperative groups.[12]

One important exception, however, is savings banks, which in some African countries have existed in the form of post office savings banks since the turn of the 19th century and which often do serve the poor. The following table lists the major savings banks in Africa.

9 *Human Development Report, 2007/2008*, United Nations Development Programme, New York, N.Y., 2007.

10 The World Bank, 2008.

11 Women's World Banking, *Informal Financing Schemes in Ethiopia and the Gambia and their Implications for the Africa Microfinance Strategy Initiative* (Wharton Field Application Project), University of Pennsylvania, Philadelphia, Pa., 2007.

12 Mosely, Paul, "Micro-macro Linkages in Financial Markets: The Impact of Financial Liberalization on Access to Rural Credit in Four African Countries," Finance and Development Research Programme Working Paper Series, Paper No. 4, Institute for Development Policy and Management, University of Manchester, Manchester, U.K., March 1999.

{Table 1} Savings Banks in Africa[13]

Country	Name of Savings Bank	# of Accounts
Benin	Caisse Nationale d'Epargne	350,000
Burkina Faso	Caisse Nationale d'Epargne	363,000
Botswana	Savings Bank	287,000
Cameroon	Caisse d'Epargne Postale	700,000
Cape Verde	Caixa Económica de Cabo Verde	200,000
Cote d'Ivoire	Caisse d'Epargne et des Cheques Postaux (CECP)	828,000
Gabon	Caisse Nationale d'Epargne	175,000
Kenya	Kenya Post Office Savings Bank (KPOSB)	1,200,000
Madagascar	Caisse d'Epargne	574,000
Malawi	Malawi Savings Bank	204,000
Mauritius	Postal Savings Bank	245,000
Namibia	Postal Savings Bank	209,000
Niger	Caisse Nationale d'Epargne (CNE)	1,124,000
Senegal	Caisse Nationale d'Epargne	197,000
South Africa	Postbank	2,100,000
Tanzania	Tanzania Postal Bank	954,000
Zimbabwe	People's Own Savings Bank	1,695,000[14]

And this table illustrates a paradox: In the absence of full-service, formal banking institutions, Africans still want to save, mainly because they still need sources of cash for emergencies and life-cycle needs. The surprisingly large sums that the poor from Ghana to Madagascar need to pay for their parents' funerals or, over longer periods of time, their children's school fees, are a constant source of anxiety for millions of Africans. To meet these needs across the vast expanses of territory where savings banks do not operate, Africans have created their own home-grown financial services in the form of moneylenders, community savings groups and credit unions. And increasingly, more structured, flexible VSLAs are beginning to proliferate, and microfinance institutions that offer more diverse and sophisticated financial services to the poor are reaching more and more people. Financial services, and all that they portend for increased economic security, prosperity and productivity, are finally beginning to reach the world's poorest people: Africans.

The following table[15] gives a counry-by-country overview of Africa's financial landscape. Indicators include population size; GDP per capita; the percentage of the population living on less than $2 per day; and the human development index (HDI) ranking developed by the United Nations Development Programme (UNDP), which measures the extent to which people have the means to realize their full potential and lead productive, creative lives in accord with their needs and interests. Finally, it would be impossible to count all the diverse informal sources of credit and savings that can be found in virtually every African community, from urban slums to remote rural villages (these are briefly described later in this chapter). Instead, Table 2 gives an estimate of the number of established MFIs with more than 1,000 clients in each country that reported to Mix Market[16] in 2007, and lists the numbers of borrowers and savers per institution. Not all MFIs report.

13 Women's World Banking with Africa Microfinance Action Forum, *Diagnostic to Action: Microfinance in Africa*, 2008, http://www.swwb.org/africa-daignostic.

14 This figure has undoubtedly changed in light of Zimbabwe's current economic crisis and hyperinflation.

15 Compiled from UNDP's Human Development Report, 2007-2008.

16 The MIX MARKET™ is a global, Web-based microfinance information platform that was launched by the UN Conference on Trade and Development and expanded by the Consultative Group to Assist the Poor (CGAP).

{Table 2} Overview of Africa's Microfinance Landscape

Country	Total Population (2005)	GDP per capita (US $)	% of population living on < $2 per day (*or below national poverty line)	HDI rank[17]	MFIs reporting to Mix Market in 2007	Total # of borrowers from MFIs (estimate)	Total # of savers from MFIs (estimate)
Angola	16,100,000	2,058	--	162	2	11,056	27,042
Benin	8,500,000	508	73.3	163	10	110,728	54,760
Botswana	1,800,000	5,846	55.5	124	0	0	0
Burkina Faso	13,900,000	391	71.8	176	3	136,888	515,747
Burundi	7,900,000	106	87.6	167	3	10,272	2,796
Cameroon	17,800,000	1,034	50.6	144	7	86,289	360,728
Cape Verde	500,000	102	--	--	0	0	0
Chad	10,100,000	561	64.0*	170	1	15,348	53,118
C.A.R.	4,200,000	339	84.0	171	1	2,176	34,724
Comoros	800,000	654	--	134	--	--	--
Congo	3,600,000	1,273	--	139	1	2,719	20,398
Congo DR	58,700,000	123	--	168	8	196,944	569,200
Côte d'Ivoire	18,600,000	900	48.8	166	5	5,117	17,196
Djibouti	800,000	894	--	149	--	--	--
Equatorial Guinea	500,000	6,416	--	127	--	--	--
Eritrea	4,500,000	220	53.0*	157	--	--	--
Ethiopia	79,000,000	157	77.8	169	13	1,795,559	856,903
Gabon	1,300,000	5,821	--	119	1	65	1,578
The Gambia	1,600,000	304	82.9	155	1	574	8,825
Ghana	22,500,000	485	78.5	135	13	213,341	361,323
Guinea	9,000,000	350	40.0*	160	8	99,105	65,470
Guinea-Bissau	1,600,000	190	--	175		--	--
Kenya	35,600,000	547	58.3	148	12	857,953	3,142,155
Lesotho	2,000,000	808	56.1	138	--	--	--
Liberia	3,442,000	--	--	--	1	2,711	0
Madagascar	18,600,000	271	85.1	143	7	28,815	157,806
Malawi	13,200,000	161	62.9	164	4	60,536	147,405
Mali	11,600,000	392	72.1	173	12	194,649	382,233
Mauritania	3,000,000	605	63.1	137	--	--	--
Mauritius	1,200,000	5,059	65.0	--	--	--	--
Mozambique	20,500,000	335	74.1	172	8	49,327	91,567
Namibia	2,000,000	3,016	55.8	125	--	--	--
Niger	13,300,000	244	85.8	174	4	97,495	141,372
Nigeria	141,400,000	752	92.4	158	7	404,683	181,610
Rwanda	9,200,000	238	87.8	161	3	39,000	39,563
Sao Tome e Principe	200,000	451	--	123			
Senegal	11,800,000	707	56.2	156	11	206,125	524,428
Seychelles	100,000	8,209	50.0	--	--	--	--
Sierra Leone	5,600,000	216	74.5	177	4	10,318	6,264
Somalia	8,196,000	--	--	--	--	--	--
South Africa	47,900,000	5,109	34.1	121	3	636,387	837,700
Swaziland	1,100,000	2,414	77.8	141	1	14,430	0
Tanzania	38,500,000	316	89.9	159	7	238,613	0
Togo	6,200,000	358	32.2*	152	7	88,964	318,952
Uganda	28,900,000	303	37.7*	154	8	207,200	614,494
Zambia	11,500,000	623	87.2	165	2	14,354	0
Zimbabwe	13,100,000	259	83.0	151	--	--	--
TOTAL/ AVERAGES	**731,438,000**	**Median[18] $485**	**Average[19] 60.63**	**--**	**178**	**5,837,739**	**9,147,587**

17 The higher the ranking, the lower the Human Development Index as developed by UNDP.

18 Median for the 45 countries reporting per capita GDP.

19 Average for the 35 countries reporting the percentage of people living on $2 per day.

Africa's Informal Financial Systems

Deposit collectors

Deposit collectors, also called mobile bankers, are especially common in West Africa. They earn their living by sequestering people's savings and keeping them safe until they are needed or until the agreed-upon savings cycle ends. These savings can generally be withdrawn whenever a need arises. Deposit collectors usually make the rounds of their clients' homes every day to collect the money, and they charge about 10 percent of the client's savings as a fee. Even though this can amount to as much as 30 percent negative interest per year, poor Africans feel it is worth it, especially for women who would otherwise find it impossible to save for necessities such as school fees for their children because of the constant demands made on their money at home by husbands, children, relatives and neighbors in need.[20] In Nigeria, male, bicycle-mounted deposit collectors called *alajos* charge a monthly fee equal to one day's deposit, which provides the client with an incentive to save every day. When they do, the fee is only 1/30 the total amount of their savings.

When deposit collectors offer cash advances to their clients, they are essentially performing the service of moneylenders.

Moneylenders

When they need money – most often for emergencies such as illness or funerals (which can be very expensive) or for life-cycle needs like weddings or school fees – Africans first appeal to family members, but moneylenders are often needed to fill the gap.[21] Moneylenders, however, charge such high interest that their loans are essentially useless for the purpose of business investment. Thus, credit for income-generating activities must come from other sources.

Indebtedness to moneylenders can have dire consequences over and above their economic impact. According to Mariama Ashcroft, manager for policy and industry impact for Africa at Women's World Banking, there are known cases in Africa where families have lost their farmland and children have been indentured because of debt to moneylenders. In other cases, young girls are married off to pay the debt. Some families may use a portion of their harvest as payment, seriously affecting their livelihood.

Africa's moneylenders provide readily available, short-term loans, but they usually charge many times the interest rate that banks charge – often 20 to 50 percent per month.[22] In South Africa, informal moneylenders charge as much as 30 to 100 percent per month.[23] In a sample of 44 countries worldwide examined by the World Bank in 1984, the average formal-sector interest rate was 11 percent, while the average informal-sector rate was 95 percent. Yet stringently controlling interest rates to protect the poor from exploitation by moneylenders has never been part of Africa's financial landscape. Freedom to charge whatever the lender desires has always existed, de facto, at least in rural areas.[24] In urban areas, competition among moneylenders may pull interest rates down a bit.

Rural and urban moneylenders differ in that, in rural areas, moneylenders tend to accept less regular repayments because their clients (usually farmers) earn income in irregular, though larger, increments than do urban workers such as market traders. Moreover, the close community ties that exist in rural areas make it easier for moneylenders to trust their clients because they know them and their families so well.[25]

"The need to find a safe place to keep savings is so strong that some poor people willingly pay others to take their savings out of their hands and store them."

Stuart Rutherford,
"The Poor and their Money" | 1999

20 Rutherford, Stuart, *The Poor and Their Money*.

21 E-mail interview with William Steel, formerly Senior Adviser for microfinance and small enterprise development, Private Sector Group, Africa Region, the World Bank, 2008.

22 *Ibid*.

23 Karlan, Dean, and Jonathan Zinman, "Expanding Credit Access: Using Randomized Supply Decisions to Estimate the Impacts," Yale University and Dartmouth College, 2006.

24 Mosely, Paul, "Micro-macro Linkages in Financial Markets."

25 Rutherford, Stuart, *The Poor and Their Money*.

On the other hand, the intimacy of small rural communities can make dealing with moneylenders especially humiliating for poor borrowers, to the point where people prefer to conduct their transactions in secret. They are reluctant to explain their financial problems to someone outside the family, and the fear that they will not be able to repay on time and that their delinquency will be common knowledge in the village is an acute source of shame. In Niger, for example, loans from moneylenders have a very short repayment cycle: sometimes as little as one week or even one day. Borrowers frequently default; or, fearing that they will default, they lose their nerve when it comes to trying to invest in income-generating activities. This failure is another source of humiliation.

But whether in rural or in urban areas, prompt repayment is usually the moneylender's top priority. In a village, moneylenders may conduct the initial transaction in front of the client's family elders in order to ensure repayment of the loan. When a civil servant or office worker is late with payments, the moneylender may stand outside the person's place of employment and shout insults about their failure to pay.[26] In some countries (notably South Africa), a loan may be recorded as the "sale" of an asset, such as a television set. If the loan is not repaid, the moneylender simply takes possession of the asset that he has "bought."[27]

If, on the other hand, a borrower has pledged land against a loan (and this is generally done in front of village elders) and does not repay, the moneylender has the right to farm the land and collect its yields until the loan is repaid. This informal enforcement is more effective than formal enforcement would be. A bank would have to go through a long and costly process to seize the land, and would not be likely to earn income by farming it in the meantime.

In Africa, despite the often exorbitant interest they charge, moneylenders are generally seen as a benefit to society because they perform the necessary service of supplying cash for emergency needs in a timely fashion. In some countries, such as South Africa, they are considered a legitimate part of the financial system.[28] Some of their operations have been institutionalized as consumer credit, with some companies spreading to other African countries.[29] In 2008, a study of South African consumer lenders led researchers from the U.S.-based nongovernmental organization (NGO), Innovations for Poverty Action to the surprising conclusion that an expanding supply of credit nearly always improves general welfare and has a positive effect on households – even for families who pay 200 percent annual percentage rate (APR). This study also concluded that the benefits last long after the repayment dates: Access to cash had significant, positive net effects on job retention, income, the quality and quantity of food consumption, the ability to control household decision-making, and family members' mental outlook.[30]

In any case, moneylenders are a fact of life in Africa, whether officially sanctioned or not. In Uganda, a 1952 law designed to regulate money lending has been largely ignored. Periodically, moneylenders even engage the services of a lawyer to collect defaulting loans. Ugandan moneylenders charge, on average, between 20 percent and 30 percent per month interest. Collateral is also required in the form of land titles, houses, chattels, etc.; and the value of the security is often two to four times the value of the loan. Frequently, the forms of the loan – its duration, guarantees, contract, etc. – are made deliberately obscure by the lender.[31] One Ugandan moneylender, who had a portfolio at risk of over 50 percent, was unconcerned; he routinely extended the period of one-month loans, collecting additional interest on them every month.[32]

Group-based, member-owned financial institutions

Although moneylenders provide a necessary service, the benefits of traditional moneylending are limited. For one thing, moneylenders generally prefer to lend to men rather than to women because women are less likely to own assets that can be used as collateral.[33] And women have other priorities that moneylenders do not supply: a desire to save so that they can use their savings in times of need, the need to invest in income-generating activities, and the solidarity and mutual support that come from belonging to a group of their peers. As a result, between 70 and 80 percent of the members of group-based financial institutions and MFIs in Africa are women, both because women in particular need such services and because the NGOs that support MFIs recognize that women will make the best use of them, for the benefit of their families and communities.

26 Mosely, Paul, "Micro-macro Linkages in Financial Markets."
27 E-mail interview with William Steel.
28 Kaffu, Ernest, and Paul Rippey, "Lessons from Ugandan Moneylenders," 2003, http://www.fsdu.or.ug/pdfs/Money_Lenders_Study.pdf.
29 E-mail interview with William Steel.
30 Karlan and Zinman, "Expanding Credit Access"
31 *Ibid.*
32 Kaffu and Rippey, "Lessons from Ugandan Moneylenders."
33 E-mail interview with William Steel.

Despite the paucity of institutionalized financial services for the poor in Africa, especially among women, member-owned financial institutions are a part of the landscape. They include ROSCAs (rotating savings and credit associations), ASCAs (accumulating savings and credit associations), mutualist institutions, credit unions, COOPECs *(coopératives d'épargne et de crédit)*, SACCOs (savings and credit cooperative organizations), CVECAs (self-managed village savings and credit cooperative associations), and FSAs (financial service associations). In Cameroon and other parts of West Africa, such groups are called *tontines* or MC2s *(mutuelles communautaires de croissances)*. In Ghana they are called *susus*; in the Gambia, *osusus*; in South Africa, *stokvels*.

Member-owned institutions are typically located close to or within the communities they serve, are adapted to the local context and are framed by local inputs.[34] Although some members find these groups to be lifesavers in emergencies, others tend to use them for other purposes. In Malawi, for example, CARE found that members of traditional groups used their savings for Christmas feasts or wedding expenses rather than for more productive investments in income-generating activities such as the purchase of farm inputs.

The following traditional cooperatives provide an alternative to the high interest rates charged by moneylenders.

ROSCAs are among the world's oldest and most prevalent savings institutions and play an important role in mobilizing savings, especially in African communities, and especially for women who make up roughly 80 percent of ROSCA membership. Estimates suggest that participation in ROSCAs ranges from 50 percent to 95 percent of women in many rural areas in Liberia, Côte d'Ivoire, Togo and Nigeria. Surveys in central Kenya indicate that ROSCA participation is between 45 percent and 50 percent.[35] In Ethiopia, it is estimated that 8 to 10 percent of GDP revolves in ROSCAs.[36]

ROSCAs are groups of between 10 and 30 members in which all members pay in an equal amount at regular intervals, usually weekly, sometimes daily. At regular meetings one person receives the total contribution, and the cycle continues until all the members have received their share. The longer the intervals between meetings, the larger the amount received (i.e., saved). The benefit of this system is that it imposes savings discipline and that members share a proportion of the time-value of money. It is a way of saving money, but not of accruing interest, because the members receive no more than they put in.

ROSCAs also have significant social benefits. They are not intimidating to illiterate farmers and women;[37] they enable people to save without appearing selfish to their families and neighbors; they enable people with common interests to support each other, to bond and feel a sense of ownership; and there is evidence that gender-based networks empower women. For example, members of a ROSCA will provide financial support to a fellow member who is bereaved or is arranging a wedding, and will help to organize the event. From a developmental perspective, contributions to a ROSCA allow members to access financing for business and/or household purposes. ROSCAs can also be family-based, with members of an extended family contributing toward the acquisition of assets. In such cases, members agree on the objectives they want to achieve and take steps to avoid diverting the funds to another purpose. A member of the ROSCA will join the one whose turn it is to collect the funds and accompany them when they go to spend the funds. And ROSCAs can be set up for different reasons. In addition to supporting business investments, some ROSCAs enable their members to purchase commodities in bulk at a savings as a group; there are also ROSCAS whose members contribute so that one of them can perform the pilgrimage to Mecca.[38]

In Africa, there are two basic forms of ROSCA:

- Those in which members receive the payout on a pre-arranged rotation
- Those that conduct a lottery, with members who have already received their payouts being excluded from the lottery

When all of the money collected has been turned over to each member in turn, the ROSCA is dissolved and a new ROSCA can then be formed. Not only do ROSCAs pay no interest, but participants may have little or no control over when their turn comes to receive the funds.

34 Coady International Institute and the Ford Foundation, Reaching the Hard to Reach: A Comparative Study of Member-Owned Financial Institutions in Remote Rural Areas, Coady International Institute, Antigonish, Nova Scotia, 2008, http://www.coady.stfx.ca/projects/ford/.

35 Bouman, F. J., "ROSCAs and ASCRAs: Beyond the Financial Landscape," Mansholdt Graduate School of Social Sciences, Netherlands and Kimoyu, 1994; Peter Kiko, "Rotating Savings and Credit Organizations in Rural East Africa," World Development 27, no. 7:1299-1308; each quoted in Gugerty, Mary Kay, *You Can't Save Alone: Committment in Rotating Savings and Loan Associations in Kenya*, University of Chicago, Chicago, Ill., 2007.

36 Women's World Banking, *Informal Financing Schemes*.

37 *Ibid.*

38 E-mail interview with Mariama Ashcroft, Women's World Banking.

In urban areas, people get around this problem by joining more than one ROSCA. Proceeds are usually spent on consumption goods, working capital and farm inputs. In general, ROSCAs are not a source of credit per se. A ROSCA movement, once it has become entrenched in a community, can provide reliable, if limited, services to very large numbers of people over many years. The world still has far more ROSCA members than it has MFI clients.

ROSCAs, however, have disadvantages, especially for entrepreneurs:

- If the ROSCA distributes money by prior agreement or by lottery, this money is unlikely to be available at the time in a business cycle when it is most needed. These types of ROSCA funds are often then used to purchase household durables such as utensils or roofing sheets. They are an effective savings instrument, but relatively ineffective as a means of capitalizing productive investment.
- The amount of money is fixed and may be inadequate for a person's investment plans.
- There is no return on people's investment in a ROSCA, except the marginal time-value-of-money benefit of receiving a lump sum at no interest. In addition, since no interest is paid to participants, the real value of the funds saved may actually decrease due to inflation – sometimes significantly.
- In many countries (Ethiopia is one example), traditional ROSCA models still exclude the poorest of the poor.[39]

ASCAs, also called savings clubs, do not disburse money to each member in turn, but rather serve as the means of creating an interest-bearing, revolving loan fund for the provision of loans to the members. Members may contribute variable amounts at each meeting; and interest rates on loans also vary from a few percent a month to as much as 20 percent, usually influenced by the local informal market rate. The advantages of ASCAs over ROSCAs include:

- ASCAs provide an opportunity for the very poorest community members to take part because the savings rate is not pre-determined but depends on each person's capacity to invest at any given time.
- Members can take out loans at times and in amounts that are closely aligned to their actual needs and opportunities.
- Members earn a substantial return on their savings contributions.
- Insurance against illness or other forms of loss is easily built into the system.

However, the disadvantages of ASCAs are also significant.

- They require more complex record-keeping for which the necessary skills are often absent at the village level.
- Transactions that are recorded in a book are far less transparent, especially for illiterate group members.
- The rapidly growing size of the loan fund can create a security risk and destroy group confidence.[40]

As we shall see in Part III of this report, ASCAs served as a model for CARE's VSLA methodology, enabling CARE to come up with solutions to some of the problems ASCAs present. With VSLAs, for example, CARE has developed a highly effective system for training members in financial literacy, money management and business planning. Moreover, the VSLA money management system is designed to be highly transparent Effective security measures are also in place.

Credit unions, also known as COOPECs and SACCOs, are registered, more formal savings and credit cooperatives based on share capital – the total value of the depositors' savings, or "shares." The following table on page 14[41] shows the prevalence of credit unions and other cooperative MFIs in a number of African countries.

Other semi-formal institutions include mutualist organizations such as CVECAs, and FSAs.[42] These also serve mostly women and have proliferated in Africa in recent years. Many features of these institutions resemble those of ROSCAs and ASCAs but with the difference that their credit pool starts with a (hopefully temporary) infusion of cash from an NGO.[43] The more clients save, the more they are

39 Women's World Banking, Informal Financing Schemes.
40 Allen, Hugh, *CARE International's Village Savings and Loans Programs in Africa*.
41 Honohan, P., and T. Beck, "Making Finance Work for Africa," World Bank, Washington, D.C., 2007; World Council of Credit Unions (WOCCU), "Statistical Report," Madison, Wis., 2006.; cited in Women's World Banking with Africa Microfinance Action Forum, *Diagnostic to Action*, p. 26.
42 Aryeetey, Ernest, Hemamada Hettige, Machiko Nissanke, and William Steel, "Financial Market Fragmentation and Reforms in Sub-Saharan Africa," World Bank Technical Paper No. 356, World Bank, Washington, D.C., 1997.
43 Rutherford, Stuart, *The Poor and Their Money*.

{Table 3} Major African Credit Unions

Country	Name of Major Credit Union	# of Accounts
Benin	FECECAM	378,000
Burkina Faso	Fédération des Caisses Populaires	454,000
Cameroon	CAMCCUL	197,000
Côte d'Ivoire	FENACOOPEC-CI	598,000
Ethiopia	Credit Unions	381,000
Kenya	KUSCCO	3,265,545
Mali	Kafo Jiginew	195,000
Rwanda	Banques Populaires	533,000
Tanzania	SCCULT	500,000
Togo	FUCEC	213,000
Uganda	UCUSCU	806,000

entitled to borrow. The idea is that loans will be invested in income-generating activities, which in turn enable the borrower to make larger and larger savings deposits.

However, credit unions carry a number of the disadvantages of ASCAs, only more acutely.

- As the pool of money in a credit union grows larger, more sophisticated accountancy skills are needed to manage it.
- Cashiers may abuse the fund, and thieves may steal it.

These risks often prompt members to divide up the contents of a well-funded credit union and start another from scratch.[44]

Other Services. Conveniently located and high-tech banking services are still in their infancy and limited in scope, yet they are gradually becoming available in parts of Africa through stores, kiosks, post offices and cell phones. An important example of the latter is M-PESA, a service of Safaricom and Vodafone that is available to the general public in Kenya, Senegal and South Africa. M-PESA enables people to transfer money, even if they do not have a bank card or even a bank account. After the first year of operations, between 80 and 90 percent of M-PESA's Kenyan clients had used it to send money to relatives in rural areas. The M-PESA mobile-wallet service offered by Safaricom attracted 1 million registered users in 10 months (equivalent to more than a quarter of the banking population in a country where fewer than 4 million people have bank accounts). M-PESA did this by building a network of 850 agent locations, which compares favorably with the national total of 550 bank branches.[45] It is clear that, as the availability of financial services grows in Africa, they will be increasingly supported by electronic technology. (See Part IV, Developing MFI Technologies.)

In October 2008, the French microfinance organization PlaNet Finance received a $1.7 million grant from the Bill & Melinda Gates Foundation to support a novel initiative, the Mobile Banking Project. The project, co-developed with Orange UK, the digital telecommunications network, will help PlaNet Finance use its existing mobile phone platform and infrastructure to provide microfinance clients with enhanced access to banking services. By enabling poor people to use their mobile phones to process financial transactions, the Mobile Banking Project will reduce the cost of these transactions for MFIs. This project will facilitate cost-effective access to microfinance services and products for thousands of microentrepreneurs living in remote areas. The grant will support PlaNet Finance's efforts to include microfinance in the early development stage of mobile telephony as a tool for banking services. It will enable PlaNet Finance and its partner Orange to implement and evaluate its mobile banking platform and solutions for microfinance institutions in Senegal, and then expand this program to Côte d'Ivoire.

44 *Ibid.*
45 Women's World Banking with Africa Microfinance Action Forum, *Diagnostic to Action*.
46 The National Bank of Ethiopia, Microfinance Department lists 21 MFIs in Ethiopia.
47 ACSI has an additional 50,000 clients who do not fall into the microfinance category.

{Table 4} An Estimate of Africa's MFIs (2007)

Country	Borrowers	Savers	% of Women Borrowers
CENTRAL AFRICA (7 countries)			
ANGOLA: 2			
Kixi-credito	8,783	0	59
NovoBanco	2,273	27,042	55 ('06)
TOTAL	**11,056**	**27,042**	**Average: 57**
CAMEROON: 7			
CAMCCUL	26,737	216,044	29
CCA	44,460	67,629	62
CDM	687	3,198	95
MC2	8,994	62,654	26 ('06)
Oasis Microfinance	3,600	2,010	66
RENAPROV FIN.	845	1,681	11
SOFINA	966	7,512	5
TOTAL	**86,289**	**360 ,728**	**Average: 42**
C.A.R.: 1			
CMCA	2,196	34,724	49
TOTAL	**2,196**	**34,724**	**Average: 49**
CHAD: 1			
UCEC-MK	15,348	53,118	22
TOTAL	**15,348**	**53,118**	**Average: 22**
CONGO: 1			
CAPPED	2,719	20,398	78
TOTAL	**2,719**	**20,398**	**Average: 78**
CONGO D.R.: 8			
Coopec Nyawera	1,429	8,872	44
FINCA DRC	28,802	0	94
IMF HOPE RDC	11,610	0	78
PAIDEK	11,298	0	34
ProCredit Bank	4,917	44,581	--
GRAINE sari	23,732	0	100
PAMF-BFA	13,927	2,724	23
RCPB	99,229	513,023	33
TOTAL	**194,944**	**569,200**	**Average: 58**
GABON: 1			
GEC EMF	65	1,578	51
TOTAL	**65**	**1,578**	**Average: 51**
TOTAL FOR CENTRAL AFRICA MFIs: 21	**312,617**	**1,066,788**	**Average: 51**
EAST AFRICA (7 countries)			
BURUNDI: 3			
COPED	473	30	11
COSPEC	192	2766	21
Turame Comm. Fin	9,614	0	91
TOTAL	**10,279**	**2,796**	**Average: 41**
ETHIOPIA: 13[46]			
ACSI	740,000[47]	400,000	58
AVFS	9,267	9,267	65 ('06)
BG	26,247	25,552	78 ('06)
DECSI (Tigray)	423,830	179,921	38
Eshet	27,742	27,742	28
Gasha	13,034	2,290	10
Metemamen	10,811	0	72
Oromia Credit + SSC	263,971	13,683	22 ('06)
OMO (Southern)	156,975	113,029	40
PEACE	19,471	21,484	75
SFPI	25,294	25,294	50
Wasasa	30,749	31,321	36
Wisdom	48,168	7,320	60
TOTAL	**1,795,559**	**856,903**	**Average: 49**
KENYA: 12			
BIMAS	10,963	0	48
Equity Bank	392,822	1,840,332	54
Faulu-Ken	90,339	--	67 ('03)
KWFT	164,568	0	100

Country	Borrowers	Savers	% of Women Borrowers
KENYA PO SAVINGS	0	1,280,000	--
K-Rep	153,961	16,701	64
MAL	2,479	0	--
MDSL	3,420	5,122	46
OI-WEDCO	8,137	0	50
RAFOD	1,330	0	90
SMEP	23,787	0	60
Yehu	6,147	0	91
TOTAL	**857,953**	**3,142,155**	**Average: 67**
MADAGASCAR: 7			
Micro-Cred Madagas	4,393	0	1
Otiv Diana	2,871	20,365	72
Otiv Sambava	2,200	19,952	74
Otiv Tana	6,389	77,682	71
PAMF-MDG	2,922	0	71
SIPEM	1,803	90	50
TIAVO	8,237	39,717	48
TOTAL	**28,815**	**157,806**	**Average: 55**
RWANDA: 3			
Duterimbere	9,134	22,747	83
U. C. Umutanquha	723	11,511	25
UOMB	29,143	5,305	88
TOTAL	**39,000**	**39,563**	**Average: 65**
TANZANIA: 7			
Akiba	19,603	--	60
BRAC TZA	57,343	0	100
Faulu-TZA	3,436	0	70 ('06)
FINCA TZA	36,550	0	72
PRIDE	99,258	0	54
SEDA	14,677	0	66
SELFINA	7,746	0	100
TOTAL	**238,613**	**0**	**Average: 75**
UGANDA: 8			
BRAC UGA	37,543	0	100
Centenary Bank	66,113	559,161	--
Faulu-UGA	16,885	0	38
FINCA UGA	45,313	--	74
MED-Net	3,771	0	73
TBS	295	654	65
UGAFODE	7,670	0	51
UML	29,610	54,679	48
TOTAL	**207,200**	**614,494**	**56**
TOTAL FOR EAST AFRICA MFIs: 53	**3,177,419**	**4,813,717**	**Average: 63**
SOUTHERN AFRICA (8 countries)			
BOTSWANA: 0	--	--	--
LESOTHO: 0	--	--	--
MALAWI: 4			
CUMO	18,003	22,830	80
FINCA MWI	21,170	0	83
Microloan Found.	4,050	0	100
OIBM	17,313	124,575	52
TOTAL	**60,536**	**147,405**	**Average: 79**
MOZAMBIQUE: 5			
BOM	7,545	18,601	44
FCC	2,801	0	65
FDM	2,069	0	79
NovoBanco	26,738	72,966	5('06)
Tchuma	10,174	--	--
TOTAL	**49,327**	**91,567**	**Average: 39**
NAMIBIA: 0			
SOUTH AFRICA: 3			
Capitec Bank	579,802	783,000	50
Opportunity Finance	1,885	0	46
SEF	54,700	54,700	99
TOTAL	**636,387**	**837,700**	**Average: 65**

Country	Borrowers	Savers	% of Women Borrowers
SWAZILAND: 1			
FINCORP	14,340	0	35
TOTAL	**14,340**	**0**	**35**
ZAMBIA: 2			
CETZAM	2,410	0	71
FINCA ZMB	11,942	0	78
TOTAL	**14,352**		**Average: 75**
ZIMBABWE: 0			
TOTAL FOR SOUTHERN AFRICA MFIs: 15	**774,942**	**1,076,672**	**Average: 59**
WEST AFRICA (13 countries)			
BENIN: 10			
ACFB	11,139	12,922	81
Alidé	5,070	5,563	93
CBDIBA/RENACA	9,106	29,949	60
CMMB	1,036	1,042	85
FECECAM	31,080	--	40
FIDEVIE	1,650	1,950	70
MDB	1,255	3,334	44
PADME	29,732	0	68
PAPME	12,213	--	54
Vital Finance	8,447	0	82
TOTAL	**110,728**	**54,760**	**Average: 68**
BURKINA FASO:3			
GRAINE sari	23,732	0	100
PAMF-BFA	13,927	2,724	23
RCPB	99,229	513,023	33
TOTAL	**136,888**	**515,747**	**Average: 52**
COTE D'IVOIRE: 5			
Abidjan Credit	101	2,224	16
AE&I	2,197	4,869	75
CADEFINANCE	1,908	2,322	--
Caisse de Sion	154	1,390	--
CEP-CECREV	757	6,391	59
TOTAL	**5,117**	**17,196**	**Average: 50**
GAMBIA (The): 1			
Reliance	574	8,825	39
TOTAL	**574**	**8,825**	**39**
GHANA: 13			
APED	15,569	0	76
CARD GHANA	1,747	13	60
CFF	4,367	2,326	81
CRAN	12,638	12,632	36
ELDA	1,746	0	95
FASL	11,878	132,067	46
GLOPEC	200	1,000	--
ID-GHANA	3,808	4,255	98
KSF	8,045	39	88
Maata-N-Tudu	9,800	0	98
OISL	60,586	56,270	85
Pro-Credit GHA	11,957	81,721	--
Sinapi Aba Trust	71,000	71,000	95
TOTAL	**213,341**	**361,323**	**Average: 66**
GUINEA: 8			
3AE	631	0	--
CAFODEC	6,679	0	50
CPECG YETE MAL	4,459	38,971	70
CRG	80,582	26,260	42
FINADEV Guinée	267	0	78
MIGUI	140	40	79
PF	6,268	0	78
RCCECG	79	199	4
TOTAL	**99,105**	**65,470**	**Average: 50**
LIBERIA: 1			
Liberty Finance	2,711	0	89 ('05)
TOTAL	**2,711**	**0**	**89**

Country	Borrowers	Savers	% of Women Borrowers
MALI: 12			
CACOEC SUDUD.	212	925	--
CAECE Jigeseme	3,935	7,920	48
CVECA Kita-Bafu.	6,828	1,342	28
Kafo	74,955	190,809	17
Kondo Jigima	23,323	50,693	40
Miselini	24,583	1,617	75
Nyesigiso	13,801	90,506	27
PAMF-MLI	13,801	--	
PASECA – Kayes	8,135	6,209	73
Piveli	6,781	11,296	25
RMCR	2,387	1,580	47
Soro Yiriwaso	15,908	19,336	--
TOTAL	**194,649**	**382,233**	**Average: 32**
NIGER: 4			
ASUSU CIIGABA	73,546	106,891	81
KOKARI	12,975	0	54 ('05)
MCPEC	9,125	23,419	18 ('06)
MECREF	1,849	11,062	100
TOTAL	**97,495**	**141,372**	**Average: 63**
NIGERIA: 7			
Accion MFB	4,062	12,946	100
COWAN	1,076	1,030	66
DEC	228,000	84,000	77
IMFB	31,705	0	100
Karis MFB	8,641	47,423	57
LAPO	220	996	44
Seap	130,979	35,215	98
TOTAL	**404,683**	**181,610**	**Average: 77**
SENEGAL: 11			
ACEP			
CAURIE-MICROFI.	23,999	15,900	64
CMS	14,738	14,738	100
DJOMEC	58,599	244,279	21
MEC FEPRODES	8,023	10,029	40
MECBAS	1,913	3,296	53
PAMECAS	621	354	61
SEM Fund	69,287	184,297	70
U-IMCEC	1,533	0	84
UMEC	20,572	38,410	54
UMECU Defs	6,840	13,125	22
TOTAL	**206,125**	**524,428**	**Average: 52**
SIERRA LEONE: 4			
CEDA	2,467	2,467	78
MMCB	1,754	1,937	47
SMT	4,943	0	64
YCB	1,154	1,860	47
TOTAL	**10,318**	**6,264**	**Average: 59**
TOGO: 7			
APGA	1,303	2,664	77
CECA	855	4,382	39
FAMER MICROFIN.	1,161	1,975	83
FUCEC Togo	58,055	250,304	69
MGPCC Dekawowo	492	469	40
SEDA	14,677	0	66
WAGES	12,421	59,158	67
TOTAL	**88,964**	**318,952**	**Average: 63**
TOTAL FOR WEST AFRICA MFIs: 86	**1,570,698**	**2,578,180**	**Average: 57**
GRAND TOTAL FOR SUB-SAHARAN AFRICA MFIs: 175	**5,040,541**	**9,535,357**	**Average: 56**

Microfinance institutions (MFIs): redefining poverty

In preparing this report, CARE has relied on the resources of Mix Market to produce an estimate of the levels of penetration of MFIs in Africa. The results, taken region by region, are revealing. (See Table 4.) While these numbers are somewhat fluid and subject to constant change, we extrapolate from this table that a little more than 5 million Africans are borrowers with MFIs and 9.5 million are savers. If nothing else, these figures indicate that the need for savings surpasses the need for credit, a topic that we will return to in Part III of this report.

MFIs in Africa fall into five main categories:

- **Microfinance banks (MFBs)** (including rural MFIs) are governed by the same regulations as banks. Microfinance banks are currently mushrooming in Central and Southern Africa. They are fully regulated, for-profit, commercial banks that offer a broad range of products and services to low-income clients. From their inception, their primary business purpose has been to lend to micro- and small enterprises. Business models for microfinance banks are diversifying from the dominant ProCredit Holding and Centre International du Credit Mutuel models; more recently emerging models include Access Holding from Germany, Advans group, FIDES and MicroCred from France, and First Microfinance Banks funded by Aga Khan Development Network from Switzerland.

- **Rural banks and community banks** are found in a number of countries, such as Ghana, Nigeria, Tanzania and Sierra Leone. The most important example is Ghana, where rural and community banks reach 2.5 million clients. In Nigeria, the government passed a law requiring all deposit-taking MFIs to meet a set of criteria established specifically for microfinance banks. The law implied that all former community banks had to meet the requirements and re-register as MFBs; by April 2008, 730 MFBs had been licensed.

- **Cooperative networks** are represented throughout Africa, with a few exceptions such as Angola and Sierra Leone. They appear dominant in both West and Central Africa. (See Table 4.)

- **NGO MFIs** can be international network affiliates or stand-alone local NGOs. Largely credit-only institutions, they have often played a critical role in nascent markets. Some NGO MFIs are large, such as Jamii Bora in Kenya (170,000), LAPO in Nigeria (130,000) and PRIDE in Tanzania (99,000); however, most NGO MFIs do not exceed 40,000 clients. NGO MFIs have managed to grow very fast.[48]

- **Non-banking financial institutions (NBFIs)** are for-profit enterprises that are not registered as commercial banks and are typically characterized by lower capital requirements than those of banks. Increasingly, MFIs are seeking this legal, regulated status as a means of offering a greater range of services than NGO MFIs. NBFIs have emerged in Ghana, Guinea, Ethiopia, Kenya, Rwanda, Sierra Leone, Tanzania, Uganda and Zambia. Some NBFIs have transformed from NGO MFIs, while others were founded as private entities. NBFIs also count among them para-statals – companies or agencies owned or controlled wholly or in part by the government – such as Malawi Rural Finance Company. Consumer finance companies providing short-term loans at high rates for consumption purposes can be NBFIs and are widespread in countries with larger middle classes. Building societies also have a long history in Africa, and because of the challenging housing finance markets on the continent, some of them have ventured into other market segments such as microfinance.

MFIs are all the more attractive to borrowers because they may also offer savings, insurance, larger and larger loans for business investment and flexibility of loan repayment. Moreover, the provision of credit to urban shanty-towns or remote rural areas where its supply was previously monopolistic and restricted to moneylenders is bringing down the price and increasing the volume of credit.[49]

48 Women's World Banking with Africa Microfinance Action Forum, *Diagnostic to Action*.
49 Aryeetey, Hettige, Nissanke, and Steel, "Financial Market Fragmentation."

MFIs have clear advantages over moneylenders, particularly lower interest rates and the possibility of replacing collateralized loans with the peer-supported guarantees of group lending. Although the effective interest rates of MFIs in Uganda, for example, often exceed 100 percent a year, they still do not reach the stratospheric rates of moneylenders. One moneylender in Kampala said he thought the moneylending industry would not exist for long, as MFIs and other financial institutions become better able to offer more rapid and client-friendly loans.[50]

And increasingly as MFIs proliferate, especially in African cities, client-friendly is the operative word. Competition among MFIs is causing them to design products and services, as well as front-office amenities and interactions, with clients that inspire loyalty and keep clients coming back. This includes improving customer experience – from how loan officers treat clients to faster service at the branch to special treatment of repeat clients, more friendly delinquency procedures and loan officers' understanding of their clients' circumstances, needs and aspirations.

But even without such customer service refinements, the mere fact of a barefoot, illiterate woman with a baby on her back venturing into a financial institution to transact her business is revolutionary. That she should actually be welcomed there, treated with respect, made comfortable and served in a timely fashion is extremely empowering for her. It can change her whole sense of herself and of her place in society. Insofar as poverty is fed by perceptions, the commitment of MFIs to be client-friendly is a powerful anti-poverty tool.

Do MFIs reach the poorest?

The goal of most MFIs is to alleviate poverty by targeting clients who previously have not had access to formal financial services. To a large extent, MFIs around the globe have succeeded in meeting this goal; indeed, it is safe to predict that the more MFIs there are, the more poor people will be able to invest in income-generating activities, accumulate savings, put their families on a more secure financial footing and generally improve their lives.

However, the proliferation of MFIs to reach all Africans, including the very poorest in remote, often inaccessible rural areas is hindered by poor infrastructure and also by the economic realities of MFI survival. MFIs that are committed to providing financial services to the poor must maintain a delicate balance between serving large numbers of low-income clients and generating enough income to remain self-sufficient and continue to grow.

In order to examine the ways in which MFIs in sub-Saharan Africa are meeting these challenges and reaching the poor in urban, peri-urban and rural areas, CARE studied MFIs from four regions of the continent. The managers of these institutions were interviewed in depth about their achievements and the challenges they face. The MFIs profiled are:

- Small Enterprise Foundation (SEF), South Africa
- Women and Associations for Gain both Economic and Social (WAGES), Togo
- Amhara Credit and Savings Distribution (ACSI), Ethiopia
- Sinapi Aba Trust (SAT), Ghana
- Banco Oportunidade Moçambique (BOM), Mozambique

The criteria used to select these five MFIs include the following: They all offer both credit and savings, they all have at least 5,000 borrowers and savers, and they all (with the exception of BOM in Mozambique) make a priority of targeting women. In terms of their sustainability, they all have an operational self-sufficiency ratio of more than 90 percent, and they all (with the exception of WAGES in Togo) have loan portfolios with less than 4 percent in arrears for more than 30 days (PAR > 30[51]). And while the loan portfolios of all of these institutions are sustained by earnings on loans and by savings deposits, a number of them receive support for additional projects from development partners.

Achievements and challenges of best-practice MFIs

The five MFIs profiled share a number of practices in common, but several offer unique services. They all provide their clients with business credit; and most, but not all, require that their clients already have a business to invest in when taking out a loan. The exception is SEF in South Africa, which deliberately seeks to encourage start-ups. All of these MFIs offer loans geared to the needs and production cycles of farmers; SAT in Ghana offers funeral insurance; and ACSI has a product that covers uncollected loan amounts at the time of a client's death, thus preventing multi-generational indebtedness.

SAT in Ghana has also been innovative in **linking its loan clients with a reliable and profitable market** for their crops and providing them with both affordable credit and technical support. This has resulted in a doubling of income for some 3,000 Ghanaian sorghum farmers. SAT's three-way project with Guinness Ghana and Technoserve can serve as a model for helping small-scale farmers increase their incomes.

Three of the five MFIs we profile provide **business advice, guidance and even training** to their clients. The ramifications of this practice can be far-reaching. In Ethiopia, ACSI provides loans for agriculture in areas with high rainfall, while in drought-prone areas it encourages clients to diversify their activities to mitigate the effects of drought. In Ghana, SAT has designed an intensive youth apprenticeship program to help at-risk young people develop skills and go into business. It also has a five-year training course for all clients whose goal is nothing less than "client transformation." SEF in South Africa provides ongoing HIV-prevention and women's empowerment courses.

All of the five MFIs are committed to **serving the poor in hard-to-reach rural areas.** The means they use to do this range from public buses in South Africa to motor-

Insofar as poverty is fed by perceptions, the commitment of MFIs to be client-friendly is a powerful anti-poverty tool.

50 *Ibid.*
51 Portfolio at Risk: the percentage of an MFI's loan portfolio balance that is overdue for more than 30 days.

scooters in Togo and Ghana, to mules in Ethiopia to banks-on-wheels and container banks in Mozambique.

All of the MFIs profiled offer **savings products,** and all require that their loan clients save. All five offer both group loans and individual loans, and most actively promote the solidarity and mutual support that groups of savers and borrowers provide. BOM in Mozambique and WAGES in Togo are the only MFIs of the five that have more individual borrowers than borrowers in groups.

The extent to which these MFIs use **technology** is also quite variable. Ironically, SEF in South Africa makes minimal use of computers, while next door in Mozambique, BOM uses one of the most advanced technologies of all: biometric imaging of fingerprints to identify clients. While most of the MFIs intend to expand their use of technology in order to work more efficiently, they acknowledge that the initial investment can be costly and may require donor support.

The relationships each of these MFIs have to the **formal banking sector** also vary widely. In South Africa, an important gap has been identified: While there is some microfinance and a well-established commercial banking sector, no financial services are available for the "missing middle" – low-income clients who need more credit than microfinance institutions can provide. In South Africa there is also a concern that some commercial banks may be reaching out to poorer clients in a way that could ultimately be exploitive. In Ethiopia, the national government is in the process of formulating guidelines that will transform all large MFIs into banks. While generally positive in the long term, mandatory regularization of MFIs is costly and time-consuming and can limit their growth in the short term. In Ghana, SAT is faced with a dilemma: It would like to become a regulated bank to access investment capital, but management is reluctant to become a less nimble, flexible and responsive institution.

Each of the five MFIs has achieved financial self-sufficiency and an ability to maintain the **double bottom-line** – economic growth without compromising their core mission of serving poor clients. But this doesn't come easily and demands innovative thinking. SEF in South Africa struggles with the high cost of offering microfinance in a relatively rich, high-income country. WAGES and BOM manage to serve thousands of poor clients by offering large loans to a handful of clients with highly profitable businesses. ACSI employs intensive staff training, rigorous client screening and ongoing client monitoring and support to ensure that its clients repay their loans.

When it comes to **scale**, ACSI in Ethiopia towers above the other MFIs profiled. This is all the more remarkable in a country that had no microfinance institutions until the mid-1990s and that had just emerged from decades of war, intermittent famine, underdevelopment and devastating drought. ACSI's client base of 740,000 enables it to take advantage of important economies of scale. Its cost per client is by far the lowest of the five studied, and its ratio of staff to clients is the second lowest after SAT in Ghana.

With one exception – BOM in Mozambique – all of these MFIs have **more women than men** clients, though none serves women exclusively. Four out of five believe that women's earnings tend to benefit their families more directly than men's earnings, a finding confirmed by MFIs in other parts of the world. Several of the MFIs profiled also have found that women in general are more reliable microfinance clients than men, and they see women's empowerment as an important part of their mission.

Most of these MFIs do not conduct **systematic monitoring** of the impact of their services on their clients. The one exception is ACSI, which has recently completed a study using a tool developed by USAID. The other institutions expect to carry out similar studies in the future.

Small Enterprise Foundation (SEF), South Africa

Serving the Poor in a Rich Country

Masala Modica, 54, lives in the village of Madumeleng in South Africa's Limpopo province. It is an isolated community of small, mud brick houses with many children orphaned by AIDS. Half of the families are headed

In Limpopo, 60 percent of households live below the poverty line of $32 per person per month, and 40 percent survive on less than half of that.

by women and everyone is poor. Masala's house is a 15-minute walk from the nearest paved road.

As the second of eight children in a culture that tended not to value girls' education, Masala only had one year of schooling. She was married at age 16 and has one daughter. When her husband left her for another woman, she was destitute and had to ask her neighbors for money. When one of these neighbors taught her to sew, she started making clothes.

In 1994, Masala attended a meeting organized by a local microfinance institution, the SEF. She was inspired to join after seeing the success of other women who were able to send their children to school.

Starting with an initial loan of $80, she bought maize meal and malt and began brewing beer. At the same time, her tailoring business was growing and she became known as the best dressmaker in the community. Eventually she graduated to $1,000 loans in order to launch a brick-making business that today employs several people. She has accumulated $400 in savings, built a larger house and is able to send her two grandchildren to private school. She also provides a home for her four younger sisters and their husbands.

An MFI that reaches the poorest

Masala is one of nearly 55,000 of South Africa's poorest people in the country's most remote rural areas who receive business credit and the incentive to save from SEF. Since the organization's founding in 1991, its reach has expanded steadily through the hinterlands of four provinces thanks to a very hands-on, low-tech, human-scale approach.

SEF staff members, called "development facilitators," walk from house to house, taking the bus to the next village and the next and the next, through four provinces, three of them contiguous: Limpopo, Mpumalanga and North

Small Enterprise Foundation (SEF), South Africa
Provinces of operation: Limpopo, Mpumalanga, North West Province and Eastern Cape

Established	1991
Type of institution	NGO
Main funding sources	Loans to clients: 96%
Other funding sources	Ford Foundation, Hivos-Triodos, etc.
Number of personnel	305
Number of branches	32: 26 rural, 6 peri-urban
Number of borrower groups/SEF Centers	1,591
Total number of borrowers and savers	54,700
Gross loan portfolio	$7,300,000
Average loan balance	$133
Loan interest rate	2% per month
Average savings balance	$20
PAR > 30 days	0.2%
Operational Self-Sufficiency	96%

Data as of December 2008

West Province. In Limpopo, South Africa's northernmost province, 60 percent of households live below the poverty line of $32 per person per month, and 40 percent survive on less than half of that. At the request of a donor – a large South African insurance company – SEF also works in Eastern Cape province, more than 1,000 kilometers from Limpopo on the country's southeast coast.

"If we can get one of the poorest people in the village to take a loan and be successful, then they will be a role model for others."

John de Wit, Managing Director, SEF, South Africa

SEF facilitators take buses to visit their clients, not only to save money, but also because this is far less intimidating for people than if they were to drive up in a private vehicle – and it is a far better way to make contact with people and win their trust. When they arrive in a village, SEF facilitators talk with community members who identify the very poorest households using the Participatory Wealth Ranking process. These are often large families that are surviving, at best, on one person's old-age pension of about $75 per month with no other means of support. Typically, each facilitator works on a long-term basis with about 285 clients who, using the Grameen[52] methodology, have joined together in groups of five members who guarantee each other's loans. The facilitators are strongly encouraged to saturate communities with microfinance services. "Because of the high costs of our activities, we have to make sure that our staff reach a large number of people in each village," says John de Wit, managing director of SEF. "They don't just pick up a couple of people here and there, they really cover the entire community."

One of the challenges SEF has faced is relatively high staff turnover: 21 percent in 2008. This is due in part to a government drive to recruit teachers (many SEF staff had been unemployed teachers), and also to challenging working conditions in isolated villages without modern amenities and where they miss the daily support of colleagues. Reducing staff turnover is one of SEF's highest priorities.

Providing business credit

SEF facilitators discuss with unemployed villagers the possibility of starting a business with a loan from SEF, sharing ideas about what types of enterprise would be viable in the local setting. "We identify the poorest people and motivate them to think about taking up enterprises to work their way out of poverty," explains Mr. de Wit. But the decision of what business to pursue is left entirely to the prospective clients and any of their peers who can advise them about a particular business. Ninety-nine percent of the clients are women and many are heads of households. Around 80 percent do not have a business when they start working with SEF. Only when the client comes up with a viable idea for an enterprise and a coherent verbal business plan is a loan – on average about $130 – handed over, to be used for business investment.

The whole process may take many visits and much patient persistence on the part of a SEF facilitator, especially with the very poorest clients. "The poorest people are quite nervous about taking a loan," says Mr. de Wit. "They often feel that they're going to fail. So with them it takes quite a bit more encouragement and patience on the part of our facilitators. Our principle is: If we can get one of the poorest people in the village to take a loan and be successful, then they will be a role model for others."

SEF charges borrowers a monthly interest of 2 percent (24 percent per year); loans are paid back monthly with interest. SEF's interest rate is far lower than that charged by the "microloan" departments of some South

Loans are not available for the missing middle.

52 The Grameen Bank, founded in 1976 in Bangladesh by Mohammed Yunus, now has 7.6 million borrowers. Dr. Yunus won the Nobel Peace Prize in 2006 for his work in microfinance.

African banks, which often charge from 80 percent to 300 percent per year to poor clients (as compared with about 16 percent per year if the client is middle class). But in any case, such banks do not lend to people with no hard collateral, such as land, and no steady income. And this raises a huge problem in South Africa: a lack of financial services for the people John de Wit calls the "missing middle" – people who need larger loans than the $1,200 maximum SEF can provide but who are not ready for the $10,000 or $20,000 that banks are interested in lending to qualified borrowers. He estimates that around 1,000 of his clients need mid-level loans of $3,000 to $5,000, but there is nowhere for them to go.

The solution? "I think you need donors who are prepared to provide venture capital, seed money to help people start microfinance programs that will fill this gap," he says. "If the programs do well, if they grow according to their targets, they'll continue to fund them, hoping to get two or three winners. Somebody has to take the risk initially. It will take quite a few years, but donor money and government money can do it."

Helping clients diversify

SEF's policy of reaching as many clients as possible in a community and following the Grameen model of building on the skills of the poor can have an unintended result. It can flood the local market with too many of the same types of businesses: too many women selling tomatoes by the roadside, too many small general stores, too many dressmakers. This is why women like Masala Modika are encouraged to diversify – in her case from dressmaking to beer-brewing to brick making. The problem is somewhat mitigated by the fact that new SEF clients generally choose more than one enterprise to start with – such as selling both vegetables and household supplies, then dropping one business if it does not perform well. But John de Wit feels that helping his clients diversify their enterprises is one area where SEF needs to improve.

"Our strategy is to get more and more people into business, which means that people do tend to choose from a limited number of businesses that they feel comfortable with," he says. "It would be good if we were able to encourage people to try something new, like leather goods for example." But such a plan would involve skills-training for clients as well as marketing expertise on the part of his staff. "We just haven't cracked that one," he says. "It's a whole different ballgame."

On the other hand, SEF facilitators do constantly monitor the impact of their clients' businesses through a system that tracks household food consumption, improvements

Village women find their voice.

in housing, the size of the business and the clients' savings. Mr. de Wit says that even if business profits decline or fail to grow to the level they might reach with less competition, most families see an improvement in their overall circumstances compared with the past.

Helping clients save without offering savings

Because of the high cost of doing business in South Africa – especially high salaries – SEF cannot afford the additional staff it would need to convert to a deposit-taking institution and offer its clients a direct savings product. But it does insist that each client who receives a loan must save at least $1 every two weeks with another savings provider, most often the Post Office Bank, which pays about 1 percent a year in interest. In order to qualify for a higher, repeat loan, the client must have savings equal to at least 10 percent of her current loan. SEF motivates its clients to save for emergencies, trains them in the techniques of saving, helps them apply for group savings accounts with other institutions, and sets up a system through which they deliver their savings to other banks.

Fifty SEF members (10 groups of five women) come together at the same time every two weeks for a meeting at one of 1,591 local SEF centers to collect members' savings. After each meeting, two representatives from each center travel by bus – sometimes a journey of an hour each way – to the nearest post office to make the group's savings deposit. All 50 group members share the cost of bus fare for two; if each member had to travel by bus, the cost would eat up their savings. Clients' savings accounts are bundled together in the groups of five SEF members, but SEF helps clients keep records of their own individual savings deposits and withdrawals.

How clients use their savings is up to them. Some keep the money until the time of year when demand for their business products is greatest and then use their savings to buy more stock. Many dip into their savings in January and February to pay school fees or buy school uniforms. Without access to these savings, their children would often remain out of school because they could not afford uniforms.

Client solidarity groups

All of SEF's five-member client groups were formed because they already knew, trusted and could support each other and guarantee each others' loans. When 10 of these groups come together at a SEF Center every two weeks, the women have the opportunity to discuss their problems, compare their experiences, laugh, cry, support each other, advise, counsel and encourage each other. The benefits of this solidarity are incalculable in terms of building women's emotional resources, strengthening their abilities and providing motivation.

SEF clients have the opportunity to apply for a new loan every six months at a regular meeting, during which those seeking a loan must explain their business plans and the intended purpose of the loan to the entire 10-group membership, which must approve the new loan. Often a discussion ensues in which members who have experience in the type of business being considered will give advice to the member seeking a loan. This member and her group then leave the room while the final decision is made by the entire membership of that center.

These meetings tend to be decorous, polite affairs. If a member knows of a reason why another member should not receive a loan, she will not bring this up before the whole membership, but will discreetly mention it to the SEF facilitator in private. On the other hand, if a member who was delinquent in repaying a previous loan asks for a new loan, the membership will not be shy about suggesting that a new loan is not appropriate at this time.

> *"When women's incomes increase as a result of microfinance, this greatly decreases their vulnerability to HIV."*
>
> **John de Wit,**
> **Managing Director,**
> **SEF, South Africa**

Linking microfinance, gender empowerment and the fight against HIV/AIDS

According to the United Nations, 22.5 percent of South African women between the ages of 15 and 49 are living with HIV, as compared to 15 percent of men. And in absolute numbers, South Africa has more people living with HIV than any other country in Africa. This is why much more goes on at the biweekly meetings attended by SEF clients than collecting savings and giving out loans. Thanks to SEF's partnership with a South African NGO called the IMAGE Project (Intervention with Microfinance for AIDS and Gender Equity), the first hour of every meeting is devoted to training and discussions about HIV prevention, de-stigmatization, gender-based violence and women's empowerment. The program, Sisters for Life, consists of a curriculum of 10 sessions that is currently being conducted in three SEF branches and will eventually be implemented in all the branches. At Sisters for Life workshops, women learn to confront their husbands about issues such as domestic violence, rape and the importance of using condoms.

Through Sisters for Life, SEF branches are now linked to the South African government's program that provides anti-retroviral therapies (ART) to people living with HIV. The government had been hesitant to roll out the ART program, in part because it feared people would be inconsistent in following the strict regimen, thus allowing more aggressive strains of the virus to develop. But Sisters for Life teaches the importance of taking the medication consistently. "The issue is not so much providing the drugs," says John de Wit, "but providing a whole support system to keep people taking the drugs."

Once the trainers have completed 10 workshops in a branch, its members choose one natural leader who receives additional training in order to lead the branch in taking action to address issues related to HIV/AIDS. The group then begins working on initiatives that they have identified. "People must solve problems themselves," says Mr. de Wit. "They mustn't turn to us to solve them. They've been through the training; they're perfectly capable of coming up with solutions."

Treating sexually transmitted infections is a key step in lowering the risk of HIV, but doing so sometimes involves overcoming barriers. For example, in one village where SEF works, such treatment was essentially unavailable at the local clinic because the staff of the clinic was abusive to patients and gossiped about the people who consulted them. As a result, villagers avoided the clinic and remained untreated.

The local SEF center identified this as a major problem. They chose a representative and sent her to complain to the area hospital that was responsible for the management of the clinic. The meeting was a disaster and the SEF client vowed she would never go back. But she did go back, accompanied by the entire group of 54 women. As a result the hospital instituted reforms at the clinic and now provides good care to the residents.

In May 2008, the Institute of Development Studies at Sussex University, UK, issued a report, "Using Microfinance to Fight Poverty, Empower Women and Address Gender-Based Violence and HIV." The report describes one of the largest sociological and clinical trials ever carried out in connection with HIV. The population studied was drawn from eight communities of approximately 25,000 people. Comparing SEF clients in these villages with a control group without access to microfinance, the study showed a 55 percent decrease in gender violence – physical and sexual abuse experienced by women – and a significant reduction in risky sexual behavior that might lead to HIV infection, evidenced by a 24 percent increase in the use of condoms and a 60 percent increase in voluntary testing for HIV.

According to John de Wit, the connection between microfinance and HIV prevention is clear: A woman who no longer depends on a man, whether husband or boyfriend, to feed her children or buy their school uniforms will be far more likely to insist on using a condom or to leave him if he becomes violent. "The study showed that when women's incomes increase as a result of microfinance, this greatly decreases their vulnerability to HIV," says Mr. de Wit. "One thing that drives HIV is women's economic dependence on men."

Technology

For an MFI in a highly developed country like South Africa, SEF is a surprisingly low-tech operation. Its branches have neither computers nor fax machines, and all client loan records are kept on paper. The development facilitators, who do have cell phones and calculators, are strongly encouraged to spend as much time as possible interacting with clients in the field rather than in the office keeping records. The branch offices are spartan – small rooms that usually need a new coat of paint, with a table and chairs but no copying machines or filing cabinets.

"We debate the question of technology, but actually I think it would hold us back," says Mr. de Wit. "Our staff members' education is very poor to start with, and we want them to really understand how to calculate loan installments. How do you arrive at the interest amount and the monthly payment amount? They need to understand these things clearly so they can explain them clearly to their clients. I'm afraid that if people work with computers, they won't understand these things. They'll just say, 'The computer says ….' What counts for us is the human interaction between our staff and our clients. We don't want them to just become conventional, bank-bound loan officers."

Field staff members report once a week to the branch office, and their accounts are checked by the branch manager. Paperwork is delivered to the zonal office and to the head office, which does have a computer system that allows processing of data spreadsheets. As in many of its operations, SEF has followed the Grameen model in the use of technology. "Only when they reached two million clients did Grameen start computerizing its branches," says Mr. de Wit, "and they have weekly meetings. Surely we can handle 50,000 clients every two weeks without computers."

Furthermore, he feels that management information systems (MIS) can actually limit an MFI's flexibility to try new approaches that meet their clients' individual needs. "Our MIS is basically run with Excel spread sheets," he says. "If we want to incorporate a new piece of data, all it takes is inserting a new column in a spread sheet. We have total flexibility."

Mainstreaming microfinance into the commercial banking sector

While he would like to see the benefits of microfinance mainstreamed into the commercial sector, Mr. de Wit feels there is a danger that exploitive lending could be mainstreamed as well. In fact, he hopes that the negative experience of South Africa in this area can serve as a warning to the rest of the continent.

"In the past, South African banks did not lend to low-income people, even if they had salaries," he explains. "But now they are lending to poor people, and the question is, do they do it for the benefit of society or do they do it to skin people? One has to be very careful that they don't get people heavily indebted. What we want to mainstream is *good* microfinance."

The system in South Africa, Mr. de Wit says, has been based on what he calls the "simplistic belief" that the market will solve the problem – that if you start out with high interest rates, more players will come in, and with competition, the rates will go down. "South Africa has tried that for 15 years," he says. "Do you know how much suffering there has been in these 15 years of lending to poor people? And the rates haven't come down."

But things are beginning to change. The lending excesses finally caused a public outcry and a demand for new regulations in the banking sector. A new national regulator was appointed in 2007 and has been putting in place regulations designed to eliminate – or at least reduce – the excesses of irresponsible, exploitive lending. Banks are now obliged to demonstrate that their clients are not borrowing more than they can repay, and a system of debt counselors has been established. People who are unable to repay their loans can go to a debt counselor who will investigate whether they were given credit that was patently beyond their means to repay. If so, the terms of repayment are renegotiated.

SEF has ambitious plans to reach 350,000 clients in every corner of South Africa.

The South African paradox

South Africa is a unique mix of third-world poverty and first-world costs, where providing microfinance services to the very poorest people is, paradoxically, a very expensive proposition. Even though SEF was founded in 1991, it did not come close to breaking even until 2004 when it reached 25,000 clients and an operational self-sufficiency ratio of 93 percent. On a daily basis, SEF is confronted with the proverbial double bottom line: combating poverty while maintaining financial self-sufficiency. For example, although all of SEF's staff members are South Africans recruited locally, and although their salaries are significantly below the local market level, these salaries are still far higher than those of other African MFIs – the annual salary of an experienced financial manager in South Africa, for example, is the equivalent of about $75,000. Yet John de Wit is quick to point out that high salaries do not necessarily guarantee great loyalty and commitment to a job that requires considerable dedication, empathy and stamina. "The only thing that inspires that is if people's heart is in the mission," he says.

High costs may explain why SEF's operational self-sufficiency ratio remains relatively low at 96 percent. Although this proportion of their budget is entirely supported by interest on loans to clients, the remaining 4 percent is covered by grants, most of which come from donors outside the country, such as the Ford Foundation and Hivos-Triodos of the Netherlands. Although there are many wealthy South Africans, those who do not understand how microfinance works can be very skeptical about funding it. "There's a lot of charitable money in South Africa," says Mr. de Wit, "but if people have never heard of microfinance, they think lending money to poor people is a horrendous idea – that poor people could never repay a loan. So it's not easy to raise money in South Africa."

In 2003, SEF won the Grameen Foundation's Pioneer Award, which recognizes emerging microfinance programs that are breaking new ground as innovators, working in regions of the world that have been traditionally underserved by quality microfinance programs.

Since 2002, SEF has grown by a cumulative 25 percent per year. Portfolio quality is excellent with a portfolio at risk (PAR) more than 30 days of 0.2 percent. Social and financial performance are strong and financial support has been ongoing – all of which has led SEF to make ambitious projections for the future. SEF's goal is to reach 136,819 clients by 2013 with the current methodology and products, based on an average of 20 percent growth per year. SEF plans to continue this rate of growth until it reaches 350,000 clients, "in every rural and peri-urban corner of South Africa," Mr. de Wit vows.

Women and Associations for Gain both Economic and Social (WAGES), Togo

Meeting the Needs of Urban and Rural Clients

My name is Sodohoin Afanwubo. I come from the town of Vogan, 70 kilometers from Lomé in Togo. I am 30 years old and I never went to school. In 2004 my husband died and I came to Lomé with our three children, aged 8 months, 2 years and 3 and a half years.

When I arrived in Lomé, like many others from my town, I worked as a porter carrying loads in the street and I lived in a shelter with other porters for 50 CFA (11 cents) a day. My older children stayed behind in the shelter while I worked, but I carried the baby with me on my back. I worked all day long for 18 months, carrying bales of cloth, sacks of rice, drums of oil and baskets of smoked fish on my head from the merchants' warehouses to their shops. During this time my baby became ill and died because I could not afford medical care.

One day I met a deposit collector from WAGES who was well known in my neighborhood. He agreed to include me among his microfinance clients. I started saving by "tontine" 200 CFA (44 cents) every day. Three months later I took out my first loan of 20,000 CFA ($44) from WAGES. I stopped being a porter and started selling cassava flour, tapioca and beans on the street.

When I got my first loan I also received training from the loan officer at WAGES in a number of areas: I learned the importance of saving for the future, the difference between a loan and my own money, the importance of respecting loan repayment schedules, and how to display my produce nicely in order to attract customers.

Things moved along very quickly; and my daily savings deposit grew to 300 CFA (67 cents), which enabled me to receive a new loan for 30,000 CFA ($67), and to repay it on time. Also, with money I saved, I was able to leave the shelter for porters and rent a room, which I now share with my children and a friend.

Since then I have been able to provide for all my needs, return regularly to my village and pay the school fees of my two remaining children, one of whom even goes to private school. I hope that soon I will be selling groceries from a permanent shop.

Women and Associations for Gain both Economic and Social (WAGES), Togo
Areas of operation: Lomé and environs, other towns throughout the country.

Established	1994	
Type of institution	NGO	
Main funding sources	CARE, loans, savings	
Number of personnel	203	
Number of branches	10; 4 rural	
Client Data		
PAR > 30 days	13.5% *September 30, 2008*	
	11.4% *October 31, 2008*	
	10.4% *November 30, 2008*	
Operational Self-Sufficiency	100.1%	
	December 2007	*September 2008*
Total savers	47,626	59,158
Total women savers	33,563	39,757
% of clients who are women	70%	67%
Total borrowers	12,170	12,421
% women client borrowers	80%	78%
Gross loan portfolio	$11,162,393	$11,251,000
Average loan balance	$1,372	$917
Loan interest rate		2% per month
Average savings balance	$135	$138

An MFI founded on women's savings

WAGES was founded in 1994 by CARE as a solidarity group lending program with a staff of four former CARE employees. An original group of about 20 women began a savings scheme and eventually made loans to each other out of their savings. CARE provided start-up funding for WAGES, but no seed money for its lending portfolio.

By the time Sodohoin joined WAGES in 2004, the organization had already existed for 10 years and was the second largest MFI in Togo. Still the second largest, WAGES now reaches more rural clients than any other MFI in the country. Currently, 67 percent of WAGES clients are women.

Even today, the founding of WAGES as a women's savings group is apparent in its board of directors. Out of nine board members, four are current clients of the organization. The chairperson and two others are traders like Sodohoin and a fourth is a chicken farmer. The other board members include two academics specializing in microfinance, two accountants and the CARE country director for Togo and Benin.

Serving poor clients with small loans and motor scooters

Since the beginning, WAGES has targeted the very poorest clients: women like Sodohoin with little or no education who toil at backbreaking work to feed their families.

Although some clients in the city, like Sodohoin, are able to save for three months before taking their first loan, many in the rural areas have too many demands on their meager resources – feeding their families, health care, funeral expenses – to save before they take out their desperately needed first loan. Through a product it calls "Direct Credit," WAGES makes it possible for these people to borrow up to $200 before they begin saving. Moreover, in rural areas, WAGES tailors its loans to the planting and harvest cycles of local farmers, extending the loan period up to 12 months to accommodate crop cycles. Non-agricultural clients such as traders repay loans on a monthly basis.

> *"Motor scooters make it easier for us to scout new clients, assess the progress of our clients and follow up after we make a loan."*
>
> **Ramanou Nassirou, Managing Director, WAGES, Togo**

The largest proportion of WAGES' clients – nearly half – come together in self-selecting solidarity groups of three to five friends. After a group member explains her plans for starting a business, she can receive a small loan of less than $40 – even as little as $5 or $10 in the rural areas – at an interest rate of 1.5 percent per month, or 18 percent per year. This enables many clients to leave their work as day laborers and start their first business without having to save in advance. However, they are obliged to save the equivalent of 2 percent of their total loan amount every time they make a repayment.

In order to improve access to credit for its clients and promote customer loyalty, WAGES introduced what it calls its "digressive" interest rate, which decreases as the client repays her loan. The interest rate is thus calculated on the remainder of the loan rather than on the full amount. For example, after five months with a digressive interest rate, a client who has a loan of $200 would have paid a total of $13 interest as compared to $17 with a constant interest rate.

To serve their clients from the sprawl of Lomé to rural areas upcountry, WAGES has invested in a fleet of 89 motor scooters that are used by men and women staff members. These provide an efficient way for credit officers to reach their clients, even farmers or fishermen in the most remote rural areas. "At WAGES, our first priority is that our credit officers work closely with the people," says Ramanou Nassirou, WAGES' managing director and a former WAGES credit officer himself. "In order to serve the people well, credit officers need a profound understanding of their client needs. Field work is therefore an integral part of our hands-on policy. The best way to ensure this hands-on contact is with motor scooters. They make it easier for us to scout new clients, assess the progress of our clients and follow up after we make a loan. The scooters are an indispensable tool for our credit officers." Although WAGES started out in the urban areas of Lomé, it has since expanded into three of the country's four rural provinces and plans to establish a new rural branch in 2009.

When visiting rural areas, WAGES' motor-scooter-riding credit officers do not collect savings or deliver loans to clients. Hence they do not carry money on their travels and are therefore not at risk of being robbed. Both savings and loan transactions are handled by the clients themselves at WAGES' branches.

The story of Sodohoin attests to the capacity-building WAGES provides to its clients. In another instance, WAGES collaborates with the NGO World Solidarity Fund in an area in southeastern Togo called Hahotoè. WAGES provides business credit to fishermen, vegetable farmers and women who process smoked fish. World Solidarity Fund provides training and improved equipment, distributes mosquito nets treated with insecticide to prevent malaria, and holds workshops to build awareness of the risk of HIV/AIDS.

Interest earned from a few high-end clients = loans for many poor clients

Some of WAGES' clients who started out with tiny loans have graduated to much larger loans. Mr. Nassirou tells the story of running into an elegant, well-dressed Togolese lady at the airport in Paris. A longtime client of WAGES, she was on her way back from Hong Kong where she had been buying merchandise for her highly successful leather goods and apparel business. This lady's meteoric rise to the heights of international commerce is clearly exceptional. Mr. Nassirou estimates that only 2 percent of WAGES' clients take loans of more than $10,000, and around 10 percent borrow more than $5,000. These small numbers of large loans raise the average loan size to $1,372, an unusually high figure for an MFI. He points out that the interest earned from these small numbers of high-income clients enables the organization to provide carefully targeted products and services to ever larger numbers of poor clients, even in remote rural areas. "Right now, with the support of our board, we are planning three new branches in peri-urban areas," he says. "We couldn't meet the needs of the poor if we ourselves were poor. We have to have resources to do it, and to have these resources we need to lend to people who have viable businesses and who can pay interest on their loans. Without that, I think we would disappear."

Between December 2007 and September 2008, WAGES' client base increased by 24 percent to 59,158. Around 85 percent of the clients invest their loans in informal sector income-generating activities – mostly microenterprises. According to Mr. Nassirou, these are the clients WAGES is most committed to serving. "We introduced direct credit (loans without initial savings) in 1998 to diversify our product offerings," he explains. "This enables us to reach the most vulnerable people at the lowest income levels and help them finance small businesses to solve their problems of survival and self-sufficiency."

Nevertheless, the primary source of WAGES' fiscal solvency remains client savings. Its annual report for 2007 indicates that 61 percent of the organization's portfolio is derived from client savings, 38 percent is debt to local banks, and 1 percent represents an investment by the U.S.-based microfinance organization Kiva.

Client-friendly savings products

WAGES offers its clients four savings products:

Tontine savings is a system whereby WAGES staff members visit urban clients' homes, shops or market stalls on a daily basis (usually by motor scooter) to collect their savings.[53] These small amounts are then delivered by the agents to the nearest WAGES branch. The deposits are entered in the client's passbook and a receipt is provided. The tontine was launched after WAGES held a number of workshops to brainstorm about the best way to serve clients. Its purpose is to help

"We couldn't meet the needs of the poor if we ourselves were poor."

Ramanou Nassirou

53 This is an expensive practice for WAGES, reflected in its relatively high cost-per-client rate of $123.

women save their money securely in order to build their assets. Most clients in Lomé agree to make a tontine deposit of between 44 cents and $1. Those in the rural branches deposit at least 40 cents a day. The tontine does not earn interest and clients are not obliged to make a deposit every day. Although the system offers clients a great deal of flexibility, clients who take out loans must make a deposit every day to repay their loan. As of September 2008, 14,220 clients, or 24 percent of the total, had tontine savings.

Clients mandatory savings is a savings deposit people make before they receive a loan of more than $200. It represents one-third of the loan amount and does not earn interest. In Lomé it takes clients about three years to reach the point where they are eligible for loans of more than $200. In the rural areas it takes about five years.

HOLA Savings (Healthy Opportunity for Life Assured) is an all-purpose demand deposit account available to anyone on request and earns interest of 3.5 to 5 percent, the rate fixed by the Central Bank of West African States.

Term Deposit (DAT) is a new product WAGES introduced in 2008: a long-term savings product of six months to five years that requires a minimum deposit of 1,000,000 CFA ($2,000). It earns between 3.5 and 6 percent a year. So far no clients have taken this product.

WAGES deposits its clients' savings in a commercial bank, keeping a small amount in a safe at the end of each day to pay for the next day's operations. In the near future they plan to build a secure vault in each branch to avoid the risks associated with transporting cash.

WAGES has put savings front and center in its approach to raising local money instead of relying on banks or funding from outside the country.

Laté Lawson is a former country representative for CARE in Benin and Togo who worked closely with WAGES for a number of years. He sees the diversity of the organization's savings products as its most important achievement. "WAGES' greatest strength is its focus on savings," he says. "At a time when the organization was struggling to get the money to lend, it was able to introduce this very innovative savings scheme – the tontine – that became a good source of funding. WAGES has put savings front and center in its approach to raising local money instead of relying on banks or funding from outside the country."

The challenge of improved technology

When it comes to the technologies that support its operating systems, WAGES is in the process of upgrading its ACT! Management Information System (MIS), a product of Sage Worldwide in the UK and WAGES' current system of manual data entry using Excel files, is very time-consuming; and the risk of errors is quite high. The new, upgraded software should eliminate these problems.

The new, more user-friendly software will be used to produce and update WAGES' statistical data and enable the organization to centralize its MIS at all levels. It will enable WAGES to work more quickly and to overcome most of the bugs that existed in the old system. And it promises to be more reliable and secure than the old system. "It will enable us to provide faster service to our clients," says Mr. Nassirou. "This will reduce the time they have to wait at our teller windows and thus they will have a better experience with and appreciation for the services of WAGES."

Installing the new software in WAGES' 10 branches will cost about $150,000, to say nothing of the additional staff training that will be required. WAGES' approach is to purchase and pay for the software gradually, on credit. "We have established a budget and we have hired a director of information technology," says Mr. Nassirou. "It's the big challenge but by sometime next year we should have done it." The investment will enable WAGES to work more efficiently and reach more clients, to hire tellers in remote areas, buy more motorcycles for their loan officers, recruit new personnel and put procedures in place.

Maintaining portfolio quality

In 2003, WAGES conducted research into enhancing organizational efficiency, maintaining the flow of credit and reducing the percentage of its loan portfolio that was more than 30 days delinquent (PAR > 30). The result was the introduction of rigorous staff training, new standards for loan evaluation, close monitoring of both loan officers and clients and, as an incentive to improve portfolio quality, a system of cash bonuses for loan officers who exceed specific targets in their client numbers and loan portfolio.

"We are aware of the delicate state of our PAR," says Mr. Nassirou, "and we are putting in place all possible means to bring it to an acceptable level as soon as possible. We did a review of the whole loan structure to make sure that the loans we offer are in line with client demand. And we made it compulsory for the management to report to the board on portfolio quality at least twice a month." The intensive loan recovery campaign that WAGES has been carrying out in all its branches is paying off. PAR more than 30 days declined from 13.5 percent in September 2008 to 10.4 percent in November 2008.

Amhara Credit and Savings Institution (ACSI), Ethiopia

In a Devastated Land, 740,000 Clients and Growing

Ful – a delicious concoction of mashed fava beans, onions, garlic, parsley and lemon juice – is a specialty at Tewachew Eneyew's tea shop in Meshenti in Ethiopia's Amhara region. Orders for ful, along with tea, sandwiches and other snacks, keep former soldier Tewachew, his wife and 14-year-old daughter busy. He wouldn't have it any other way.

Like millions of Ethiopians, Ato Tewachew, 50, almost didn't survive the 1970s and '80s amidst civil war, repression, drought and famine. He was a soldier for 17 years, fighting in southeastern Ethiopia, far from his home in Amhara. When the war finally ended in 1991, he was repatriated with his wife and three children to Amhara with a payment of $30 from the new government. The money lasted less than a month. Landless and desperate, he found work as a day laborer. For more than a decade he plowed other people's fields, but his wages were barely enough to feed his family. Back in those days, he says, he was "treated like dirt."

In 2000, Tewachew heard about an organization called the Amhara Credit and Savings Institution (ACSI), which was providing microfinance services to the productive, asset-less poor. He applied for a loan and was given five days of training in the proper use of credit, thrift and the importance of saving. At the end of the training he received his first loan of $80, which he used to buy a cow. The cow gave birth to a calf two months later, but Tewachew continued working as a day laborer to repay his loan.

With a second loan, also for $80, Tewachew bought a small plot of land and paid off this loan by selling his new calf. Today, in his eighth loan cycle, he has 10 head of cattle, seven milk cows, two heifers and a bull. He also added an extra room to his house: the tea shop where he sells his own milk products. He also sells his milk on contract, earning about $10 a day.

Thanks to these two successful businesses, Tewachew's family is now well-fed and well-clothed; all of his children are in school (his eldest works in the tea shop after school); and, for a fee of $3 a month, the youngest even attends kindergarten – an unusual privilege for a child in rural Ethiopia. Ato Tewachew is treated with respect in his community and has become a role model for others in the cattle business. Since local people often visit him to ask his advice, he is now organizing a cattle cooperative with a group of neighbors. He has been chosen to be its chairman.

ACSI starts from scratch with big ambitions

Today, ACSI is the largest MFI in Ethiopia. It is also the oldest and it is entirely home-grown. "We grew up here in Amhara, among the people," says Mekonnen Yelewumwosen, one of ACSI's founders. "We know the depth of the poverty."

In the early 1990s in Ethiopia, hunger and malnutrition were widespread, infrastructure in many areas was non-existent and, according to Mr. Yelewumwosen, a mentality of dependence on charity and food aid was pervasive.

The region he knew best, Amhara, is the second largest ethnic and linguistic region in the country and today has a population of more than 19 million. From the perspective of this former manager at the National Ministry of Finance, conditions in Amhara could not have been less conducive to the spirit of self-reliance and entrepreneurship that normally enables microfinance institutions to thrive. "There had been so much bloodshed, drought, degradation," he says. "For the last 50 years people in Amhara had been expecting relief, aid, charity. All this made the people very poor. They had no culture of producing something. Taking a loan and doing something in the form of business and repaying the money – this was not the culture of the community at that time. The community was expecting free money from donor organizations, from the government. We had to change this picture."

At a time when there were no microfinance institutions in Ethiopia, the new government stepped in, setting the stage for the development of a microfinance sector that today is one of the largest in Africa. In 1996, a government proclamation was issued that established the legal framework for the licensing and supervision of microfinance institutions. This instrument made the spread of MFIs possible in both urban and rural areas by authorizing them to accept deposits from the general public, draw and accept drafts and manage microfinance funds. That same year, Mr. Yelewumwosen and his colleagues at an indigenous NGO, the Organization for Rehabilitation and Development in Amhara, launched ACSI.

First, ACSI conducted an assessment of 29 of the region's 104 districts. Most people they interviewed said they needed credit, but the only sources of amounts of credit large enough to fund income-generating activities were moneylenders who charged punitive interest rates – often from 250 percent to 400 percent a year. There were NGOs that offered small loans as part of development projects; and the government also had a small, largely ineffectual, lending program. But according to Mr. Yelewumwosen, in these programs the line between credit and development aid was not clearly drawn and people felt no compulsion to repay these loans. And many potential entrepreneurs

Amhara Credit and Savings Institution (ACSI), Ethiopia

Areas of operation: All of the 151 districts and 85% of the 3,400 villages in the Amhara Region, which has a population of 19.1 million.

Established	1995
Type of institution	Non-bank financial institution
Main funding sources	Savings, loans and grants
Number of personnel	2,300
Number of branches	196 (107 rural)
Number of borrowers/compulsory savers	740,000
Number of voluntary savers	400,000
% of clients who are women	58%
Gross loan portfolio	$165,000,000
Average loan balance	$204

Data as of December 2008

"Taking a loan and doing something in the form of business and repaying the money -- this was not the culture of the community at that time."

Mekonnen Yelewumwosen, Managing Director of ACSI

noted that credit offered by government programs was too limited, and its availability was often dependent on family relationships.

As for the conventional banking system, Mr. Yelewumwosen says that there were currently only 35 bank branches in all of Amhara and none in the rural areas. All the banks required collateral for loans (which few rural Ethiopians would be able to provide) and used highly restrictive, bureaucratic client evaluation mechanisms and procedures. None was willing to lend to the poor. When questioned about their access to banks, people told him, "'We don't know the banking system. We don't know how they give loans. We don't even know where the banks are. We don't seek to get anything from them because they are not part of our community.'"

Nevertheless, not everyone was waiting for handouts. Mr. Yelewumwosen and his colleagues were especially interested in the people who used moneylenders despite the high interest rates because many of them were ambitious and had business plans that were too large to be financed by the small loans from NGOs. "We learned that there were many thousands of people who were not served at all by banks, and not well served by the government or the NGOs but who were nevertheless eager for services such as microfinance," says Mr. Yelewumwosen. He estimates that, in 1995, there were three million potential microfinance clients in Amhara.

Although at the time microfinance was new to Ethiopia, ACSI had a number of role models: Mr. Yelewumwosen had visited the Grameen Bank in Bangladesh and Bank Rakyat in Indonesia and had observed their successful microfinance operations. Amhara's communities were already well-organized in tightly-knit villages, or *kebeles*, many with ancient and creative traditions of getting things done. "We learned a lot from the people themselves and we adapted and modernized the lessons we learned from them." he recalls. "There were things we took from abroad and things we took from our own traditional way of doing things. We even learned from the moneylenders: We saw that they could secure repayments by watching how their clients were doing."

Funding to launch ACSI became available through a national NGO, the Ethiopian Social Rehabilitation and Development Fund, which had received $12 million in development aid from the World Bank. Amhara's share was $4.5 million, of which ACSI received $200,000 for its credit component and $50,000 for capacity building and microfinance infrastructure.

At the beginning, ACSI's growth was measured and deliberate. The months of September through December 1995 were focused mainly on preparing operational and training manuals for savings and credit personnel. By the end of 1995, ACSI had reached 672 clients. By the end of 1996, with three managers and 40 field staff, ACSI had reached 7,799 clients in 10 districts with loans of between $15 and $80. At this point Mr. Yelewumwosen increased his target dramatically with a plan to reach 150,000 clients by the end of 1997. However, advisors from CGAP (the World Bank's Consultative Group to Assist the Poor) urged him to proceed more slowly and to start with a pilot. It was a very tense time. "The people were suffering," says Mr. Yelewumwosen. "The success of this project was a life and death issue. If the people taking part were not successful … there was no other choice. If they failed, we failed. There would be no second pilot. We worried much and we had no sleep. We were praying to be successful."

They were. By the end of 1997, ACSI had 120,047 clients. And since Ethiopia's new microfinance law mandated MFIs to mobilize savings, ACSI also had some 10,000 savers. "This was

"The people were suffering. The success of this project was a life and death issue."

Mekonnen Yelewumwosen

the springboard that enabled us to think about the future," says Mr. Yelewumwosen. "This was a great satisfaction for us. We believe in the people we serve. We started together, we worked together and we changed the situation together."

Reaching the poorest, by mule if necessary

By 2003, ACSI had clients in 65 percent of the 3,400 kebeles in Amhara. Today they are a presence in 85 percent of Amhara's kebeles[54] and 100 percent of its 151 districts. ACSI has 196 branches and sub-branches, 107 of which are rural, scattered over a region larger than California. At first they rented makeshift quarters for the sub-branches, but gradually they have built a total of 125 small branch and sub-branch offices according to a simple, standardized design. Fifty more are scheduled for completion in 2009. Until quite recently, many of the sub-branches did not have electricity, but with Ethiopia's recent expansion of hydroelectric power, today about 70 percent of ACSI's sub-branches do have electricity, although still intermittent in many areas.

ACSI has 16 vehicles for use at branch level, but sub-branch staff members use motorbikes, mules and horses to reach their clients. (Traditionally, Ethiopians build their homes on high ground, often in terrain too rugged for motorized vehicles.) Even today, a few remote kebeles are inaccessible in the rainy season.

The cost of construction of the sub-branch offices is about $6,500 each. The head office in the provincial capital of Bahir Dar cost about $1.4 million, while the three branch offices (eight more are in progress) cost between $700,000 and $1 million each. Funding for all this construction comes from the commissions ACSI earns from managing and disbursing pensions for the regional government's Pension and Social Security Authority.

ACSI's branch system is highly decentralized: The sub-branch offices are responsible for the main activities of disbursing and managing loans; collecting repayments; producing financial statements; mobilizing and collecting savings; and supporting, monitoring and supervising clients. Each sub-branch sets its own annual plan, implements its activities according to this plan, and evaluates its accomplishments before its performance is reviewed on a quarterly basis by the local branch office. Each branch is responsible for seven to 30 sub-branches, depending on the number and population of the local kebeles. Usually around 10 kebeles form a center that is handled by a sub-branch office. The ACSI head office maintains balance, income and cash flow statements.

> *"Of course we have to empower women. By doing this we can achieve 100 percent repayment."*
>
> **Mekonnen Yelewumwosen**

Women are a priority

Targeting women clients is a priority for ACSI. Since 2003 the proportion of women clients has been increasing; today it is 58 percent. Clearly, ACSI does not target women exclusively; no MFI in Ethiopia serves only women, and traditional gender roles are still prevalent. A study conducted by ACSI in 2006[55] revealed that only about 38 percent of women who took credit from ACSI use it for their own business while the majority either use it "in consultation with others" or simply hand it over to their husbands. But even from a purely business perspective, Mr. Yelewumwosen says, it is important to recruit and support women clients. "Of course we have to empower women," he declares. "We have to empower them because we know that by doing this we can achieve 100 percent repayment. Women clients are very scrupulous and they repay what they owe 100 percent."

Moreover, he says, women are more prudent than men in their borrowing and their investments. "When women borrow, they only take a loan that they will be able to manage. And when they get a return, they use the money

54 In 2008 the number of woredas (districts) in Amhara was increased from 140 to 151 and the number of kebeles (villages) was increased from 3,007 to 3,400.
55 ACSI used the AIMS/USAID methodology (Assessing the Impact of Micro-enterprises Services) a major impact assessment survey tool.

for their family's welfare – not for drinking or for personal purposes like their male counterparts do. Women are very important for MFIs." He says that of ACSI's 740,000 borrowers, far and away the most reliable clients are women. In fact, he is unable to recall a single unreliable woman client. "Women are afraid of risk," he says. "When a woman decides the size of the loan she needs, she says, 'This amount is enough for me.' Even if you approve more, she won't take it. If you approve more for a man, he'll just take it. This is the difference. That's why women are very important for us."

ACSI's groups of clients are deliberately segregated by gender. This is not only because many men will not tolerate their wives interacting with other men, but also because women tend to be reluctant to speak out when men are present. "If you merge the women and the men together, the men can easily dominate and manipulate the women," says Mr. Yelewumwosen. Instead, having single-sex groups gives women leadership opportunities they rarely have elsewhere. "We want the women to learn how to lead," he says. "So we go and empower them. These groups are like a school for them. They learn how to lead a meeting, how to participate effectively so that maybe in the future they can lead a big community organization."

Keys to success: the benefits of scale and efficiency

Of the five MFIs that CARE has chosen to highlight in this report, ACSI is by far the largest, the most efficient and the most cost-effective. Its operational self-sufficiency ratio is 244 percent. Its client base is 10 times larger than that of the next largest of these five MFIs, South Africa's SEF. Its gross loan portfolio is nearly 10 times larger than that of Sinapi Aba Trust in Ghana, which has the next largest loan portfolio. Perhaps most tellingly, ACSI's cost per borrower of $7.50 is by far the lowest of these five MFIs (see Table 5).

{Table 5}
Efficiency of five profiled MFIs (2007)

MFI	Total # of borrowers	Cost per borrower (in $)	Borrowers per staff member
ACSI	740,000	7.50	253
BOM	8,000	218.60	83
SAT	74,371	73.70	266
SEF	54,700	85.60 (2006)	166
WAGES	12,421	122.50	118

"Our outstanding loan portfolio is always generating income," says Mr. Yelewumwosen. "We don't give our credit and loan officers unnecessarily time consuming, redundant or over-analytical tasks to perform." In addition, ACSI minimizes risk by ensuring that the investments it makes in its clients' economic activities are sound and safe. "We invest in well-established, traditional activities and our clients are knowledgeable about the activities they manage. We don't create confusion for them. We don't create new business activities for them that they may not be ready to handle. We serve these people on time and we know them."

Whereas in the mid-1990s the people had become conditioned to waiting for outside assistance, today the demand for microfinance loans is very great. The change is doubtless due in part to the rigorous training ACSI provides both to its staff and to its clients based on a simplified approach, simplified formats and simplified guidelines. In addition, Mr. Yelewumwosen points out that, over the years, ACSI has been able to maintain a stable and productive workforce. Staff costs are low, amounting to 3 percent of the average outstanding gross loan portfolio in 2006. ACSI's borrower per staff member ratio is the second highest of the MFIs CARE has profiled in this report. ACSI staff commitment is high; long-term service is recognized and rewarded through opportunities for study and training that enhance career development while increasing the value of employees to the organization.

In its overall approach to microfinance, says Mr. Yelewumwosen, ACSI strives to "work with what exists in new ways, instead of imposing new things into the existing environment. This appears to be a critical factor in ACSI's success." Thus, for example, the existing government structures for districts are used to identify and target priority areas, and local committees of volunteers are used to screen potential borrowers. Lastly, ACSI uses cooperatives not as an intermediary to provide financing for members; instead, the production of cooperatives can be used by their members as security for individual loans.

Despite its record of success, Mr. Yelewumwosen notes that rising inflation in Ethiopia presents a challenge, and the global financial crisis will also have an impact on ACSI. "We're not from another planet," he points out. "We are in the same world, and we'll be affected."

Careful preparation for serving clients

As pioneers of Ethiopian microfinance, ACSI relies on carefully-crafted procedures, intensive training of staff and rigorously conceived operational manuals to guide all its activities. "Our success came from the structure that we designed for monitoring clients and controlling credit and also from the types of training we developed," says Mr. Yelewumwosen. For example, microfinance feasibility studies are conducted in every kebele where ACSI operates. Before ACSI began conducting business, the staff, management and some outside advisors spent about a month writing a financial manual and an operational manual. A client management manual was also developed: It outlines how to recruit clients, how to organize clients into groups and centers, how to train clients and how to follow up on clients' activities. In addition, conscious of the need to establish a strong rapport with clients, ACSI designed a human resources manual to help staff members communicate effectively with people in Amhara's remote kebeles.

In fact, ACSI has a policy of recruiting staff members from the very communities they will be serving. "Each kebele has its own culture, traditions and way of speaking," says Mr. Yelewumwosen. "If you come from Addis Ababa, you will not be able to talk to these people. They won't even listen to you. You have to use their language, the ways of talking and thinking that are native to the kebeles in their area." Recruiting and training people to work in their own communities has helped ACSI to inculcate its philosophy of transparency, hard work and respect for sound financial practices throughout its client base. "Once our staff members learn the procedures for managing credit, they can communicate these procedures very well and monitor their clients very carefully," he says. "They sit with the people; they respect their style of doing things. This is a wonderful approach for effective monitoring and supervision."

ACSI's Criteria for Recruiting Clients

{1} Priority is given to the poorest of the poor, especially those who have no oxen or only one ox.

{2} Priority is given to women.

{3} Clients must have no existing loans from other sources of credit. (However, determining if a person has loans from local moneylenders can be difficult.)

{4} Clients must already have a productive activity or a plan for a viable activity for which the loan is intended, e.g., agriculture or animal husbandry, manufacturing or processing, trade or service.

{5} For purposes of monitoring, clients must be permanent residents of the kebele and known to the community.

{6} Clients must be physically and mentally healthy enough for the chosen economic activity. However, the disabled are not excluded as long as they can perform their work adequately. This applies to people who are HIV-positive and who are receiving anti-retroviral medicine supplied free of charge by the Ethiopian government. However, such a stigma is attached to HIV/AIDS that people do not reveal their status if they are healthy enough to work. "ACSI does not accept people who are very sick," says Mr. Yelewumwosen. "This person would consume their loan to buy medicine and our loans are productive loans, not consumption loans."

{7} Clients must be disciplined and not have bad habits such as drinking, gambling or getting into fights.

{8} Literacy is not a criterion. Mr. Yelewumwosen estimates that about 50 percent of ACSI's clients are illiterate. They sign their loan agreements with a thumbprint.

Strict guidelines for recruiting clients

The same meticulous, bottom-up approach is applied to recruiting clients. "We involve the people in the kebeles in recruiting their brothers and sisters to be our clients," says Mr. Yelewumwosen. "It would be very difficult if we went down and assessed people by ourselves because we don't have enough information, enough knowledge; so we involve them. We learn a lot from the communities themselves."

However, ACSI's criteria and process for recruiting clients is very strict. "Clients must be recruited using the criteria we have given," says Mr. Yelewumwosen. "These criteria are the cornerstone of our business." When ACSI arrives in a kebele, it does not have the resources to sign up every single person as a client; so it brings together the local people and asks them to suggest who the best candidates are, according to the list of client criteria that ACSI has developed (see box). For example, ACSI must be confident that the activity a prospective client will undertake has a reasonable chance of success. "I don't want to experiment with our money," says Mr. Yelewumwosen. "If a person is doing an experimental activity, he may fail; so we don't accept that person."

The evaluation of new clients takes place in three stages and at three levels:

First, the locally-formed credit and savings committee selects candidates using ACSI's criteria.

Second, the committee's choices are evaluated by the community as a whole according to people's personal knowledge of each individual.

Third, each loan applicant must join a group of five to seven borrowers, and all members of the group must approve each applicant. Before any loans are disbursed, the group members receive five consecutive days of training in how to manage their loans.

Ongoing processes for training clients

According to Mr. Yelewumwosen, the success of ACSI largely depends on the careful training clients receive before they get their first loan. The training focuses on how to manage credit and savings, how to invest loans profitably and how to plan for the future of the client's business. After the initial training sessions, the client groups continue to gather for about an hour every month at a location convenient to them. These meetings are conducted by an ACSI loan officer and provide an opportunity for the clients to air their concerns and discuss their progress and problems.

These monthly client meetings have come to the attention of NGOs that wish to have access to ACSI's membership to spread their own messages. Not wanting to impose on their clients, ACSI chooses carefully which groups are invited to participate. Groups that come with a message of how to avoid HIV/AIDS are welcome, as are groups that talk about health issues or family planning.

Monitoring and supervising clients

Before a loan is disbursed, information about the prospective client – family, economic and educational status, household assets, credit history, etc. – is collected and entered on a personal information form. The client is required to clearly indicate the purpose for which he or she plans to use the money. It must be a purpose that is likely to produce returns: the purchase of a sheep or goat, for example.

ACSI then begins the process of what it calls "money utilization monitoring." Soon after the loan is disbursed, field workers visit the client to see whether a sheep or goat was, in fact, purchased. If not, the client will be asked to explain how the money was used and, if judged to have acted irresponsibly, he or she will be required to return it.

In rural Ethiopia, economic pressures are great, family emergencies are frequent and ACSI wants to ensure that its loans are not used to repay debt from other sources. This is why the initial screening process for choosing good clients is so rigorous and so crucial. ACSI explains to clients that if they use their loans for the intended income-generating activity, they will have earnings or assets that they can draw on to meet emergency needs.

Around the middle of each loan cycle, ACSI field workers visit clients a second time to see how things are going, what challenges they face and whether they need help, such as an additional amount of credit or an extension of their repayment period. "We try to ensure that our clients don't fail," says Mr. Yelewumwosen, "because if they fail, we fail together."

Finally, as repayment time approaches, the ACSI field worker visits his clients yet again to make sure they are preparing to repay their loans. Mr. Yelewumwosen is convinced that ACSI's screening and client training processes, as well as group peer pressure, largely explain why its default rate is so low – under 2 percent. He also points to ACSI's ability, through its field workers, to respond to repayment problems before they become serious.

Peer pressure is also a critical factor in supporting ACSI's excellent repayment record. The members of each small client group are responsible for one another: If one defaults, the others must repay his or her loan. Thus, each member has an incentive to see that other members do well.

Impact studies of ACSI clients

Changes in the living standards of ACSI clients are measured and recorded on a regular basis. "Successive impact assessment surveys have been conducted to ascertain whether the services ACSI renders have brought about changes in the lives of the productive poor," says Mr. Yelewumwosen. "All of the surveys show that the economic and social conditions of the majority of our clients have changed for the better." For example, in 2006, ACSI used the AIMS/USAID (Assessing the Impact of Micro-enterprises Services) tool in its major impact assessment survey. (See Table 6.)

At the regional level, the AIMS impact study revealed that ACSI's intervention in 2004/2005 accounted for about 20 percent of the growth in total GDP and 53 percent of growth in agricultural GDP in Amhara. Moreover, the study found that the ability of many poor clients to manage small businesses and develop business skills as the result of taking continuous loans is laying the groundwork for the emergence of a viable business sector in the region that will contribute to national sustainable growth. In this respect, the study noted, MFIs can be likened to incubators of future enterprises.

{Table 6} Welfare Conditions of Incoming vs. Mature ACSI Clients

Description	690 Clients (Incoming vs. Maturing) After 1 Year	After 5 Years
Clients who experienced food shortages over the past 12 months	21%	14%
Clients whose family members managed to see a doctor last year	46%	54%
Proportion of school-age children going to school	68%	77%
Clients who made home improvements worth at least $10 in the last two years	25%	48%

The study found that ACSI's savings mobilization has increased the resources available for productive investment in the rural areas and the growth of the private sector in the region. The successful performance of ACSI has reduced the flight of savings mobilized in rural areas to support urban lending activities. The study concluded that if the rural savings of ACSI had not been invested back into the rural areas where the savings were captured, ACSI would have risked deepening the underdevelopment of the region.

In an additional effort to measure impact, ACSI is collaborating with CGAP to develop basic indicators that can be used to regularly monitor the impact of microfinance services upon clients. A special correlation is being used to identify the role of ACSI's microfinance activities on the achievement of the UN Millennium Development Goals.

Product diversification

Credit

In addition to group loans[56] and individual loans, ACSI also provides what it calls association loans for clients who go into business together. For example, if a group of clients leases equipment for a productive purpose – such as a rock crusher to make gravel for construction sites or a machine to produce precast beams or bricks – ACSI will provide one loan to the entire group, but each member will be responsible for repaying his or her share. Once they sell their finished product and repay their loan, the title to the equipment is transferred to the association.

Savings

Compulsory savings: All ACSI clients who take out a loan must also save a percentage of their loan amount: 5 percent for one-year agricultural loans (term loans) plus an additional 1 percent monthly; 3 percent for loans for petty trading, services or manufacturing that are paid off in monthly installments plus 1 percent monthly as ongoing savings. Savings are collected at monthly group meetings and pay an interest of 5 percent. Withdrawals can be made only after a loan is repaid in full. ACSI clients are taught not to disclose the amount of their savings to protect them from being importuned for a loan.

Voluntary savings: Clients may also save at a rate they choose for 5 percent interest and they can withdraw this money at any time. ACSI also offers two-year minimum deposit accounts of at least $1,000 that yield 6.5 percent annually.

For ACSI clients, having somewhere safe to keep their savings is no less important than the savings themselves. This is why ACSI has invested in solid, well-built sub-branch offices. "We want the people to have confidence in us," says Mr. Yelewumwosen. "Their housing conditions are very low-standard and their money is vulnerable to theft. But when they put their money with us, they need to believe that it's well protected."

Domestic money transfers

ACSI charges clients 2 percent for money transfers within Ethiopia.

Pension fund management

As noted, ACSI serves as the local disbursing agent of the Amhara Pension and Social Security Authority, collecting a commission of five cents per payment. This income, which amounted to $214,643 in 2008, is used for ACSI's branch construction. ACSI has a clear organizational advantage for such transactions because it has sub-branches in every district in Amhara.

56 Clients who take out group loans are usually not in business together. Each uses his or her portion of the group loan for a separate purpose.

Micro-insurance

In January 2007, ACSI introduced a loan insurance product available to group loan clients. In addition to protecting ACSI from the risk of unrecoverable loans, the micro-insurance product covers uncollected loan amounts at the time of a client's death, thus preventing multi-generational indebtedness. The amount of premiums is based on the terms of a client's existing loan: For two-year loans, the premium is 1.5 percent of the loan; for one-year loans, 1.2 percent; for monthly installments of one-year loans, the premium is 1 percent.

Technology

It took ACSI nearly four years to customize its software to conform to its operational modalities for use at the sub-branch level. Nearly every ACSI sub-branch has a computer and there are 196 client databases. At the branch and head office level, encoders enter the balance sheet, income statement and cash flow in English for reporting to the Microfinance Department of the National Bank of Ethiopia and for internal management and other reports. ACSI uses Bankers Realm (Microfinance Office) software produced by Craft Silicon, a high-end, fully integrated, Internet-aware, comprehensive, on-line banking software system for automating a bank's front-and-back office activities. Bankers Realm is specifically designed for medium and large banks and financial institutions.

Transforming ACSI into a bank

The Ethiopian government is currently drafting a law that will require all large MFIs, including ACSI, to become fully-fledged banks. The National Bank of Ethiopia invited ACSI to comment on the draft of the law, which is scheduled to take effect during the second quarter of 2009. However, Mr. Yelewumwosen explains, uniform standards governing how MFIs in Ethiopia's nine autonomous regions will be transformed into banks have yet to be developed. ACSI has already hired a consultancy team that has outlined a number of key steps in the transformation process.

Transforming into a bank will enable ACSI to do a number of things that it currently cannot do, such as having access to hard currency funds and offering clients foreign currency remittance services. Bank status will also enable ACSI to provide larger loans that can generate revenue to offset the cost of microlending.

"ACSI's primary objective is poverty alleviation. As a bank we can be a link between the very poor and the rest of the economy."

Mekonnen Yelewumwosen

Is there a danger that, as a bank, ACSI will become so big and profitable that it will forget its core mission of serving the poor? "Not at all," says Mr. Yelewumwosen. "ACSI's primary objective is poverty alleviation. As an MFI, we have a special opportunity that commercial banks don't have: We go down to the low end of the market, to the poor, and we don't require collateral. We've already established credibility in this. Our repayment rate is very high. All this will not change. But as a bank we can be a link between the very poor and the rest of the economy."

Helping clients survive Ethiopia's next drought and preserve its forests

Cyclical, often localized drought is a fact of life in Ethiopia. But the growing stores of assets and savings that Ethiopian microfinance clients have been building since the 1990s are a sign that the next drought may not be as devastating as the last. In Amhara, ACSI has adopted different drought-mitigation approaches for the western part of the region, which receives good rainfall, and for the east which is very dry. ACSI clients in the west are encouraged to produce crops while clients in the east are supported in raising livestock and doing other off-farm activities that require less water. The government has distributed water-storage tanks, and ACSI clients in the east are taught rain-harvesting techniques as part of their pre-credit training. They are also supplied with irrigation technology so that they no longer depend only on rainfall. As a result, some ACSI clients are now harvesting three crops a year instead of only one, while others have moved from farming to animal husbandry.

ACSI has established a tripartite arrangement with a supplier of irrigation pumps. The supplier imports a large quantity of pumps duty free, which brings the cost down. ACSI purchases the pumps in bulk and arranges for local government extension workers and representatives of the suppliers to train its clients in the use and maintenance of the pumps. Groups of clients often purchase a pump from ACSI for use by the entire group. This enables farmers to plant and harvest crops all year round, even during the summer dry season.

ACSI has also entered into an agreement with GTZ of Germany to provide its clients with fuel-efficient stoves to reduce the need for firewood. With technology and training supplied by GTZ, some ACSI clients have become manufacturers of these simple stoves. The producers receive financing from ACSI and are then able to sell the stoves at a discount. "If the people are buying these stoves, they consume less firewood," says Mr. Yelewumwosen. "The ultimate goal is to sustain our natural resources."

When it comes to surviving the next drought, he is confident that his clients are now well-prepared and that ACSI's investment in them is safe. "When there is a drought, some people try to blame the situation in order to be free of the loan," he concedes. "But our clients will have something to repay because they have three or four cows, three or four goats and sheep that they can sell. We watch how they do, whether they are investing in cows, sheep, goats or off-farm activities: trade, manufacturing or processing. They have to have a portfolio mix in order to minimize their risk. If they invest some of their loan in livestock, some of it in off-farm activities, some of it in crops and the rest in some type of service or other activity, this will minimize their risk."

The last serious drought in Amhara occurred in 1999-2000 when ACSI was only four years old. Yet, according to Mr. Yelewumwosen, in those years the organization's loan repayment rate was 98 percent. "We lived with the drought and we faced the problem," he says. "We met the challenge because of the portfolio mix, because the people diversified their activities. This is the type of management we need when the drought is coming – because the drought is coming, many times. But this is the way to manage the drought. I do not fear the drought or the future."

Sinapi Aba Trust (SAT), Ghana

Transformation,
One Client at a Time

For the past 19 years, Afosatu Mohammed, 35, has spent hours every day producing batches of palm oil – an essential food staple in Ghana – to sell. It is a long, labor-intensive process. First, she collects fuel from the bush: dry branches, palm fibers and twigs. Then she buys palm nuts, cooks them, pounds them to a pulp with a long wooden pestle, strains the pulp, boils it for several hours, skims off the reddish oil and then boils the oil a second time to expel the water content. Finally, she sells the oil in the local market.

Afosatu also grows yams, plantains, maize and vegetables with her husband. The family consumes most of these crops because they are seasonal; the income from whatever surplus can be sold is small and sporadic. Afosatu's palm oil business is the family's only regular source of cash income.

Afosatu and her husband live with their two young children on the outskirts of Goaso, the capital of the Brong Ahafo region in central Ghana. Gold is mined in this area, but like many local people, Afosatu and her husband have no connection to the gold mining industry. And no matter how hard she worked, over the years Afosatu's palm oil business was not very profitable: Her twice-weekly production cycle netted between $8 and $12, or roughly $1,040 a year.

Since she had no working capital, Afosatu was obliged to buy her inventory of palm nuts from local farmers on credit, paying the farmers only after she sold her palm oil. Very few farmers would agree to this arrangement, so purchasing adequate supplies of palms nuts was difficult. As a result, meeting the family's needs was a struggle. Afosatu could only afford to send one of her children (the boy) to school, and she could not always manage to buy his school supplies.

Sinapi Aba Trust (SAT), Ghana	
Areas of operation	All regions of Ghana
Established	1994
Type of institution	NGO
Main funding sources	Opportunity International, loans
Number of personnel	232
Number of branches	38 (28 rural)
Numbers of borrowers/compulsory savers	74,731
Number of voluntary savers	37,000
% of clients who are women	95%
Gross loan portfolio	$17,443,312
Average loan balance	$285
Loan interest rate	38% annually
Gross savings portfolio	$5,769,140
Average savings balance	$20
Savings interest rate	8% annually
Percentage of group loans	90%
PAR > 30 days	1.72%
Operational Self-Sufficiency	112%

Data as of November 2008

Then, in June 2008, a friend of Afosatu's told her about a women's group that provides access to loans for poor women with no collateral – something unheard of in her area. Afosatu was able to join this group of 10 women who were clients of an MFI called Sinapi Aba Trust (SAT).

Before receiving their first loans, Afosatu and her fellow group members attended eight sessions[57] of orientation and pre-loan training from SAT, spread out over eight weeks. The curriculum covered a variety of topics, including:

- Core values of SAT (commitment to the poor, stewardship, respect and integrity)
- Group formation, dynamics and trust
- Leadership skills
- Teamwork
- Time management
- Record-keeping
- Christian values and morals
- The importance of savings
- Loan repayment plans

Once the training was completed, Afosatu's group took out a loan for $1,640 ($164 for each member) at an interest rate of 38 percent per year, or about $5.25 per month for each member. But in accordance with SAT's savings policy, before the loan was handed over, Afosatu and the other women each had to come up with 10 percent of the amount of their loans ($16.40) as compulsory savings, which earns interest of 8 percent annually. These savings are held in a trust for the clients and can be withdrawn by all the group members together after they repay their loans. In addition to producing income, the compulsory savings serve as collateral and demonstrate the clients' commitment to repay their loans. In addition, Afosatu also saves $1.64 every two weeks through SAT's progressive (voluntary) savings plan, which is helping her accumulate the compulsory savings for her next loan. In the past, she had tried to save by stashing money in a box under her bed, but she could only afford to do this very occasionally and the box was often empty. The account with SAT is her first real savings account, and so far she has accumulated about $20.

Afosatu's loan has enabled her to purchase larger supplies of palm nuts outright, produce more palm oil and expand the market for her product. This, in turn, has raised her family's standard of living and her standing in the community. Today, Afosatu's business makes a profit of between $25 and $37 twice a week. And she also gained time and reduced the amount of physical labor she expends on her business: She can now afford to employ the services of a commercial, mechanized mill to pound the palm nuts; and, for another small fee, she

57 Since Afosatu received her orientation, SAT's orientation period has been shortened to six sessions over six weeks.

has the oil strained by machine as well. Mechanizing the production of palm oil in this way very significantly increases the volume of oil Afosatu can sell.

Afosatu is now able to send both her son and daughter to school and to buy all their school supplies. She can buy better food for her family and pay the water and electricity bills on time. And she has purchased better cooking vessels and containers for her business.

Afosatu paid off her first loan (plus a total interest of $26 for six months) in January 2009 and immediately took out a second loan for $410, enabling her to buy palm nuts in bulk to satisfy the demands of her growing clientele. Although she is not educated and cannot read or write, she is determined to keep both her children in school, all the way up to university.

The challenge of serving the rural poor

Founded in 1994, SAT operates throughout all of Ghana's 10 regions, giving priority to the poorest rural areas. SAT's status as an NGO gives it the flexibility to reach people like Afosatu who live on the outskirts of towns as well as hard-to-reach clients in the country's most remote communities. "Our focus is on rural lending," says Anthony Fosu, SAT's chief executive officer. "We go to the very deprived communities where nobody else wants to go, where none of the banks, none of the regulated institutions go." SAT's goal is to continue to deepen its outreach in these rural communities. It hopes to reach 110,000 clients by the end of 2009, and not less than 250,000 by the end of 2013.

As a nimble NGO, SAT rents all of its 38 simple, no-frills branch offices. Ten are in Ghana's 10 regional capitals; most of the rest are in far-flung villages where they can serve communities that have very little infrastructure and sometimes no electricity or access to all-weather roads. SAT's branches have an extra room for client orientation and training. Furnishings and equipment are rudimentary. Often, to reach their most far-flung clients, SAT mobile loan officers travel deep into the hinterlands on motorbikes or public buses. Carrying cash on these journeys involves considerable risk, but SAT is insured against theft.

SAT's operations are flexible and simple and their financial overhead is minimal. "When our field workers finish operating in the very rural areas," says Mr. Fosu, "all they need is a computer and a telephone line and they just dial up to connect to the head office." By contrast, he says that if a regulated bank set up a full-scale, fully-equipped branch in a rural area, the cost would reach hundreds of thousands of dollars. "Our simple central branch and satellite model serves more rural clients than they do," he maintains.

But for SAT, there is one big disadvantage to being a microfinance NGO in Ghana: As a non-regulated institution, SAT is prohibited by law from soliciting savings from anyone who is not a credit client. "We deem savings to be a very good tool for poverty reduction because it gives our clients a lot of financial security," says Mr. Fosu. Like Afosatu, clients often use their savings to pay their children's school fees, to pay for health care, or simply to tide them over during difficult times.

But since SAT is limited in the savers it can serve, savings are not a significant source of lending capital for the organization, which up to now has borrowed from commercial banks to furnish its loan portfolio. "In the next five or 10 years, it may no longer be sustainable for us to take on debt as our chief source for lending," says Mr. Fosu. "There's a limit to what our yearly income will support. At that time we may be forced to rely more on client savings as a major, and less costly, source of funding."

However, Mr. Fosu points out that becoming a regulated financial institution that can offer all types of savings will require large investments to upgrade SAT's branches and systems to meet official banking standards. As a regulated bank, SAT will still be able to use mobile loan officers to reach rural clients, a key element in carrying out its mission. But the cost of the transformation into a regulated bank will temporarily divert a lot of money that would otherwise be used to reach more clients. The expansion of client outreach will have to be put on hold for a while. "We are planning toward that also," says Mr. Fosu.

In fact, before the global economic crisis began to threaten in late 2008, he had hoped that the regulations of the Ghanaian banking system might be relaxed to accommodate the needs of MFIs like SAT. This now appears unlikely. "The emergence of the credit crunch has made everyone more nervous," he says, "especially regulators."

Raising the productivity – and incomes – of farmers

All of SAT's loans are made for income-generating purposes, and about half of SAT's clients are farmers like Afosatu's husband. Because most farming in Ghana is rain fed, hence seasonal (the main rainy season runs from April to July), about half of the country's farm families must also rely on some commercial activity such as trade, artisanal manufacturing or, like Afosatu, food processing to tide them over in the off season. For most, these activities, including farming, provide only a precarious livelihood with little scope for improvement. SAT clients invest their loans in both their farms and commercial activities. Thus, while SAT's group loan system operates all year round, the purpose for which the loans are used will vary with the season and according to opportunities that present themselves.

In an effort to improve rural incomes, SAT joined forces with the U.S.-based organization Technoserve in 2006 to enlist some 3,000 farmers in the north of the country to produce sorghum for sale to Guinness Ghana Limited, the largest brewery in Ghana. The end product is a non-alcoholic beer called Malta Guinness that is very popular in Ghana.

The system uses the block-farmer method in which farmers join together to produce cash crops (in this case, sorghum) through a system managed by the farmers themselves with technical support from Technoserve. Each farmer plants one to three hectares in sorghum, and SAT provides all the inputs on credit (at 18 percent interest), from tractor rentals to fertilizer, improved seeds and the farmer's labor. "Normally, the problem with agricultural lending is that if you give the money directly to the farmers, they may spend it on other pressing needs," says Mr. Fosu. "If they don't buy the right farm inputs or apply the right quantities of fertilizer, they won't get the best results." Moreover, marketing is often a problem for farmers.

"We go to the very deprived communities where nobody else wants to go, where none of the regulated banks can go."

Anthony Fosu,
CEO, Sinapi Aba Trust

{Table 7}
Estimated Breakdown of SAT's Guinness Farming Project for One Harvest Cycle, One Hectare

Farmer's labor	$25
Tractor rental	$10
Improved seed	$5
Fertilizer	$100
Total loan to farmer	$140
Interest charged by SAT	18%
Total owed to SAT by farmer	$165
Price paid by Guinness for one ton of sorghum	$500
Profit to farmer	$335

per ton of sorghum

At the time crops are harvested, there is often a glut. If local produce prices are low, the farmers may have difficulty repaying their loans, let alone providing for their families.

In the Guinness project, SAT pre-negotiates a premium price with Guinness – about 1.8 times the local market price for sorghum – because the project guarantees a uniform, high-quality crop. Technoserve's advisors ensure that the farmers follow optimum farming practices. After Guinness harvests the sorghum and transports it for processing, it pays SAT the prearranged amount. SAT deducts the farmers' loans and interest from this amount and pays the farmers the balance. With the loans paid off, there is no risk of default.

The arrangement is profitable for Guinness Ghana because it guarantees a reliable supply of sorghum and reduces the amount of barley (the other main ingredient) the company needs to import for their beer. And since the project started, the farmers' output has been increasing steadily. Guinness is buying more sorghum from the farmers each year and importing less barley. Meanwhile, the income of the participating farmers from their sorghum crops has more than doubled. In the past, without reliable access to high-quality seed and fertilizer and without support from Technoserve, the farmers produced about 0.8 tons of sorghum per hectare. Now, the average production has increased to 1.5 tons per hectare.

SAT is currently discussing the possibility of similar arrangements for maize and soybeans with other food companies. In Ghana, the potential for growing maize is high: Unlike sorghum, which is grown only in the north, maize is cultivated throughout the country. In the course of a year the price of a 50-kg bag of maize in Ghana fluctuates between $12 to as much as $57 depending on supply; but peasant farmers strapped for cash usually cannot afford to wait until the price goes up. SAT is working with their partners on a gap-bridging "inventory credit scheme" that would guarantee farmers a good price all year round.

Micro-insurance for funerals

In 2004 the government of Ghana launched a national health insurance scheme with a monthly premium of 66 cents, which is considered generally affordable. SAT, therefore, does not offer health insurance. But it does offer funeral insurance.

Funerals constitute one of the largest lifetime expenses for the average Ghanaian, in part because of the extravagant, often beautiful, usually whimsically painted coffins that Ghanaians favor. To meet this need, SAT is piloting two micro-insurance schemes in partnership with Opportunity International. About 2,000 clients in three branches have purchased insurance from a micro-insurance company with SAT functioning as its agent. And in three other branches another funeral insurance scheme directly operated by SAT now covers 1,000 clients. Currently both of these programs are only available for SAT clients, but the policies can cover the clients' family members and other relatives.

Technology

"We don't have high-speed Internet access in all our branches," says Mr. Fosu, "so most of them have to use telephone lines – land lines – to dial up." SAT is planning to purchase a point-of-sale device that uses GSM digital cell phone technology to transmit transactions directly to the head office. SAT also uses GPRS (General Packet Radio Services), a wireless communication system to transmit data from the branches to the server in the head office in Kumasi. The Grameen Foundation supported SAT in piloting this technology in two branches. SAT is now looking for a donor to help purchase the system for all its branches. For data processing, SAT uses Image software by Terminus.

Training for transformation

"At Sinapi Aba Trust we believe that our main business is not microfinance," says CEO Tony Fosu. "Our main business is client transformation. Microfinance is just a means to an end. For our clients, it's not just a matter of taking the money. Money does not transform."

The training and orientation Afosatu received when she joined SAT was the first formal education she had ever had, as is undoubtedly the case with many SAT clients. Moreover, those weeks of orientation were only the beginning of ongoing training sessions that are held every two weeks during loan cycles when clients meet together to make savings deposits and installments on their loans. Spread out over 10 loan cycles, the entire training program can take up to five years, with two cycles per year.

The training, which can be thought of as life-improvement training, is structured in such a way that each loan cycle covers at least two topics under five broad headings: Business Management, Marketing, Health, Christian Education and Building a Good Trust Bank (i.e., teamwork). (See Table 7.) In addition, since the first cycle encompasses the fundamentals of all these topics, clients who take out only one loan can acquire basic knowledge in all the topics. The training program seeks to address the business and social needs of clients as they graduate from one stage to the next in their businesses; thus, clients who are able to complete all 10 cycles (most do) receive long-term training support that is directly applicable to their businesses and their personal lives. SAT clients are required to attend the training sessions as a condition for receiving loans and are therefore highly motivated to do so. And the sessions are also a forum for providing clients with health information, social education and support that would probably not otherwise be available to them.

The training is highly practical. Focusing on enabling clients to use their loans as effectively as possible to grow their businesses, the Business Management section recognizes that, in order to realize maximum success (and avoid possible failure), even the smallest businesses in the most remote regions benefit from, and indeed require, systematic adherence to sound business practices. The section covers topics such as customer service, purchasing stock and materials, marketing, promotion and publicity, time management, bookkeeping and planning for the future. But SAT also has a non-finance department that addresses, through training, a range of other issues that are central to the fight against poverty: HIV/AIDS, communication within the family, responsible parenting, protecting children from violence, hygiene and sanitation, malaria treatment and prevention, stewardship of natural resources, separating personal finances from business finances, interpersonal relationships, mutual encouragement and leadership. In fact, the training even includes sessions with such personal transformation titles as Learning to Love Ourselves, Sharing Our Gifts and Are you Tired and Weary?

"It's not just a matter of giving loans to our clients," says Mr. Fosu. "What counts is the clients' ability to utilize the loans to earn income and profits so that they can also repay." Not only do SAT's financial officers provide clients with business advice whenever it is needed, but SAT also brings in other experts to help develop their clients' abilities. "This is why SAT clients must attend our orientation meetings and participate in our ongoing training sessions," says Mr. Fosu. "We believe this is what accounts for our clients' commitment, their good repayment record and their success."

Client transformation and the double bottom line

Yet despite all this emphasis on their clients' success, the leaders of SAT are aware of an uncomfortable conundrum that all MFIs must face sooner or later. In order for MFIs to remain financially viable and self-sustaining, the truth is that they cannot afford to lend money to clients who are not already engaged in some economic activity, however humble. This stark reality would seem to be at odds with the idealism to which many MFIs aspire.

"We believe that microfinance has a particular limitation," Mr. Fosu concedes. "Even at Sinapi Aba Trust we can only offer our microfinance products to people who already are in business. One of the criteria is that the person must already have been in business for at least six months. We don't give start-up capital."

Nevertheless, SAT is determined to help everyone bridge the gap between destitution and a better life. To do this they have developed a Youth Apprenticeship Program that targets the most vulnerable young people in the country's poorest communities. With partners such as Opportunity International, SAT has developed training programs for school dropouts and other youth who have no apparent skills or aptitude for productive work. The program employs professional counselors who are trained in youth development. The counselors target a particular community, go there and consult with members of the community, they then gather the young people and choose the most vulnerable among them. These young people attend a series of orientation workshops and seminars that expose them to various trades, jobs and businesses so that they understand what is involved in each. They are then encouraged to choose the trade that appeals to them most.

Once they have chosen a trade, SAT links each young person with a trade master in his chosen field from the same community. SAT pays the apprenticeship fee and supplies the equipment needed for the training. The youth team monitors the apprentice's daily attendance for one or two years, depending on the trade. When the young people finish their apprenticeship they take Ghana's National Vocational Training Institutions exam. If they pass, they can start their own businesses and are immediately eligible for their first SAT loan. To date, 663 young people have been enrolled in SAT's Youth Apprenticeship Program: 510 girls and 153 boys. Of these, 34 finished their apprenticeships in 2008 and took the Vocational Training Institutions exam; 29 passed and are now business clients of SAT.

"What I'm most proud of is our transformation focus," says Mr. Fosu. "Transformation of the client is more important to us than anything else. Yet at the same time, we keep the double bottom line of making sure that while we do transformation we remain sustainable. This is something that excites me – that we're able to meet both goals so efficiently." He insists that there is no contradiction between his organization's financial success and its idealistic mission – on the contrary. "The secret in maintaining the double bottom line with efficiency is to remain true to one's corporate mission," he says. "We at SAT believe that transformation is our business and microfinance is our means. It's worth noting that transformation directly and indirectly has a positive impact on our profitability and therefore on our sustainability."

In order for MFIs to remain financially viable and self-sustaining, the truth is that they cannot afford to lend money to clients who are not already engaged in some economic activity.

{Table 8} Sinapi Aba Trust Training Schedules – Loan Cycles 1-10

- **Business Management: costs, profits, inventory control, labor management, debts/credit, time management**
- **Marketing: publicity, advertising, customer relations, promotion**
- **Health: mental, emotional and physical health**
- **Christian Religious Education**
- **Program: being part of a trust bank**

SAT Loan Cycle Training Schedule

1	2	3	4	5	6	7	8	9	10
What Are My Costs?	How to Calculate Cost and Income	Testing for HIV/AIDS	Time Management	Refresher on How to Attract Customers	How to Calculate Cost and Income	What Are My Costs?	What Should I Know About My Business?	Learning to Read the Bible	Learning to Read the Bible
Separating Personal Finances from Business Finances	Managing Accounting Records - Daily Expenditure Account	Talking with Our Spouses/ Partners	Preparing for the Future	Malaria Treatment and Prevention	Preparing Ourselves to Avoid Falling into Arrears	How to Calculate Cost and Income	Credit, Debt or Investment	How Can I Earn More Profit?	How Can I Earn More Profit?
Customer Services 1	Protecting Ourselves and Others from HIV/AIDS	How to Use a Condom	Committing Ourselves to Action	Time Management	Managing the Petty Cash Fund	Managing and Motivating Your Workers	Save No Matter What Your Circumstances Are	Planning For Business Growth	Planning For Business Growth
How Should We Attend to Our Customers?	Talking about HIV/AIDS	How Do We Attract Customers?	Parental Care	Christian Stewardship	Requirements of a Good Steward	Managing and Motivating Your Workers	What to Do When There are Economic Crises	Quick Formula for Better Communication	Quick Formula for Better Communication
HIV/AIDS is Our Problem	Protecting Our Children from HIV/AIDS	Market Research	How Should We Attend to Our Customers?	Refresher on Separating Our Personal Finances from Our Business Finances	Refresher on Promotion and Publicity	Managing Stock - Taking Inventory	What to Do When There are Economic Crises	Group Decision-Making	Group Decision-Making
How People Get HIV/AIDS	Customer Service 2	Preparing Ourselves to Avoid Falling into Arrears	Saving Our Children from Violence	Reinforcing Attendance at Meetings	Are You Tired and Weary?	Managing Stock-Taking Inventory (Continue from Last Session)	Interpersonal Relations and Motivation	How to Become a Good Leader	How to Become a Good Leader
Promotion and Publicity	Customer Service 3	We Won't Give Up	Keeping Our Surroundings Clean	Refresher on Managing Accounting Records - Daily Expenditure Account	Preparing Ourselves to Avoid Falling into Arrears	Good Clients Service	Learning to Love Ourselves	Sharing Our Gifts	Sharing Our Gifts

Banco Oportunidade Moçambique (BOM), Mozambique

Mobile Banking and High Tech in Mozambique

Regina Zanga, 58, is living alone, something very unusual for an African woman. For the time being, she is staying in a one-room shack with bamboo and tin walls, a tin roof and a scrap-wood door. The arrangement is lonely but practical: From her hut, she can keep an eye on the brand-new, permanent, five-room, cement block house being built for her block by block, room by room, with the profits from her business as a vegetable vendor. Meanwhile, her children are sleeping at her brother's house.

Regina is a mother of six and grandmother of two whose husband abandoned her years ago. After that, she lived with her brothers (and continued to do so until recently), selling vegetables at the Madruga market in Matola, 25 kms from Maputo, the capital of Mozambique.

Because she had no investment capital for her business, Regina had difficulty generating enough income to support her children. Without adequate capital, she was forced to buy low-quality, often wilted vegetables on credit, and most of her proceeds went to repay her debts. Finally, in 2000 things began to change. Regina joined a group of five women belonging to an MFI called MEDA and was able to take out a loan of $40 at a monthly interest rate of 5.5 percent. This enabled her to purchase larger quantities of fresh, high-quality produce and to keep the profits from their sale. MEDA has since been acquired by the microfinance bank Banco Oportunidade Moçambique, or BOM. The acronym means "good" in Portuguese.

The name of Regina's solidarity group is Humelela, which means "when water appears" in the local language. In December 2005, each member received a loan of $200. At that point, Regina left the group and began taking larger loans from BOM on her own, but she has since returned to the group because of the support she receives and the more manageable size of the loans. There is great camaraderie among the members of Humelela. Since her first loan, Regina has taken a total of 15 loans both within the group and as an individual. Her largest loan was for $500. She has used this money for working capital, for expanding her business and for the construction of her house.

The work on Regina's new house began in 2003 and she expects it will be finished in 2009. For the most part it is being built by her family members and friends, though she occasionally hires workers for specialized jobs. She now has running water on the plot and one room in the new house has been covered, allowing her to store the building materials she has been saving for the rest of the house. Besides building the house, Regina draws on her savings, which she replenishes regularly, to educate her children. Three are now in school, in 7th, 8th and 9th grades, and one is working.

For Regina and her family, it has been a long journey from the grass hut they once lived in to their new cement block house. Today the future looks bright. "I have been working for a long time, little by little, to build this house for the future," Regina says, her arm around the shoulders of her granddaughter. "And even though I won't be here one day, I'll be happy, because my family will have a better place to sleep."

Innovations for reaching unbanked clients

At around 7:30 every morning, in Mozambique's central province of Manica, a four-ton truck leaves the provincial capital, Chimoio. It travels for an hour or more into the countryside and can often be seen lumbering down one of the few good roads that lead to Sussendenga, Catandica and other rural villages. The truck looks like a large hot dog stand on wheels, but painted in bright red on its side are the Portuguese words for "Bringing the Bank Closer to You." It is one of two mobile banks maintained by BOM that ply the hinterlands of the country's

three central provinces, serving existing clients and recruiting new ones in places miles away from any other financial services.

Each of the villages served by the mobile banks has an extended population of about 75,000 people. With their regular schedules and service days, the trucks are expected in each village. By the time they arrive, a good number of clients have gathered to access their accounts. For three of these villages, the truck is the only bank that serves the community.

Each mobile bank goes to a different village every day and is open for business by about 9:00 a.m. On board are five BOM staff members: two tellers, one supervisor, the driver and a security guard. They serve clients with near-normal banking hours, from 9:00 a.m. to 3:00 p.m., returning to the main branch by 5:00 p.m. – a long day for the team, who typically rotate mobile duties with other branch staff. Each village served by a BOM mobile bank also has at least one resident loan officer who cultivates and maintains client relationships and develops new loan applications.

When a mobile bank arrives in a village, people crowd around. One side opens up and the staff inside serve clients making deposits and withdrawals. They also disburse loans, take loan applications and collect loan payments. The truck reaches clients who have no other access to a bank, yet of necessity it must go where at least minimal infrastructure exists. "One of our criteria for serving these villages is that we can get there safely and easily by truck," says Wesley Jordan, BOM's chief financial officer. In addition to adequate roads, some of these communities have electricity and cell phone connectivity. "We do require these minimum conditions and we also want to know that there's a potential market of at least a few hundred clients in the places we serve."

The first of the two mobile banks was launched in June 2007 and currently serves about 1,500 savers, 1,200 of whom are also borrowers. The second was launched in January 2009. By the end of this year, BOM hopes to reach 2,500 clients with its mobile banks.

And BOM has already identified one of these villages as a good prospect for establishing an unusual type of satellite office that will be housed in a metal container – a "branch in a box" that can offer the same basic banking services. This will free up the mobile bank to add another new village to its weekly route. In addition, BOM is planning to build two new full-service branches in early 2009 – one in the northeastern province of Nampula – and install two of the container banks in peri-urban areas. The strongly made containers are designed to resist thieves. They will be staffed by at least one person who will keep small amounts of cash on hand. Clients will

Banco Oportunidade Moçambique (BOM), Mozambique	
Areas of operation	Six out of 10 provinces, mostly peri-urban and rural areas
Established	2005
Type of institution	Bank
Main funding sources	Opportunity International, shareholder capital, savings, loans, grants
Number of personnel	120
Number of branches	6 (4 peri-urban, 2 mobile)
Number of borrowers	7,545
Number of deposit accounts	18,601
% of clients who are women	44%
Gross loan portfolio	$1,967,538
Average loan balance	$353
Loan interest rate	5.5% per month
Gross savings portfolio	$1,227,698
Average savings balance	$80
Savings interest rate	3-9% annually
Percentage of group loans	38%
PAR > 30 days	3.96%
Operational Self-Sufficiency	93%

Data as of December 2008

not be able to enter the structures. The objective is to create access points for clients in sprawling peri-urban areas like Maputo or Beira where they would otherwise have to travel long distances to a bank branch. "In some of the markets on the outskirts of Maputo, it can take well over an hour for a client to come into Maputo to make a deposit or withdrawal at our main branch," says Mr. Jordan. "That's two hours out of their day and they're working hard. Their businesses depend on them being there – not sitting on a mini-bus."

21st century technology

All of BOM's branches except the mobile banks are connected to each other via the Internet. And since 2005, all branches, including the mobile banks and containers, have used biometrics – digital fingerprint impressions – to identify clients when they make a withdrawal. Each client registers his or her fingerprint along with a scanned copy of their ID document and a photo taken with a simple digital camera. Once a client verifies the fingerprint at the teller window, the photo appears with the client's record confirming to the teller the identity of the client. The biometric system is used for any movement of funds, whether a transfer or withdrawal. Once a loan is disbursed to the client's account, he or she can only withdraw money using fingerprint verification.

Clients do not have passbooks. Statements are available on request and one is provided free per month. However, statements are rarely requested as clients can ask for their balance when they make a withdrawal.

The biometric ID system, BIDS, was developed by IT consultants for Opportunity International, BOM's primary shareholder. It is integrated with the core operations system, eMerge, provided by Temenos. In an effort to be cost-effective and paperless, BOM keeps a digital photo of each client and a scanned copy of each client's ID in its database. With the exception of photocopiers, the mobile banks and containers are fitted with the same equipment as the branches: laptop computers, fingerprint readers, Webcams, scanners and a small safe. All communications and uploading of transactions between the branches, the containers, the mobile banks and the head office in Maputo are conducted through wireless mobile phones.

BOM is currently investigating the option of offering M-banking: enabling clients to do balance checks, account transactions, payments, etc., via mobile phones. "We would like to offer this as we reach more unbanked and under-banked populations," says Mr. Jordan.

Products and basic numeracy for the poorest bankable clients

BOM requires that its clients be in business for at least six months before they are eligible for a loan. "We do not fund start-ups," says Mr. Jordan. "I don't know of any organization that does. That's a very risky proposition." Nevertheless, Mr. Jordan is confident that BOM – Mozambique's fourth-largest MFI – is reaching the country's poorest microfinance clients. He points out that BOM's average loan balance of $353 is lower than that of any other MFI in the country. And while BOM has 12 percent of Mozambique's microfinance clients, it only has 4 percent of the total microfinance portfolio. "Our clients are working really hard, many of them at survival level – a barely sustainable level of income generation," he says. "We're hoping that they can use our financial services to achieve some economic stability in their lives."

Part of BOM's planned expansion to Nampula province in the northeast is a response to increasing foreign investment in agriculture in Mozambique. BOM has recently been meeting with specialists from Opportunity International, Technoserve and CLUSA, the Cooperative League of the USA, a branch of the U.S. National Cooperative Business Association that works to strengthen cooperatives. They are helping the organization to design effective agricultural lending products for their clients – especially commercial farmers or smallholders who have the potential to become commercial farmers.

Minimum education levels are also a criterion for BOM's clients. According to UNDP's Human Development Report for 2007-2008, only 39 percent of Mozambicans – 55 percent of men and 25 percent of women – are literate. While BOM does not keep track of its clients' literacy levels, it does estimate that many of them have at least a second or third grade education and therefore sufficient reading skills to enable clients to read simple loan agreements. "As a regulated bank we need to have simple, enforceable contracts that both parties understand," says Mr. Jordan. "So we do require that our customers be able to read and sign our loan contracts." He concedes that this means that some people who would benefit from BOM loans do not qualify to receive them.

During the loan application process, BOM loan officers test and train new clients in basic numeracy in order to make sure they understand the calculations that determine how much interest they will pay.

An MFI that does not target – or ignore – women

Mozambique is a culturally diverse country. In the south, women tend to dominate the informal markets while men tend to be employed in the formal sector, i.e., in mining or manufacturing. In the north, more men work in the informal sector than women. BOM serves the markets where there is need for their services, irrespective of gender. "We don't target women, but we don't ignore them either," says Mr. Jordan.

Deposit accounts

Every BOM borrower is required to open one of three types of deposit accounts through which loans can be disbursed.

Savings accounts that pay interest of between 3 and 9 percent depending on the amount of savings. Clients can make two free withdrawals per month from their interest-bearing savings accounts. If they wish to make more than two withdrawals, they pay a fee of 4 cents per withdrawal. Forty percent of BOM's clients hold savings accounts.

Transaction accounts that pay no interest and are used for working capital. These allow four free withdrawals per month. Forty percent of BOM clients hold transaction accounts.

During the loan application process, BOM loan officers test and train new clients in basic numeracy in order to make sure they understand the calculations that determine how much interest they will pay.

"We really want to reach larger numbers of poor clients because we know that doing so has a transformational impact on their communities. But we need to have a significant number of clients wherever we operate."

Wesley Jordan,
CFO, BOM

Term deposits, or CDs, that pay interest of between 9 and 11 percent depending on the length of the fixed term. Twenty percent of BOM clients hold term deposit accounts.

Credit

While BOM does target savers, its loan officers actively promote loan products because BOM's revenues are dependent on interest from lending. Credit clients are evaluated according to the capacity of their businesses to generate enough income to repay their loans. For loan applications, BOM still uses paper documentation, since certain information on a client's business can only be collected in the marketplace. An analysis of each business is noted in the loan application, which is then evaluated by the credit committee.

BOM does not monitor how its clients use their loans except in the case of loans of more than $5,000. The bank is aware that the money they lend is "fungible" – it may be used for an emergency or other need, such as home improvements, education or health care, and repaid with earnings as they become available. "We lend against the clients' businesses," says Mr. Jordan, "but we know that some clients use the money to pay school fees and for other things. They're smoothing their spending and income with some of these loans."

While most BOM clients are poor and take small loans, the organization has also been able to provide six or seven loans of more than $10,000, and it sees these high-end clients as important to its future growth. "We want to grow with our clients," says Mr. Jordan. "We don't want to see our clients grow to the point where we say, 'It's been nice knowing you. We'd like to introduce you to another bank.'"

The challenges of growth and scale

When BOM was launched by Opportunity International in 2005, it took over some 2,600 clients from CARE and from Mennonite Economic Development Associates of Canada. CARE retained a 10 percent share of BOM and a seat on its board of directors. Other shareholders include Opportunity International, U.S. – 60 percent; Opportunity International, U.K. – 14 percent; and Oikocredit, Netherlands – 16 percent.

BOM's growth has been very rapid since then, with the loan portfolio nearly doubling each year. The organization achieved self-sufficiency with operating revenues, *not* including donor or grant income, covering all costs after approximately two years, although this degree of self-sufficiency declined somewhat in 2008. In an effort to maintain profitability, BOM's operations have been very lean. The time has come, says Mr. Jordan, to strengthen human resources in order to build on the strong foundation BOM has established.

In Mozambique, a country of 20 million people, the scope for expansion in microfinance is enormous, although the challenges are considerable. "One of the challenges is that this is a very large country, the population is very spread out and the cost of delivering services is high," Mr. Jordan notes. "This is why mobile banks and container banks make sense."

BOM has an aggressive expansion program for 2009-10. By mid-2010 it plans to open three new branches and six satellite offices as well as installing at least five containers in peri-urban markets. The biggest challenge is finding the right people – management and front office staff – to carry out the expansion. Achieving improved operational efficiency is the motivation for BOM's increasing reliance on technology, both to boost net income and in an effort to reduce the need for a large staff.

In some of the urban and peri-urban areas where it operates, BOM has been encountering significant competition from other MFIs who market their services through TV and radio advertising, billboards, pamphlets and even T-shirts. BOM is responding with similar marketing programs. "There's not much brand awareness of our bank," says Mr. Jordan. "That's something we need to work on."

Mr. Jordan acknowledges that there is tension between serving large numbers of poor clients and maintaining the bank's profitability without donor inputs. "We really want to reach larger numbers of poor clients because we know that doing so has a transformational impact on their communities. But we need to have a significant number of clients wherever we operate. Opening a satellite office for only a few hundred clients doesn't make much sense if we want to see a whole community changed. There is a tension between reaching greater numbers of poor, unbanked and under-banked people and also keeping that bottom line strong."

Creating an Enabling Policy Environment for Microfinance in Africa[58]

One of the goals of CARE's ACCESS AFRICA program is to promote a regulatory, legal and financial environment in African countries that facilitates rather than limits access to microfinance for both women and men, especially the poor who make up most of sub-Saharan Africa's population.

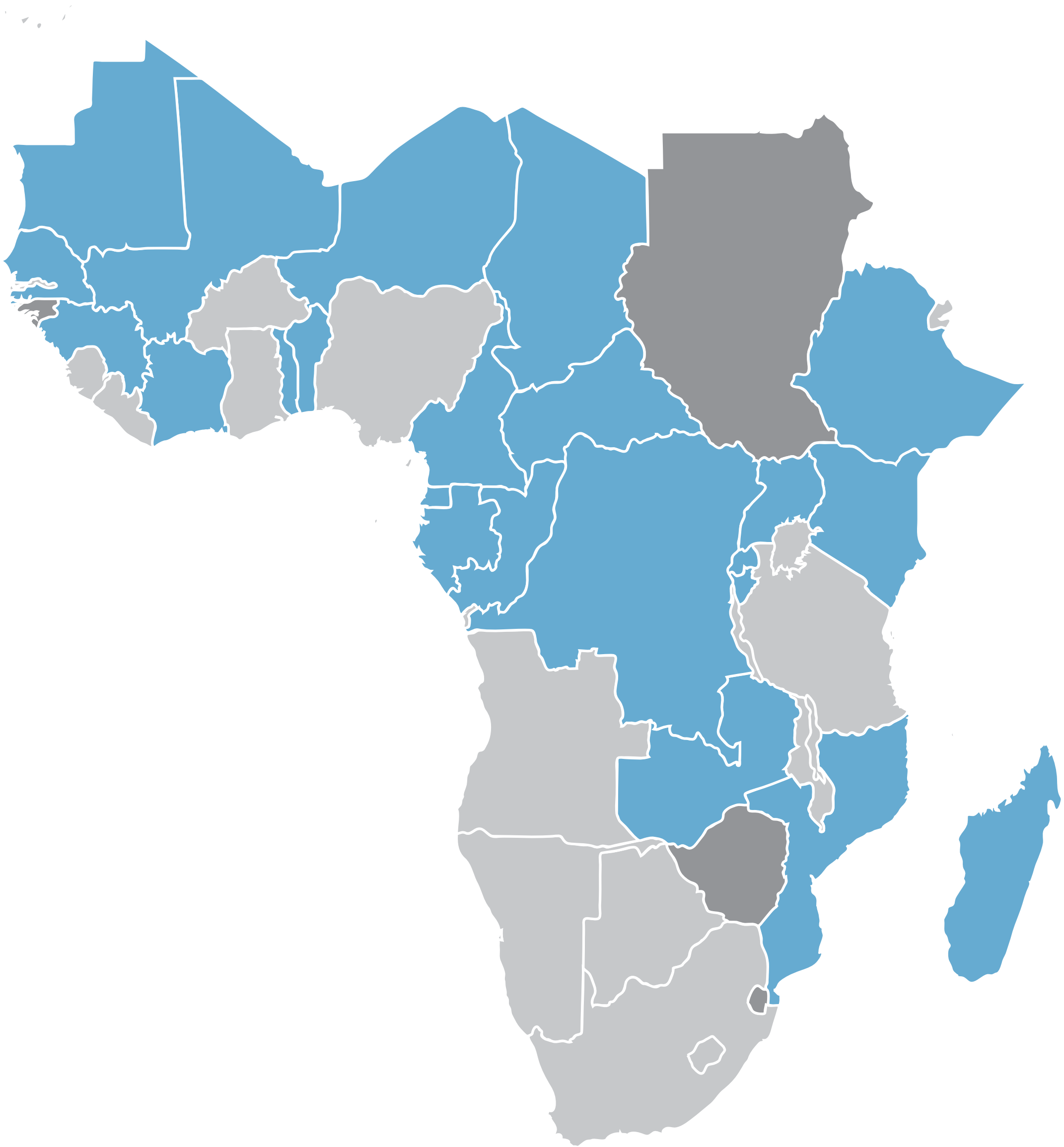
At the national level, microfinance strategies are publicly approved documents, developed through a consultative process, aimed at increasing poor people's access to financial services. It is ironic that, even though financial services still do not reach the hundreds of millions of Africans who need them, Africa has the most countries with microfinance strategies and/or policies in place. Strategies and policies are a first, crucial step; but they are not always translated into effective, inclusive laws and regulations. And even when they are, these laws and regulations are not always enforced. On the other hand, many broad economic and social policies that are sound, progressive and inclusive do tend to promote access to financial services.

Policies that specifically improve access to such services include the following:

- Transparency of institutions, good governance, appropriate regulatory oversight of financial institutions, contract enforcement
- Low inflation rates and regulated financial sectors
- Truth-in-lending laws that protect consumers, including the poorest and even the illiterate, in credit and similar transactions by requiring clear disclosure of key terms of the lending arrangement and all costs
- Programs and regulations that encourage banks to compete for business, thus lowering costs to clients and increasing access to services
- Programs that encourage banks to expand services to rural areas
- Regulation of insurers to prevent abuse of clients by unscrupulous companies and agents
- Removal of interest rate caps, thus increasing access to credit
- Programs that encourage financial institutions to offer a diversity of products
- Policies that encourage electronic banking, payments systems, clearinghouses, branchless banking/correspondent banking, franchising, e-banking and remittance transfers, especially for rural clients
- Legal protection of property rights for all, especially women
- Creation and maintenance of property registries
- Promotion (and even subsidization) of financial education, which both reduces barriers to financial services and helps protect consumers
- Financial policies and regulations that are flexible enough to accommodate changes in the financial sector, new actors, new technologies, etc.
- The creation of identity documents for displaced, minority or other disenfranchised persons to increase their access to financial services

58 The findings in this section of the report are based on a study conducted by CARE consultant Joan C. Hall, a desk review of government documents from the various countries and materials published by CGAP.

{Figure 1} **Map of Sub-Saharan Africa Showing Countries that Have Existing or Pending Microfinance Legislations**



MF Specific Law

Drafted MF Law

Other Financial Sector Law

Source: CGAP, 2008.

In addition, overall liberalization of financial sector structures, procedures, regulations and customs generally has the following positive effects:

- Makes information about clients available to lenders, thereby reducing risk and the cost of lending
- Makes loan contracts and agreements regarding collateral more enforceable, which increases the willingness to lend
- Provides borrowers with proof of collateral, such as land titles
- Creates standards of compliance and supervision for banks that offer savings accounts, thereby strengthening public confidence in those institutions
- Makes electronic payment transfers possible, thus increasing efficiency and transaction security and lowering costs

Since 2002, 22 African countries have passed microfinance-enabling legislation, including five (Kenya, Zambia, Burundi, South Africa and Tanzania) in 2006 alone.

In this report, we examine the policy environment in the 14 Tier One countries that are the focus of CARE's ACCESS AFRICA program during 2009-10. They are: Burundi, Ethiopia, Ghana, Kenya, Lesotho, Mali, Malawi, Mozambique, Niger, Nigeria, Rwanda, South Africa, Tanzania and Uganda. Of these, six – Burundi, Ethiopia, Kenya, Mozambique, Rwanda and Uganda – have specific microfinance laws and regulations. In six other countries – Ghana, Lesotho, Malawi, Nigeria, South Africa and Tanzania – microfinance institutions implicitly or explicitly fall under the broader legislation covering banks and other financial institutions. In Mali, for example, what microfinance legislation exists is designed for mutualist structures such as cooperatives; non-cooperative organizations must sign individualized agreements with the Ministry of Finance; and VSLAs are not recognized as legal entities. In Niger, microfinance-specific regulations are in place.

As more countries place supervision of MFIs under the same bodies that supervise banks and other financial institutions, microfinance is becoming more integrated into formal financial systems.[59] Nevertheless, consumer protection measures for microfinance clients remain rare, even though they may be in place for customers of traditional banks.

A number of key elements are considered essential for the creation of a policy environment that promotes access to financial services for all. These are outlined in the following table.

{Table 9} Elements of a Good Legal and Regulatory Framework for Microfinance

Features of Microfinance		Responsive Legal and Regulatory Framework
Transaction costs tend to be high	▶	MFIs are free to charge the interest rates they find necessary as long as they are transparent, no-interest rate caps.
Clients lack conventional collateral	▶	Collateral requirements are relaxed for MFIs as overall portfolio quality is used as a basis for assessing risk.
Simple loan tracking and accounting	▶	Reporting requirements are microfinance-specific, in line with international standards – less paperwork than for banks.
Savings are important to MFIs and their clients	▶	Well-functioning MFIs are permitted to accept savings deposits.
Many small branches	▶	Rules governing the expansion of bank branch networks are relaxed for MFIs.
Loan officers are not traditional bankers	▶	MFIs are allowed to hire flexibly.

Source: Diagnostic to Action: Microfinance in Africa, AMAF, WWB, 2008, adapted from WWB, Policy Change: Experience in the WWB Network, New York, USA, 2003.

59 Consultative Group to Assist the Poor (CGAP), *Sub-Saharan Africa Policy Mapping*, 2008, http://www.cgap.org/p/site/c/template.rc/1.26.4504/.

{Table 10} Key Microfinance Policies and Optimum Regulations in ACCESS AFRICA Tier One Countries

Country/ MF association	MF strategy, MF minister or national advisor, ministry	MF regulations	No interest rate caps on loans	Un-collateralized lending permitted	Prudential standards[60] adjusted for MF providers	MFIs can mobilize savings deposits	Restrictions/ limitations on opening new branches	Limits on loan terms or amounts
Burundi Réseau des Institutions de Microfinance au Burundi (RIM)	Poverty Reduction Strategy Paper 2007-2010 recommends developing MF institutions. MF unit at Ministry of Finance (2008)	Rural MF Funds: Decree 100/026, 2002; Banks and NBFIs: Banking Law 1/17, 2006	No	Unclear	Yes. co-ops, NGO/donor MF programs: no minimum capital requirements – MFIs organized as companies, yes	Yes	Seemingly no restrictions for nonbank MFIs	No
Ethiopia Association of Ethiopian Microfinance Institutions (AEMFI)	Yes	Yes, since 1996. "Room for improvement and more flexibility" (Microned Report, The Netherlands)	No caps (lifted in 1998)	Yes	Yes	Yes	None for opening; permission needed to close branches	Has some restrictions; changes are needed
Ghana Ghana Microfinance Institutions Network (GHAMFIN)	Yes MF Unit at Ministry of Finance and Planning	Yes, for NBFIs. Credit unions are under NBFI law. There is also a rural bank law	Yes	Yes	Yes	Only from borrowers: 10% of loan as a form of collateral. Not from general public	No	No
Kenya Association of Microfinance Institutions (AMFI)	Yes. MF Unit at Ministry of Finance	MF Act 2006, Deposit Taking MF Institution Regulations 2008; supervised by microfinance units in the Ministry of Finance and Central Bank; uses a tiered approach to regulation	No	Yes	Yes	MFIs intending to take deposits must be regulated; credit-only MFIs do not take deposits; informal groups (ROSCAs etc.) are not supervised	No	No
Lesotho No MF association	None	MFIs fall under financial institutions legislation and Money Lender Act	No	N/A	No	Yes, if supervised under the financial institutions act	N/A	No
Mali Association Professionel des Institutions de Microfinance (APIM)	Covered by PARMEC[61] Law for West African States, 1994. National Strategy for Microfinance established 1998, revised plan 2008. MF unit at Ministry of Finance	Yes, but designed for mutualist structures, causing problems; non-cooperative organizations sign individual tailored agreements with Ministry of Finance; VSLAs not recognized as legal entities	Yes. Usury Law interest rate cap: 27%	Yes	Individually negotiated with Ministry of Finance; reserves are restrictive	Depending on their legal status. Non-mutualist institutions cannot mobilize deposits	N/A	No

60 Prudential regulation refers to those regulations implemented by the Central Bank and which are important to the functioning of the financial sector as a whole, i.e., reserves and provisioning for bad loans.
61 Projet d'Appui à la Réglementation sur les Mutuelles d'Epargne et de Crédit.

Country/ MF association	MF strategy, MF minister or national advisor, ministry	MF regulations	No interest rate caps on loans	Un-collateralized lending permitted	Prudential standards adjusted for MF providers	MFIs can mobilize savings deposits	Restrictions/ limitations on opening new branches	Limits on loan terms or amounts
Malawi Malawi Microfinance Network (MAMN)	MF Policy & Action Plan 2002; Malawi Growth and Development Strategy. MF Unit at Ministry of Finance	Not prudentially regulated; few non-prudential regulations: "regulated by an array of legislative instruments"[62]; Draft MF and SACCO bills with Parliament	No	Yes	No, but different prudential regulations exist for NBFIs than for banks	Only licensed commercial banks and government owned credit unions can mobilize savings[63]	Not regulated	National Bank's directive on credit concentration limits lending to an individual customer to 25% of the capital base
Mozambique AMOMIF (2008)	Yes. Microfinance has been regulated by Central Bank's Supervision department since 2005.	Yes; two categories: institutions licensed and prudentially regulated (microbanks and credit cooperatives) and those that are registered & monitored by Central Bank (credit programs & savings & loans)	No	Yes	Yes	Not all; three categories of microbank can	N/A	There are limits
Niger Association Nigerienne des institutions profession-elles de la m microfinance (ANIP-MF)	Yes. Part of the PARMEC West African regional regulatory/ supervisory framework for the MF sector, 1994. MF Unit at Ministry of Finance	Yes. Nearly half of MFIs in Niger operate without a license.[64] Since 2007 MFIs can be legally formed as Sociétés Anonymes: corporations allowing them to issue/sell shares	Yes. Usury Law interest rate cap: 27%	Yes	Yes	Non-mutualist institutions cannot mobilize deposits	N/A	No
Nigeria National Association of Microfinance Banks in Nigeria (NAMFIBN)	Yes	MFIs under financial institution legislation	None	Yes, with restrictions	Yes	Yes	Approval needed	There are limits
Rwanda Rwanda Microfinance Forum (RMF)	Yes MF specialist at Ministry of Finance	Yes; instructions issued 2002 and 2003	No	N/A	Yes, but there are complaints that MFI standards are not distinct enough	Yes	N/A	No
South Africa Association for Pro-Poor Microfinance Institutions for South Africa (AMFISA)	No comprehensive national MF policy South African Micro Apex Fund (2006)	Yes; regulatory agency is the National Credit Regulator (2005); tiered structure	Yes	N/A	High minimum capital requirements for deposit-taking MF banks.	Limited to banks. Mutuals and other non-banks have a restricted role[65]	None	No

62 Kalanda, Aleksandr-Alain, "Development of Malawi's Microfinance Regulation and Supervision," 2006, www.microfinancegateway.com/files/31185_file_Malawi_final_as_revised_in_May_2007_.pdf.

63 *Ibid.*

64 *Niger: Selected Issues and Statistical Appendix* (IMF Country Report 07/114).

65 *Microfinance Regulation and Supervision in South Africa*, IRIS Center, University of Maryland, College Park, Md., 2005.

Country/ MF association	MF strategy, MF minister or national advisor, ministry	MF regulations	No interest rate caps on loans	Un-collateralized lending permitted	Prudential standards adjusted for MF providers	MFIs can mobilize savings deposits	Restrictions/ limitations on opening new branches	Limits on loan terms or amounts
Tanzania Tanzania Association of Microfinance Institutions (TAMFI)	National Microfinance Strategy, 2000	Yes; MFIs fall under the broader banking or non-banking financial institutions legislation	No	Yes	Yes	Yes, and the Postal Bank, a licensed, state-owned NBFI, provides a variety of savings deposit services nationwide	None	No
Uganda Association of Microfinance Institutions of Uganda (AMFIU)	Yes, MF legislation exists	Yes, four-tiered approach took eight years to develop but considered close to best practice	No	Yes	Yes	Yes	N/A	There are limits

Country	Co-ops/ credit union regulations	Prudential regulation of credit-only providers	Should not regulate small NBFIs doing MF	Foreign investment in MFIs allowed	Registering/ licensing MFIs should not be unduly costly or burdensome	Credit bureau exists; MFIs can access it	NGO MFIs are not taxed, others are	MFIs are not limited to group lending
Burundi	Included in MF Decree – co-ops & credit union regulations – must have a minimum of 300 members	Yes	Regulates all	Permitted for banks	Unknown	MF Decree stipulates existence of a credit bureau	Unclear	Unclear
Ethiopia	Under Ministry of Ag & Rural Dev, Coop-erative Commis-sion (needs strengthening)	Financial service delivery by non-regulated institutions is prohibited	Does not	No	It is not	The National Bank maintains a credit infor-mation data base	Needs clarification	Not limited
Ghana	Under Credit Union Association APEX	None	Does not	Yes	It is not, but minimum capital requirements are high for savings and loans, though not for rural banks	Banking law amended 2006 to mandate sharing of credit info by banks; Central Bank licenses and regulates credit bureaus (IMF 2008)	Rural banks are taxed	Not limited
Kenya	SACCO Societies Regulatory Authority/ Cooperative Ministry. Bill 2008 bars money transfers	Yes	The Central Bank may regulate	Yes	It appears to be	Banking law amended in 2006 to man-date sharing of credit info by banks; Central Bank licenses and regulates credit bureaus	N/A	Not limited
Lesotho	Cooperative Societies Act, 2000	No	N/A	N/A	N/A	No	N/A	Not limited

Country	Co-ops/ credit union regulations	Prudential regulation of credit-only providers	Should not regulate small NBFIs doing MF	Foreign investment in MFIs allowed	Registering/ licensing MFIs should not be unduly costly or burdensome	Credit bureau exists; MFIs can access it	NGO MFIs are not taxed, others are	MFIs are not limited to group lending
Mali	Yes	Yes; due to compulsory savings	N/A	Yes	It is	No	N/A	Not limited
Malawi	Cooperative Societies Act	None	N/A	Yes	It appears to be	No	Not taxed	Not limited
Mozambique	Needs clarification. Establishing cooperatives is complex	Yes	N/A	Yes	N/A	There are two: one for banks and on for MFIs; owned by Central Bank	"Stamp" tax and notary stamps on contracts are very time-consuming and complicated; donations are taxable	Not limited
Niger	Yes	Yes	N/A	Yes	It appears to be	No	N/A	Not limited
Nigeria	Regulated separately from non-member MFIs	None	N/A	Yes	It is not	There are 2 independent credit reference providers and a bank-owned bureau	Exempt	Not limited
Rwanda	Not separate, the Central Bank supervises both	Yes, since 2003	N/A	Yes	N/A	Credit registry owned by Central Bank	N/A	Not limited
South Africa	Not separate, regulated by South Africa Reserve Bank	N/A	N/A	Yes	N/A	Very good private credit bureaus	N/A	Not limited
Tanzania	Cooperative Societies Act, 1991	None	Does not	Yes	N/A	Changes to banking law to mandate sharing of information	N/A	Not limited
Uganda	Not regulated; a draft law for regulating SACCOs is being considered by Parliament (2008)	None; forced savings not regulated	Does not	Yes	It is	Credit history sharing mandated by Central Bank, credit bureau will soon be operational	N/A	Not limited

Social and economic policies that have an impact on women's access to financial services

It is widely recognized that access to financial services for women has far-reaching benefits to families and communities. Yet in many African countries, women continue to lack the same legal protections and access to financial services as men. According to the UN Convention for the Elimination of all Forms of Discrimination against Women (CEDAW), most women in developing countries have difficulty meeting the client eligibility requirements established by banking institutions, because:

- They lack basic training in management and accounting and thus, it is believed, are unable to operate businesses
- They have a poor understanding of the idea that credit can be profitable to the borrower
- They lack information about banking and tax procedures
- They cannot provide collateral
- Property titles are often in the husband's name only and thus cannot be used as collateral by the wife
- A husband's signature is sometimes required on a loan contract
- Women often do not have the right to inherit property[66]

Below is a brief overview of the social and economic policies that affect women's access to microfinance in CARE's ACCESS AFRICA Tier One countries.

Burundi: According to the 2008 CEDAW report, the country's Code of the Person and the Family and the Penal Code are discriminatory and not in line with the provisions of CEDAW. CEDAW recommends review of provisions that predicate differential ages of marriage for women, that indicate the man is head of the household and that establish discriminatory provisions with regard to adultery. In addition, CEDAW encourages the government to ensure the implementation of laws and policies that provide for de jure equality and seek to eliminate discrimination against women. It recommends that the government ensure that those charged with responsibility for the implementation of laws and policies be made fully aware of their contents and that public education and legal literacy campaigns be put in place to ensure wide knowledge of law and policy reform. CEDAW is concerned about the high prevalence of illiteracy among women and the low level of schooling for girls, especially in rural areas. CEDAW invites the government to take concrete steps, including sector-specific and general awareness campaigns, to eliminate deep-rooted prejudice and stereotypes in order to achieve de facto equality.[67]

Ethiopia: The 1960 Civil Code legally ensures equal rights for women. As a result, Ethiopian women have a legal right to an equal portion of common household property. However, custom establishes the husband as head of the household and gives him authority to administer the couple's joint property.

Ghana: The 1992 Constitution provides that a spouse is entitled to a reasonable share of a deceased spouse's estate, even if the deceased died intestate. Spouses have equal access to property jointly acquired during marriage. If a couple divorces, assets jointly acquired during marriage will be distributed equitably between the spouses. However, since Parliament has not yet passed legislation to bring these provisions into effect, the serious issue of gender inequality in property rights remains.

Kenya: The Constitution permits the application of customary law to personal matters and to the distribution of property; moreover, it contains no provision for gender as a basis for non-discrimination. As a result, even gender-biased practices can be held to be valid and constitutional.

Lesotho: The constitution entitles every citizen to fundamental human rights and freedoms. In practice, however, there are many disparities between genders "in all aspects of social, cultural, economic, civil and political lives."[68] Gender inequalities are reinforced by cultural beliefs and practices. Women are traditionally considered to be minors under the control of fathers, husbands or any male relative.

66 "Women are generally barred from inheriting property because they are generally perceived to be property themselves." GenderNet. Issue 5, 2006.

67 Committee on the Elimination of Discrimination against Women (CEDAW), Burundi report, 2001, http://www.un.org/womenwatch/daw/cedaw/cedaw24/cedawcbdi1.pdf.

68 Matashane-Marite, Keiso, Gender Mainstreaming Assessment Report UNDP LESOTHO, United Nations Development Programme, New York, N.Y., 2005, http://www.undp.org.ls/Documents/Gender_assessment_2005.pdf.

Mali: By tradition, women do not have the right to own land but only to cultivate it. In matrilineal families, once married, women are considered to be outsiders in respect to their original families' land. However, in fact, different practices regarding women's property rights are observed in different regions of the country.

Malawi: The 1994 constitution provides for full and equal protection for women and for non-discrimination on the basis of gender or marital status. Women have the same rights as men in civil law, including an equal right to enter into contracts, to acquire and hold property and, in the event of divorce, the right to a fair disposition of property held jointly with a husband. Despite these constitutional provisions, gender inequality in property rights persists.

Mozambique: There are serious policy and cultural issues inhibiting the right of women to own property, despite legislation supporting it.

Niger: Although existing legislation does not discriminate against women, CEDAW is concerned that discriminatory customary laws and practices continue to be applied against women, including in areas of divorce, custody and inheritance. However, significant economic and social change in the country is improving the potential for women to become entrepreneurs, even though a number of factors continue to prevent most women from gaining access to credit.

Nigeria: There is increased awareness of the need to guarantee the rights of women and growing political will to achieve Millennium Development Goal No. 3, which emphasizes the promotion of gender equality and empowerment. The government has moved to integrate a gender mainstreaming component into its National Economic Empowerment and Development Strategy, and action plans have been developed to promote increased access by women and girls to education, enhance women's access to health information and services, and reduce the prevalence of HIV/AIDS among women.[69]

Rwanda: Since 2006 the government has made significant strides toward enhancing the economic and social rights of women. These have included creating credit and cooperative associations for women, launching a program for training women in crafts, and establishing a Five-Year Plan for the Promotion of Women's Employment to help advance small businesses for women. It is expected that Rwanda will continue to invest in improving the economic status of women.[70]

South Africa: The country's progressive constitutional and legislative framework emphasizes the importance of gender equality. The Black Economic Empowerment Act of 2003 focuses on "increasing the ownership and management of businesses by black women and increasing their access to economic activities, infrastructure and skills training." In contrast, the Financial Sector Charter of 2003 sets very low gender targets in staffing and is silent on gender equality in enterprise development or in procurement finance.

Tanzania: Laws have significantly modified customary practices, but customary laws are held to apply unless the contrary is proved. Due to inconsistencies in the wording of some statutes, women are vulnerable when a marriage terminates; they are not provided with full access to household property. Tanzanian women do not inherit when there are male heirs. Women's access to household property and to land under inheritance laws is therefore severely restricted.

Uganda: The Ministry of Gender, Labor and Social Development plans, coordinates and monitors the delivery of gender mainstreaming programs. Its structures, at the district and local government levels, execute its mandate at the grassroots levels. In 1997, the ministry spearheaded the development of the national gender policy, which is now being updated and revised.

69 Committee on the Elimination of Discrimination Against Women (CEDAW), Nigeria report, 2006, http://daccess-ods.un.org/access.nsf/Get?Open&DS=CEDAW/C/NGA/6&Lang=E.

70 African Peer Review Mechanism Programme of Action: Implementation Progress Report, Rwanda, June 2006-June 2007, http://www.devpartners.gov.rw/.

CARE's emphasis is on training – how to save, how to make loans, how to manage funds – and on the personal development of the group members.

Part III

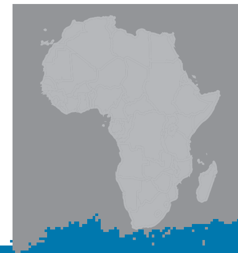
Village Life in Niger

According to the United Nations, Niger is the fourth poorest country in the world. It is perennially drought-prone, with generally poor soils threatened by desertification. It is underdeveloped and sparsely populated. Its children are frequently malnourished and many never go to school.

Life expectancy in Niger is 56 years; however, 29 percent of the population is not likely to survive past age 40; 70 percent of adults are illiterate, 58 percent of the population have no access to safe drinking water and 44 percent of children under age five are underweight.

The fertility rate – 7.4 births per woman – is the highest in Africa and puts significant pressure on natural resources. Of every 1,000 infants born, 150 do not survive past their first birthday.

The status of women in Niger is low and they are often sequestered. Cultural traditions that influence diet cause malnutrition in children even in the south, which is considered the country's food basket.



Village Savings and Loan Associations

In the early 1990s, women in the villages of southern Niger had little prospect of improving their lives. Nearly everyone in these villages struggled to survive, marginally, on subsistence farming, growing millet, sorghum, some maize. In the few villages where water was available, people had vegetable gardens and raised animals. On average, most women spent up to six hours every day fetching water and firewood. There was no electricity in these communities. Even in villages that had a school, many children did not attend.

Nigerien women, many of whom lived (and still live) in polygamous households, were responsible for feeding themselves and their children from small plots given to them at marriage. They were also obliged to work most days on the family plot, but they had no control over the resulting harvest. Many married women, nearly all of whom were illiterate, attempted to supplement family livelihoods with some kind of income-generating activity, but these ventures often failed due to a lack of working capital.

Such was the setting for an extraordinary experiment – the Village Savings and Loan Associations, or VSLAs – launched by CARE in 1991 – that would significantly strengthen the economic status of Nigerien women and, ultimately, provide access to life-changing financial services for millions of others throughout sub-Saharan Africa and beyond. Initially, the project was funded thousands of miles away through a 1989 telethon in Norway in support of Women in the Third World, organized by a network of 46 women's organizations. Indeed, long before there was a specific VSLA plan, women's groups in Norway had raised money for women in Niger. CARE Norway had already worked successfully with CARE in Niger on a tree-planting project, so the two organizations decided to partner again, this time on a financial services project focused on women. Since then, the VSLA experiment has taken on a life of its own. It has become a model for self-sustaining, village-level microfinance (sometimes called "nano-finance" because the transaction amounts are so small) that has been gaining momentum through a growing number of similar programs throughout sub-Saharan Africa and in Asia as well. Since 1991, CARE has launched VSLA programs in 21 African countries, for an estimated total of more than 54,000 VSLAs on the continent, serving more than 1 million[71] members, nearly all of them women. (See Table 11 on next page and Table 12 on page 90.) Other development agencies are carrying out similar projects across the subcontinent.

71 In addition to Africa, CARE has also established VSLAs in Afghanistan, Cambodia, Ecuador, India and Sri Lanka, reaching more than 1.6 million members globally.

{Table 11} CARE's VSLAs in Africa

Country	Year program started	Total # of VSLAs	Total # of VSLA clients	Average number of members per VSLA	% of clients who are women	Average savings balance (US$) per member	Gross savings portfolio[72] (US$)	Average loan balance (US$) per member	Gross loan portfolio (US$)	Percentage of savings balance disbursed in loans[73]
Angola	2008	214	4,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Benin	2008	265	5,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Burundi	2005	1,669	43,894	26	67	9	386,739	5[74]	208,396	53
Côte d'Ivoire	2007	472	12,705	27	89	11	134,855	40	9,504	32[75]
Eritrea	2008	245	4,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Ethiopia	2004	2,197	39,277	18	58	8	295,929	30	211,356	71
Ghana	2008	264	5,240	20	80	30	2,500	9	333	13
Kenya	2004	3,375	43,176	19	79	18	762,875	27	3,115,965[76]	23[77]
Lesotho	2006	38	299	8	73	7	2,016	10	2,887	100[78]
Madagascar	2007	215	4,750	22	100	12	57,300	27	5,850	10
Malawi	1999	1,453[79]	23,340	16	85	9.5	222,940	17.56	409,934	54
Mali	2000	2,581	84,727	32	100	12	1,049,252	4	344,328	33
Mozambique	1993	2,230	40,000	N/A	60	200	126,100	115	60,781	N/A
Niger	1991	7,352	197,229	27	100	104	20,428,932	42	4,698,022	38
Rwanda	2000	4,350	83,481	19	77	9	709,877	10	793,975	112[80]
Sierra Leone	2006	354	10,891	31	60	19	110,362	17	N/A	73
South Africa	2004	812	4,524	5	94	47	211,107	89	401,209	100
Tanzania	2001	6,267	161,195	26	71	14	2,146,751	17	3,553,202	87
Uganda	2005	7,118	165,994	15	70	216	14,700,000	N/A	44,100,000	300
Zambia	2001	59	1,000	17	98	46	58,006	N/A	N/A	N/A
Zimbabwe	2000	12,949[81]	92,772[82]	7	85	111	10,293,502[83]	23	34,106,404	30

Since 1991, CARE has launched VSLA programs in 21 African countries, for an estimated total of more than 54,000 VSLAs on the continent, serving more than 1 million members, nearly all of them women.

72 The gross savings portfolio is made up of member savings, fines and interest on loans. Some of the figures in this column reflect savings only.
73 Savings are used for loans and for the emergency social fund.
74 Burundi VSLAs follow a solidarity group model whose main goal is to establish confidence and solidarity activities linked to themes such as fighting violence against women, improving reproductive health and women's rights, and participation in decision-making processes, rather than large amounts of savings and loans. Hence the average loan balance of $5 and the average savings balance of $9.
75 Represents an average of group and individual loans.
76 Cumulative loans disbursed are higher than cumulative savings when groups are active and the loan repayment period is short. In this case the repayment period is one month at a rate of 10 percent per month and all the loans repaid are redisbursed the same day as new loans.
77 Indicates that at the time of reporting, 23 percent of the savings balance had been disbursed as loans.
78 The savings figure represents an annual snapshot, whereas the gross loan figure represents a cumulative figure.
79 SII as of December 2007.
80 In Rwanda, VLSA groups do not share out their savings after a certain period; their savings grow as long as the groups remain operational. Loans are for one to three months and one amount can be used by more than two people per quarter.
81 Includes VSLA groups supported by CARE and other donors. It is estimated that 145 groups have stopped functioning in light of the current situation in Zimbabwe.
82 VSLA groups in Zimbabwe tend to be smaller than in other countries, typically about seven members, which facilitates consensus.
83 Problems of hyperinflation were mitigated by groups saving in foreign currency instead of Z$ – i.e., USD, South African Rand, Botswana Pula, etc. In addition, CARE groups in Zimbabwe introduced Asset Based Savings to protect their savings against hyperinflation. Clients quickly convert their cash into assets, which can easily be liquidated for cash when the need arises.

Listening to the women from the start

Back in 1991, CARE chose to work in six rural villages in southern Niger – Rafin Wada, Guidan Alkali, Tambarawa, Dan Madatchi, Karazome and El Kolta – in an effort to improve the lives of local women. The six villages, which are on or near the main road to Maradi, Niger's second largest town, were chosen because of their relative accessibility, thus facilitating monitoring and follow-up of the project. At the time, it was expected that this project would last two or three years. By 1992 the project had been integrated into CARE Norway's work funded by NORAD, the Norwegian government's development agency, and was being replicated in many other villages in Niger.

Directing the project in 1991 was Moira Eknes, then an intern with CARE Norway and now director of program quality for CARE Norway's VSLA program. When Ms. Eknes first went to Niger, she expected to manage an agroforestry project for women. But the women themselves soon made it clear that what they wanted most was access to capital in order to fund income-generating businesses. In response, Ms. Eknes began organizing savings groups using the traditional *tontine* system of group savings.

The groups of women called themselves Mata Masu Dubara, which, in Hausa, means "Women on the Move." The evolution of the project was highly improvisational, Ms. Eknes says. "We did not have a methodology when we started. So, in the first groups, we developed it in partnership with the women." This is a testament to the fact that development programs are almost always most effective when the subjects themselves define their needs and have a full voice in the process.

Also involved in organizing start-up activities, training local facilitators and designing the first data forms was Jennifer Isern, a CARE intern at the time and now lead microfinance specialist with CGAP. Susan Farnsworth, CARE's assistant country director, developed the first concept paper, and an Italian consultant, Piera Delaire, helped with the initial research. The VSLA methodology was much later explained in detail by Hugh Allen, formerly of CARE and founder of VSLA Associates, based in Solingen, Germany, and Mark Staehle of the Char Livelihoods Program, Bangladesh, in The Village Savings and Loan Program Guide and Field Operations Manual, November, 2007.

Initially, each CARE VSLA consisted of between 40 and 60 women, but later the groups were limited in size to about 30 women.[84] In some villages there were (and still are) several VSLAs functioning independently of each other. In each group a number of women were chosen to act as a board of directors. Most of the women were engaged in some kind of sporadic, low-return income-generating activity, such as making peanut oil, selling cakes or prepared food, or petty trade. In many of the associations there was not a single literate member. Interestingly, most of the women who first became involved were quite elderly: Many were widows and grandmothers. It was only when the men realized that membership in the associations was advantageous to their families that younger women started to join.

CARE had been supporting a credit-only microfinance program, which later failed, in Maradi. Women in the outlying villages also wanted access to working capital, but the village program had no funding to provide the women's groups with a line of credit. It became apparent that at the village level, the only way to create sustainable, self-funded credit sources was to have the members themselves build the credit pools through their own savings. This was the heart of the VSLA concept: Each association member would contribute to a savings fund with small, regular (and mandatory) deposits. From the outset, these nearly destitute women were willing, even eager, to contribute small amounts to their newly-formed VSLAs.

Nevertheless, because of poor results with earlier microfinance experiments, the CARE staff was initially skeptical about whether the VSLA program would really work over time.

"It was not difficult to convince the Nigerien women that they should contribute their own savings," recalls

84 As the VSLA methodology evolved in other countries, between 10 and 25 members became the standard group size.

Moira Eknes. "But some of the CARE staff and their counterparts in the national planning department really thought the project was stingy and that we were demanding too much of these poor women. I myself was not completely convinced in the beginning. I sometimes feared that the whole thing was pointless – but the women convinced me otherwise."

Ms. Eknes was afraid that the human conditions in the area and the burdens on the women were too great for this small project to have an impact. "The fact that we did not provide credit, or anything else tangible other than training, made me feel that the project had little to offer," she says. "But the women were very eager. They convinced me by their patience, their availability and the fact that they were able to mobilize their meager resources; it all did have a positive effect on them."

As it turned out, the decision to use other local women to serve as facilitators, or *animatrices*, in the villages played a critical role in the success of those first VSLAs. CARE hired three young women from Maradi who were in their late teens and early 20s. It might be expected that such young women would have difficulty gaining the trust of the elderly women in the villages, but this proved not to be the case. "Amazingly enough, these young women were well respected by both the group members and the men in the villages," Ms. Eknes says. "They had, of course, been carefully handpicked, so we were sure that they knew how to behave respectfully in a village context. And we introduced them to the village authorities first, as we explained the project and its goals." The young animatrices lived in the villages rather like Peace Corps volunteers. As soon as they had settled in, they began organizing associations of women. In general, the animatrices would train and work with a group for about a year, at which time the group would continue on its own without outside help.

Association formation and training

From the beginning, CARE recognized that for the project to succeed, VSLA members – who had no experience whatever with such organizations, or, for that matter, with the concept of systematic savings and credit – would require training. Initially this training was not very formal, or indeed, focused. But after the CARE staff attended a training-of-trainers workshop in Mali, it was decided that the VSLA women's initiation should begin with discussions of questions such as:

- What is a group?
- Why work in a group?
- What is the role of the board and what are the tasks and responsibilities of the members?
- What is the purpose of savings?
- What are the various forms of savings?
- What are the pros and cons of taking a loan?

From these discussions, CARE established a general framework governing the operations of the savings associations. However, within this framework each individual association developed and adopted its own rules. Once the training methodology was fully developed and tested, the training period was standardized to between 10 and 12 months.

As the process became better organized, the associations began to appoint village agents from among their members: local women who would be trained by CARE so that they could then train other groups. These agents often came up with creative role plays and other training techniques adapted to the local setting.

At first, each association elected only a president; but by the second year the groups had begun to elect entire management committees that typically consisted of a president, treasurer, secretary and two controllers. In several instances politics demanded that the wife of the village headman be appointed president of an association, regardless of her qualifications for the position. In such cases, it was necessary to create a different position of honor for this woman in order not to offend anyone. She, along with other women, would be asked to serve as "counselors" to her group, helping to resolve disputes among group members.

Simply having the opportunity to meet together on a regular basis resulted in increased solidarity and problem-solving capability, as well as a venue for addressing a wide variety of issues of concern to them. For these poor Nigerien women, meeting together in groups of their peers was a new and exhilarating experience.

In group discussions facilitated by an animatrice, it was agreed that all operations – deposits, withdrawals, loans and loan repayments – would occur in general assembly with the entire association present. There would be no private transactions except in emergencies.[85] This meant that the activities of all the groups were completely transparent and that all members knew everything that took place at every meeting. This was necessary for the mental bookkeeping that was used: Since most of the women were illiterate, they kept transaction records by remembering what occurred at the meetings. Apart from their financial aspects, the meetings themselves had great value for the women. Simply having the opportunity to meet together on a regular basis resulted in increased solidarity and problem-solving capability as well as a venue for addressing a wide variety of issues of concern to them. For these poor Nigerien women, meeting together in groups of their peers was a new and exhilarating experience.

Savings

At every weekly (or, in some cases, biweekly) meeting, each member of each association agreed to save the same amount – a "share" of between two cents and 40 cents. This uniformity facilitated memory-based record-keeping. At first, members contributed a single share per week, but soon one of the associations introduced the concept of multiple shares after it was discovered that some women were contributing one or two additional shares in the name of their daughters. Another innovation was an arrangement whereby two women who were unable to afford a whole share on their own could share one. Members who failed to make their weekly deposit, or were late in doing so, were fined.

After a number of months, the savings pool accumulated by the groups became large enough to launch the loan function. As the women's businesses became more

85 Later, a system of "slot savings" was introduced to enable women to make savings deposits outside of the regular meetings.

profitable (nearly all did) and they gained confidence in the whole idea of saving, they tended to increase the amounts committed to savings.

In addition to savings and interest earned from loans, another source of income for an association's fund was fines charged to the members for infractions such as absence from a meeting or lateness or even chit-chat with one's neighbor. In the beginning, women were fined the amount of one share if they failed to make their deposit.[86] Members who arrived late or who missed a meeting also paid a fine. The fines were regarded as a way to increase the fund.

Later, as the VSLA methodology developed, a system of tokens was instituted. Women could deposit as many shares as they liked either during a meeting or on other days of the week – "slot-savings." Each time they deposited a share, their passbook was stamped by an officer of the group with a symbol; or, in exchange for each share deposited, they received a token, usually a metal washer. As VSLAs evolved, more flexibility was introduced and members today can contribute any number of shares they wish at each meeting. However, the value of each share remains low, thus allowing even the poorest women to participate.

In the beginning, the association president kept the group's money in whatever she had at hand: a calabash, a bag or an enamel cooking pot. But before long the quantity of coins became so large and unwieldy that the women decided to repay their loans in bank notes to reduce both the weight of the funds and the time required to count it.

Eventually, association funds were kept in cash boxes fitted with three padlocks, with each key held by a different officer of the group. This was done both to reinforce confidence that the money was safe and to make it easier for the president of an association to refuse loans to non-members – the village chief, for example, or her own husband. Before the special boxes were introduced, it was very awkward for a woman to deny a loan (or even a gift) to someone asking for it. With the boxes in use, the president could say, "I'm sorry, I can't give you any money because I don't have the keys to the box."

Sharing out savings: the auction-audit

The women collectively decided that withdrawals from savings would only be made by the entire association at one time, not individually, and that their saving cycle would be limited to a year. In fact, at the end of the yearly savings cycle, most associations immediately start another savings cycle. The rationale for this procedure is to encourage women who have never done so to become acclimated to the discipline of forced savings and the security that results. If and when women needed money during the savings cycle, they had the option of taking out a loan from the fund.

The sharing-out (distribution) of savings and accrued interest takes place annually at what has come to be called "auction audits." These events are scheduled to occur at times when association members are most likely to need money: before the planting season, a major religious festival or at the start of the school year. This encourages the use of savings to meet pressing needs and discourages their use for unnecessary expenditures.

At this important meeting – really a celebration – the amounts all the members had put in during the year are shared out among them with the interest earned, based on how many shares each had contributed. Ms. Eknes recalls the "joy and awe" on the faces of the women at the first meeting when they received their shares. "These women had never seen as much as $60 at one time in their lives," she says, "and now they were holding such amounts in their hands, knowing that it was their own money."

In fact, the women created the annual auction audits after a number of associations amassed more in the savings pools than was needed to cover the demand by members for loans, thus losing interest on the unloaned portion of the pools. Three groups decided they would put their surplus funds into a postal savings account –

86 According to the VSLA Program Guide, p. 9, "The Association does not fine borrowers for late loan repayment. This aggravates any underlying economic crisis the household may be facing. The embarrassment of being late is sufficient penalty."

and the animatrice helped them do so. Unfortunately, the postal bank froze the funds and these women never recovered their savings. From then on, the groups began holding the annual auction audits. The postal bank debacle underlines the need for links between VSLAs and reliable, accessible microfinance institutions that can receive large deposits as well as make loans.

Credit

Very soon, the women realized that by making loans from the savings pool, the interest earned would add significantly to the value of the pool. And so, quite early in the first year, association members began to take out small loans, usually for a period of one month at a rate of interest (called a service charge) determined by the association, usually 10 percent per month, with the first month's interest payable when the loan was disbursed. While regular savings meetings took place every week or every two weeks, the loan meetings were held at four-week intervals.

In the beginning, there was often not enough money in an association's savings fund to make all of the loans requested by members. In such cases the group's counselor would help determine which loans were most urgently needed. Some women would receive their loans immediately while others would wait until the next loan meeting. But according to Ms. Eknes, these situations never gave rise to bad feelings within a group. "I don't remember that there were any quarrels connected with this," she says.

The loans were (and still are) primarily, although not exclusively, for income generation and used for such things as inputs for business activities, the purchase of seeds or livestock or the transport of goods to market. Some loans cover the cost of social ceremonies such as weddings or religious festivals – events that are very important in the life of these communities. All members of an association have the right to take out a loan, regardless of how many shares they have contributed. However, since the entire group knows whether each member has the capacity to repay her loans, in rare cases, loan requests are denied.

Since the social pressure to repay loans was, and remains, very strong in these associations, the women usually repay their loans on time. If they are not able to do so, they can extend their loan and pay additional interest.

Today, a VSLA in Niger that has existed for, say, 10 years will typically have a savings pool of some $3,000, outstanding loans worth more than $600, and will be making individual loans averaging about $40. In a country like Niger, where the annual per capita income is $244, these sums are significant. In any case, since the goal of VSLAs is to reach the very poorest, the level of savings is naturally going to be small.

In another instance of association members creatively adapting the VSLA structure to their particular needs, some groups voted to use a portion of association funds for speculative ventures – for example, buying large quantities of grain, storing it and selling it when the price increased – a common practice among the area's more prosperous traders. The speculation profits were then shared by the entire group. In Niger, a group of the very poorest women collaborating in grain speculation constitutes an extraordinary move up the economic ladder.

Self-insurance: the social fund

In addition to the savings and loan fund, VSLAs created a so-called social fund, a sort of self-insurance program to provide members with small sums to cover emergencies: illness, funeral expenses, house fires and similar catastrophes, or school fees for orphans of deceased relatives. Initially, the social fund consisted of a one-time contribution from each member: typically, between 20 and 40 percent of the amount of a single savings share. In time, the size of contributions to the social fund was, and still is, periodically adjusted up or down based on the demands being made on the Funds.

Kept in a separate bag in the cash box, the social fund is managed separately from the savings and loan fund, is not shared out at the end of the year and can be carried over to the next year. The Fund is set at a level that covers the minimum insurance needs of the association's

members and is not intended to grow. Members make requests for help from the social fund publicly at regular group meetings, but in emergencies they can also seek access to this fund outside of the regular meetings. No interest is charged for social fund loans; most groups expect members to pay back these loans but this does not always happen.

The key elements of the VSLA methodology – savings, credit, interest, the social fund, the auction audit, the delayed reimbursements (paying only the interest), one woman having more than one share – were developed by the group members themselves. And in CARE's weekly staff meetings, the animatrices discuss what has happened in their groups, the problems that have arisen and the possible solutions. Among other things, this allows information about best practices (and poor practices) to be shared among VSLAs. The importance and implications of this participatory approach cannot be overstated.

Bookkeeping for the illiterate

Record-keeping in the Niger VSLAs was designed to be as simple and as transparent as possible and, especially, as user-friendly as possible for the illiterate. Each member is required to keep track of how much she has contributed to her association's savings pool by memorization. Since the basic amount of each savings contribution is the same at any given time (although sometimes in multiples of two or more), the women have no problem remembering how many shares they have in a fund. In addition to keeping track of individual savings accounts, the starting and closing balances of the loan and social fund are also recorded, again mainly through memorization, at each meeting.

In the beginning, the animatrices helped the women keep simple transaction records using symbols in notebooks. And if there was a literate woman in a group, she would often be elected secretary and would keep the accounts in writing. Some members devised their own ways of keeping track of their savings, such as putting pebbles in a bag.

In CARE's VSLA Program Guide, Hugh Allen advises, "We propose a method [of record-keeping] where transactions are observed (not recorded in a ledger), and savings and loan obligations are tracked in individual passbooks. Ending cash balances are tracked through memorization and simple notes. This means that the least literate member of the association has full information about her savings and loan status and the disposition of the entire association's assets. We no longer provide a backup written record-keeping system[87] because the evidence is now compelling that it adds no value."

Empowerment

At the first evaluation of the Niger VSLA project in 1992, the participating women said that the project's greatest benefit to them was, as they put it, "the opening of the mind, the realization that this is something we can actually master." The whole experience not only gave rise to once unimaginable self-esteem and aspirations on the part of the women; men too reported that they were impressed with the changes they saw in their wives, sisters and daughters. The evaluation also revealed the huge impact of the simple act of saving. Women said how grateful they were that they no longer had to humiliate themselves by asking for money from their husbands, from a moneylender or from their neighbors.

Association membership has "an enormous effect" on the women and on their standing in their families and communities, according to Moira Eknes. "They feel great ownership in this," she says. "It is something that even the illiterate can master, and it gives enormous satisfaction to these women to feel that they are able to do something. It really is their own little bank. And it's a place where social interaction and solidarity among members can develop."

Over the years, the program has continued to develop and expand. Ms. Eknes has visited Niger many times since those first VSLAs were established and has often met association women who tell her about the changes that have taken place and how membership leads women into other community-based activities – for example, solving the problem of water in their villages. Others have been elected to local community councils where they are speaking out on behalf of the interests of women. Still others have come to realize the value of education and are sending their daughters to school for the first time.

"This methodology of these associations is simple, transparent, educational, adapted to illiterate people and to people with shared problems and goals who can get together on a regular basis," says Ms. Eknes. "The social aspect of the methodology is also very important."

Spontaneous replication: the ripple effect

It did not take long for the associations in southern Niger to spread to other villages. If a visitor from another community saw a women's association meeting under a tree, they would approach the animatrice and ask her to come to their own village and help them set up a VSLA of their own. One woman walked 25 kms

> *"[The women] feel great ownership in this . . . It gives them enormous satisfaction to feel that they are able to do something. It really is their own little bank."*
>
> **Moira Eknes,**
> **Director of Program Quality,**
> **CARE Norway**

87 Written records were kept in some early VSLAs.

to Ms. Eknes' office in Maradi to ask her to send an animatrice to set up an association in her village. And men who at first were skeptical about the associations began encouraging their own wives to join.

Before long, VSLAs had also spread to the peri-urban areas of Niamey, Niger's capital. On one occasion a teacher from Niamey was visiting her sister in the village of Torodi and happened to arrive when her sister was attending the association meeting. She sat down and observed the proceedings and was impressed by the discipline and the level of savings the group had managed to accumulate. She herself had tried many times to organize women in her own neighborhood, but had failed. She contacted CARE, but was told that it was unlikely that the methodology that succeeded in the villages would be of interest to women in town. But she persisted. She contacted one of the animatrices from Torodi, asked her all the questions she could come up with, and then started a VSLA in Niamey. After a year there were five successful associations in and around Niamey, and CARE realized it could be worthwhile to establish VSLAs in urban areas. By the end of the second year there were 12 VSLAs operating in Niamey.

Since those early days, the original VSLA methodology developed in Niger has evolved throughout Africa, and now in Asia, to allow variable savings, unlimited savings withdrawal, and loans with variable terms and flexible repayment conditions. Today in Niger alone, nearly 200,000 women have joined VSLAs and have collectively amassed $14 million in savings. The enormous social benefits of all of this far transcend any attempt to put a dollar value on them.

Institutionalization of VSLAs

In addition to the obvious benefits of providing a mechanism for savings and credit for the poor, another significant but often overlooked result of a well-run VSLA is institutionalization. As noted in a CARE report on VSLAs in Niger,[88] institutionalization involves more than the creation of sustainable, village-based microfinance institutions. Institutionalization is also psychological. Virtuous cycles of outreach to other entrepreneurs are created. VSLA members begin to follow the example of those who repay loans while their businesses grow and prosper. As a result, local, regional and national economies grow. Eventually, because of pressure from a growing entrepreneurial sector, the policy environment becomes more favorable, facilitating rather than obstructing the progress of free enterprise. As confidence grows, individuals with excess liquidity begin to invest otherwise dormant funds in productive businesses that create wealth and jobs.

"The methodology of these associations is simple, transparent, educational, adapted to illiterate people and to people with shared problems and goals who can get together on a regular basis."

Moira Eknes,
Director of Program Quality,
CARE Norway

88 Lessons Learned: Financial Services for the Informal Sector in Niger – The Strengths and Weaknesses of Past and Existing Programs, & Recommendations for Their Improvement, CARE Niger.

"We Did All of This on Our Own."

How self-reliance transformed a community

When CARE representatives first came to the impoverished village of Chipanga in central Malawi in 1999 to introduce the concept of a VSLA, 89 women showed up to meet them, eager to see what was being offered. Life in Chipanga at the time was like life in every other village in the district: poor, dry, often without enough to eat. But when the women heard the shocking news that they were expected to save their own money to create the VSLA, most of them went away disappointed. Only 11 stayed behind to try this outlandish experiment.

Apart from their curiosity, these 11 women were not particularly exceptional. All were married and all had several children. Four members of the group had never been to school while the rest had had three to five years of primary education.[89] Yet they were receptive to the six weeks of training in group formation and administration and how to manage savings and credit they received from CARE (at a cost of about $500 to the organization). The group established a constitution and a simple system of record keeping based mainly on memory. They laid down basic rules. Each member agreed to deposit the equivalent of about 20 cents a week in the group's savings fund. In return, they would receive an annual interest rate of 10 percent. This extra money would be generated by the 10 percent interest the women would pay on loans they took from the VSLA. Tardiness in repayment or absence from weekly meetings would be punished with a fine: more money for the VSLA fund. One month after the training ended, three women took out their first loans, each of around $2.

What a little investment can do

Because the women were essentially borrowing from each other, there was high incentive to repay the loans. As the kitty of savings slowly grew, the women started making small business investments. One cooked maize porridge (*nsima*) and sold it in the local market; another traded fish; another stored grain and sold it after the price had increased. Slowly, as their confidence grew and their skills improved, they made riskier investments: One bought a cow, another bought goats.

Soon some of their neighbors – many of whom were the same women who had originally doubted their ability to save – wanted to join in. The original group of 11 trained a second group. Today there are six VSLA groups in Chipanga with a total of nearly 90 members, an average of 15 women per group. Each group typically has access to around $1,000 worth of funds at any one time. In a country where 42 percent of the population lives on less than a dollar a day, this is a remarkable achievement. The combined effect of these six VSLA groups has transformed the economy of the village.

The women have accumulated cattle and goats, new homesteads and barns brim-full of maize. One family bought a radio, another, a bicycle. One group member used her savings to open Chipanga's first grocery store.

89 In all of Malawi, 70 percent of VSLA members have never been to school, according to CARE Malawi's Strategic Impact Inquiry of 2008.

As a result of the new stores and increased capital, a busy outdoor market has formed where people gather to socialize and shop. One woman even bought a solar-powered TV, built a big hut and charges a fee to watch football – a local cinema! Other businesses such as tailors have sprung up because there are now people to sell to; and many villagers have invested in fencing to pen in their new livestock. One young woman, Elinesi Chitsanzo, built a brick oven and opened a bakery. “Malnutrition is a thing of the past,” she says, speaking for VSLA members and with forgivable exaggeration. “Now we drink heavy milk with tea.” On their own, the VSLA groups pooled their resources to start an early childhood development program and establish Chipanga’s first nursery school, giving some 30 young children a head start in school and allowing their mothers more time for business.

Vizyenia Boaz recently opened Chipanga’s second grocery store. Its shelves are stocked with eggs, soap, pens, notebooks, soda, medicine, drinks, shampoo and other wares. With her infant son sleeping on her back, she looks happy and self-assured as she helps customers. “I am most proud when I am standing right here behind this counter,” she says. “My friends admire me. My husband is pleased with me. When I was growing up, life was very difficult. I didn’t even have cooking oil to cook with. I didn’t get the chance to go to school. I don’t want my children to experience that. Thanks to this store, they will get an education. They will have enough to eat.”

But the real excitement comes when the women talk about the less tangible changes they attribute to their involvement in the VSLA group. Family relations have improved among group members, and their husbands are showing them more respect. “What we do is not only saving and loans or business,” says one woman. “We try to encourage each other that men can do the kinds of things women do, and women can do the things men do. And our husbands encourage us in what we are doing.”

While CARE did not provide any training to the five spin-off groups or to newer groups that are still forming in the area, it did train one local community facilitator, Mary Chintenda. She is a jovial and commanding woman

Family relations have improved among group members, and their husbands are showing them more respect.

who was one of the original 11 VSLA members and now coaches the new groups. "CARE helped us get started," says Mary, "then they let us take over. They kept coming back to assist us for awhile, like a parent supports a child until the child can walk."

With her first loan of $21, Mary and her older children started selling food in the market. She repaid that loan six weeks later at 10 percent interest. Since then, she has taken an additional loan and started buying firewood at wholesale prices to resell to vendors from town.

Mary uses the VSLA on an ongoing basis, and it has had a significant impact on her family. "There has been a great change since I started with the group," she says. "I used to have trouble paying school fees for my two children in secondary school, but now I can do it. My eldest daughter is now in college studying rural development. And I have bought plates, chairs, guinea fowl, goats and a cow." Mary also used part of one loan to buy fertilizer. The result is a granary full of maize.

Despite the tremendous changes, life in Chipanga is by no means perfect. Some of the new shops are doing a roaring trade in beer, and children's health needs have yet to be tackled adequately. And while many of her neighbors have been eager to start VSLAs of their own, some are still skeptical about the success of the whole venture, insisting that the VSLA must be receiving money from CARE. "They don't believe that we could save this much on our own," says Mary with a chuckle. So one sunny afternoon, several dozen VSLA members gathered under a canopy of trees, clapping their hands and singing a song in Chichewe, the local language, which proclaims, "We did all of this on our own!" "That's why we sing so loudly," says Mary, "to let them know that we earned this money ourselves."

VSLAs Speed Recovery from Manmade and Natural Disasters

Wars, political crises and natural disasters occur all too frequently in African countries. Their effects can devastate lives and derail dreams, playing havoc with the most carefully designed development programs and economic policies, reversing gains and thwarting progress just when conditions are beginning to improve. For decades, CARE has directly provided an array of services designed to help people in these situations, including food, health care, water and sanitation, agricultural inputs, trauma counseling and more.

Recently, in the face of such disasters and the appalling turmoil they cause, CARE has discovered that VSLAs have shown a capacity to nurture resilience, creativity and community solidarity in crisis situations, even in the teeming refugee camps that are now home to more than three million people[90] in sub-Saharan Africa.

Uganda: Farming in a refugee camp

Take, for example, Anna Okot, a 47-year-old mother of six who has been living at the Tetugu refugee camp in northern Uganda since 2002. Like virtually all of the 22,000 internally displaced persons in this camp, Anna and her children fled their home because of fighting between government troops and the rebel group, the Lord's Resistance Army. This brutal civil war has been raging in Uganda for more than 20 years, and its toll has been heaviest on the families of poor farmers like Anna's whose land is their greatest (and often their only) asset. Forced off their land, these families have few opportunities to feed themselves – they often depend on meager allotments of donated food – or earn enough cash to buy basic necessities such as clothing, soap or school supplies. "When I came here from my home," Anna says, "I had nothing."

But she was not alone. Anna and a number of other women in the camp soon realized they needed to band together to help their families survive. When CARE workers arrived at Tetugu not long after, they found an association of 40 women that Anna had helped to establish called "Lacan Kwitte," "A Poor Person Struggles." CARE saw that the group could readily be transformed into a VSLA because its members were already looking for ways to increase food production on the small plots they had carved out in the camp. In most instances, CARE provides only training to new VSLAs, but in this case, recognizing the urgency of the food situation, CARE staff decided to give the group seeds, tools and draft animals as well. Since then, a number of similar groups have been established in Tetugu; all are receiving training and support from CARE.

Today, as if reading from a ledger, Anna can rattle off the name of every crop she has planted, how much she earned from each harvest and how she spent the income. "After CARE gave us bean seed, I was able to sell my bean harvest for 50,000 shillings (approximately $30) and buy things my family needed. I also got tomato seeds; that harvest brought me 20,000 shillings ($12) and I bought a goat. I sold my cabbage harvest for 15,000 shillings ($9) and bought a small radio. I have planted cowpeas, as well; with that money I paid my children's school fees."

Anna's neighbor in Tetugu, Angela Anywar, is the chairwoman of another VSLA group in the camp. She too is seeing the benefits of saving, investing and working with other women in a group. "The groups and the training we've received have really helped us and caused big changes," she says. "Women are now able to pay for school fees, medical services and clothing for their families. We'll continue with these groups when we go back to our home communities."

Zimbabwe: Beating hyperinflation with asset-based savings

Over the last several years, the political and economic crisis in once-prosperous Zimbabwe has wreaked havoc on every aspect of life for its 13.1 million people. One of its most devastating effects has been hyperinflation that has made the local currency virtually worthless, causing terrible hardship, unemployment and hunger.

In traditional Zimbabwe, household wealth is commonly measured in terms of assets. A brick house with metal

Recently, in the face of such disasters and the appalling turmoil they cause, CARE has discovered that Village Savings and Loan Associations (VSLAs) have shown a capacity to nurture resilience, creativity and community solidarity in crisis situations.

90 African Refugees, InterAction Issue Brief, 2008, http://www.interaction.org/refugees/wpafrican.html.

roofing confers respectability and social standing. Other assets such as cattle, goats and plows are also the foundation of agricultural productivity. If disaster strikes, a household with a diversity of assets is better able to cope.

During Zimbabwe's current crisis, a number of the country's VSLAs have devised a novel solution to the problem of hyperinflation: asset-based savings.

Using the community-based savings and credit structure as a foundation for economic activities that don't involve currency, members of a number of VSLA groups trained by CARE have managed to gradually acquire non-monetary assets and thus improve their household living conditions despite widespread economic disaster. As Jeffrey Ashe of Oxfam America observed, "CARE's Village Savings and Loan program in Zimbabwe continued to function in the face of hyperinflation and economic meltdown when microfinance institutions failed. The savings groups adapted first by charging very high interest rates [in an effort to keep pace with inflation]. When this became insufficient, groups carried out transactions in kind – grain, soap, oil, kitchenware and plates – that maintained their value."[91]

The asset-based savings approach promoted by the VSLAs includes:

- **Asset Celebration:** In order to help them acquire assets, VSLA members are given rewards or gifts contributed by other members. The gifts are given voluntarily and vary in type and value.
- **Asset Merry-Go-Round:** Members take turns buying assets for each other through barter.
- **Pass the Reproducing Livestock:** Livestock as small as chickens and as large as oxen are passed from one member to another after producing offspring, which the last recipient keeps.

Whenever possible, VSLA members convert any cash earnings into assets that can be liquidated if a need arises.

Madagascar: Surviving, even thriving, after Cyclone Ivan

In February 2008, Tropical Cyclone Ivan slammed into the northeastern coast of Madagascar. Countless families lost their homes and their livelihoods in the storm, among them a young widow named Sylvia and her toddler son.

CARE considers single Malagasy women like Sylvia to be marginalized because, typically, they own no land or have only small, poor-quality, under-exploited plots far from their villages. They usually work as day laborers for wealthier families but are paid less than men. Even if they have land of their own, many do not have the means to produce crops. Widows like Sylvia with young children are especially vulnerable, since land owned by their husbands reverts to his family after his death.

Because rural families are usually represented at community meetings by the male head of the family, women like Sylvia are often excluded from such gatherings. For all these reasons, female-headed households like Sylvia's are particularly vulnerable in the aftermath of cyclones.

But Sylvia had joined a VSLA about six months before Cyclone Ivan, and membership in the group improved her prospects dramatically. She was selected to participate in a government-sponsored housing reconstruction project that rebuilt her house washed away in the storm. This enabled her to use her savings to replace other necessities she had lost: dishes, pots and clothes for her son. She was also able to invest part of the money in a fritter business.

Six months after Ivan struck, Sylvia's VSLA celebrated the end of its first savings cycle. In spite of all the losses she had sustained, Sylvia had managed to save nearly $30 in the course of the year – a substantial sum in Madagascar where per capital GDP is only $271. In addition, she received almost $8 as her share of the profits from the VSLA's communal vegetable garden.

Sylvia took out three loans from her VSLA totaling $46. Each time she used the money to purchase flour, oil and

91 Ashe, Jeffrey, "Saving for Change: Low Cost, Mass-Scale, Self-Replicating and Profitable Microfinance for the Rural Poor," Oxfam America, Boston, Mass., 2009.

sugar to make fritters that she sold for a profit of about 30 percent. And since May of 2008, Sylvia has added village pharmacist to her list of income-generating activities. She purchases basic medicines such as aspirin and vitamin C in the district capital and sells them for a small profit in her village. She is the only source of such medicines in the community.

In addition to these two businesses, Sylvia continues to harvest cloves from a small plot she planted with the help of her VSLA. The group practices what they call "fandriaka," or mutual cooperative assistance: The entire group helps one member to clear or plant their field for one day – without pay – until all the members have received assistance.

Sylvia says that since she joined the solidarity group, she has a better rapport not only with her group members but with the entire community. "Before, I never went to community meetings," she says. "Now I go to all the meetings. I feel included and respected."

One of the most important lessons to be drawn from these three contrasting stories – and from thousands of other stories like them – is that the basic VSLA model, with its simplicity, flexibility, minimal need for external inputs and capacity to yield benefits quickly, is replicable in an infinite range of situations, settings and circumstances.

Women Take on Leadership Roles

Aminata Koné has big ambitions. She wants to improve the lives of women in her country, Mali. Known as Flani to her friends, she lives in the village of Kokry in south-central Mali, a semi-arid region where two rivers help to irrigate crops. Flani is 43, her marriage is polygamous and she has one son. When she was a child she attended elementary school.

Flani's life began to change in 2004 when she joined MJT (the initials, in Bambara, stand for "Women's Hope"), a women's VSLA. Membership in the group gave her access to credit and enabled her to expand her business activities. She used to earn about $3 a day making pastries; now she buys and sells rice wholesale, for a profit of about $5 a day.

But most important, Flani received training in how to mobilize savings and how to establish and manage a women's association. The learning process changed her view of herself, raised her level of self-confidence and made her think, for the first time, that she could have an impact not only on her own life and that of her family but on the life of her entire community. "I never used to participate in the political or administrative activities of the village or the local municipality," she says. "I didn't even know that I could. The headman of the village only called men to the meetings, even if the issue under discussion concerned the women. So as a woman, I didn't participate."

In 2005 Flani became a VSLA agent responsible for establishing new women's associations and training their members. In her own training for this important position, Flani learned not only about the savings and credit operations of a VSLA, but also about the rights and responsibilities of citizens – both men and women. She learned about governance, electoral processes and women as leaders, not only within women's groups but also at the village level and beyond. And she learned about issues that were never openly spoken of before, such as how to prevent HIV/AIDS and the dangers of female circumcision.

Speaking out at public meetings

Once many of the women in the village had been mobilized around the activities of the MJT, they began to demand the right to participate in village meetings. After considerable resistance, the mayor eventually invited the two women's groups to send representatives to the meetings, one of whom was Flani. She is now one of 16 women who regularly attend the village meetings that take place on an ad hoc basis. The groups also each send three or four representatives to the quarterly municipal meetings.

Flani says she was invited to participate in the village and municipal meetings because she had developed an ability to solve problems. She had demonstrated her leadership in the village and had earned the respect of both women and men.

As a rice wholesaler, Flani is committed to ensuring that agricultural inputs are available for the village rice fields. At one municipal meeting, when the subject under discussion was the management of the local rice field, she was instrumental in establishing rational, effective procedures for managing the rice fields and the money earned by the rice collective.

"I am now able to express myself better in public," says Flani. "This change is the result of the training I received from the VSLA program. Now I understand that I must participate in these meetings. I give my opinions on important issues and my suggestions are taken into account."

Flani is now preparing to run for public office. She will be a candidate in the municipal elections taking place in 2009. "I want to be elected so that I can defend the rights of women and improve the conditions of their lives," she says. "I know it will take a lot of effort, but I'm optimistic."

Flani has learned that she need not be afraid to assert her rights, a huge psychological step. "If it happens that the mayor holds a meeting without informing us women," she says, "I go and ask him why. This would not have been possible for me before I joined our group. It's the participation in the activities of the group that has enabled us to understand what we women are capable of."

Rigorous studies have yet to be carried out on the effect that membership in a VSLA – especially regular attendance at the meetings – has on women's political participation in their wider communities. But anecdotal evidence strongly suggests that the experience of VSLA membership can be life-transforming in many ways. The groups nearly always provide women with their first opportunity for solidarity with other women and collective problem solving. If they serve as an officer or secretary to a group, these roles invariably bestow a new sense of identity, dignity and accomplishment that no previous experience had offered them. It also helps prepare them for the requirements and demands of political office should they seek it.

It has been clearly demonstrated that when women enjoy the financial and social benefits of access to microfinance services, this increases, or even creates for the first time, their sense of self-confidence and empowerment. But because of the requirement to participate in regular meetings and fulfill specific roles within the group, VSLA membership has been shown to expand women's abilities far beyond what they would have experienced as individual clients of a bank or of many MFIs.

Women are waking up

Rahila Mamane is a facilitator with Plan International in Niger, training women in savings groups very much like CARE's VSLAs. In 1991, she was one of the animatrices working with CARE in the first VSLA groups in southern Niger. She has seen many changes as a result of women's participation in VSLAs.

Ms. Mamane explains that in the early 1990s, when VSLAs were first launched in Niger, many of the villages seemed empty and lifeless; the only inhabitants were old people, young children and women in seclusion. Nearly all of the men had migrated to Côte d'Ivoire in search of work. The women stayed behind. When their husbands returned home for the holidays, they would bring gifts of boldly patterned West African fabrics, shoes, perfume and sometimes the AIDS virus as well. Their wives would welcome their husbands in the usual way, marvel at the gifts and become infected with the virus. It seemed that nothing could be done to prevent this progression, and anyway, the whole subject was taboo. It was simply not a matter for discussion.

But as more and more women became involved in VSLAs, this pattern of silent subservience began to change. Some VSLA groups brought in HIV activists who explained, using videos and other materials, how women's powerlessness was helping to spread the epidemic. Gradually, with growing awareness and courage, the women began discussing what they could do to protect themselves – and their husbands – from HIV/AIDS.

"Now the women understand that the men are bringing back this disease to the villages," says Ms. Mamane. "The women have become aware. So now, when a man comes home from Abidjan, his wife welcomes him like before. But when night falls, she hides. And the next morning when she comes back, her husband asks her why. She tells him, 'Because you've been where there is this disease.'"

Then the wives tell their husbands that they must go to Tahoua, the nearest town, to be tested for HIV. If the results are negative, they continue as husband and wife. If the results are positive, the wife may insist on a divorce. "Now the men have understood that the women won't stand for this anymore," says Ms. Mamane. "There is no doubt that in these villages after 18 years, the women have evolved. They know their rights. And the men are protecting themselves now. They know they have to wear a condom when they travel. And some men have simply stopped migrating abroad. Now you find the men at home."

Today, the migration pattern has changed. The men who go to Abidjan (and use a condom while they are there) still return home with bales of fabric, shoes, soaps and perfumes. But now they are likely to set up a shop in their village, where economic activity has been increasing thanks to the VSLAs. They sell the imported goods and live with their wives in greater harmony. Ms. Mamane recalls how one woman described the changes she has experienced as a result of her membership in a VSLA. "She said, 'Now I am awake. Now I understand things. My mind has come out from the darkness. I see clearly now.'"

Replicating, Refining and Evaluating VSLAs

One of the most important features of CARE's VSLA model is its adaptability to and effectiveness in a variety of contexts: geographic, cultural, sociological and economic. Since CARE's first VSLA experiment in Niger in 1991, numerous international development organizations have launched programs either based directly on CARE's model or closely resembling it. Today, more than a million Africans, most of them women, are members of over 60,000 VSLAs operating in more than 25 sub-Saharan African countries. Table 12 below lists the key players in VSLA in the region.

"Now I am awake. Now I understand things. My mind has come out from the darkness. I see clearly now."

VSLA Member, Niger

{Table 12} International Organizations Implementing VSLAs in Sub-Saharan Africa[92]

Implementing organization and year VSLAs started	Donors	Countries	Total # of VLSAs	Total # of VLSA clients	Average savings balance (US$)	Gross savings portfolio (total) (US$)	Average loan balance (US$)	Average percentage of savings balance disbursed in loans
Africare 1998		8 countries: Burkina Faso, Chad, Mali, Malawi, Mozambique Niger, Senegal						
Aga Khan Foundation 2009	Internal funding	3 countries: Kenya Tanzania Mozambique						
CARE 1991	Gates Foundation, Barclays, USAID, MasterCard, DFID (UK), UNDP, UNCDF, KfW, Cordaid	21 countries: Angola, Benin, Burundi, Côte d'Ivoire, Eritrea, Ethiopia, Ghana, Kenya, Lesotho, Madagascar, Malawi, Mali, Mozambique, Niger, Rwanda, Sierra Leone, South Africa, Tanzania, Uganda, Zambia, Zimbabwe	54,479	1,027,494	188	51,699,043	25	71

92 The information in this table is incomplete because a number of organizations have not yet compiled all the data about their programs.

Implementing organization and year VSLAs started	Donors	Countries	Total # of VLSAs	Total # of VLSA clients	Average savings balance (US$)	Gross savings portfolio (total) (US$)	Average loan balance (US$)	Average percentage of savings balance disbursed in loans
Catholic Relief Services: "***Savings and Internal Lending Communities"*** (SILC) 2006	Gates Foundation (most recent)	22 countries: Benin, Burkina Faso, Burundi, Cameroon, Ethiopia, Eritrea[93], Ghana, Kenya, Liberia, Lesotho, Madagascar, Malawi, Mali, Niger, Rwanda, Senegal, Sierra Leone, Sudan, Tanzania, Uganda, Zambia, Zimbabwe	5,387	115,200	11	844,000 for 79,794 active clients[94]	Total loan portfolio: 672,855	50 (estimate)
Emmanuel International 2006	Food for Peace	Malawi	5,220	748	22,143	New groups: 4-15 Mature groups: 72	Total loan portfolio: 672,855	50 (estimate)
FARM-Africa 2008		Ethiopia						
Financial Sector Deepening Project 2001	DFID and others	3 countries: Kenya Tanzania Uganda						
Mercy Corps 2009	Gates Foundation	Central African Republic	30 planned for 2009	600 planned for 2009				
Oxfam America, Freedom from Hunger: "***Saving for Change"*** 2005	Stromme Foundation, Gates Foundation	3 countries: Mali Senegal Burkina Faso	5,998 651 N/A **TOTAL:** 6,649+	136,088 15,446 4,000 **TOTAL:** 155,534	11 13 N/A **AVERAGE:** 12	1,430,050[95] 200,695 N/A **TOTAL:** 1,630,745	14 15 N/A	64
Pact WORTH 2004	Anvil Mining, USAID, Oak Foundation, Salvation Army, U.S. Dept. of Labor, PEPFAR, PCI	7 countries: DR Congo Ethiopia Kenya Madagascar Tanzania Uganda Zambia **TOTAL:**	168 789 292 173 616 191 200 **2,429**	3,900 17,000 7,323 4,000 16,500 4,800 5,000 **58,523**				

93 Eritrea is non-active.
94 The rest of the clients have graduated after one saving cycle and are now completely independent of CRS after eight to 12 months.
95 Includes savings, interest on loans and fees.

Implementing organization and year VSLAs started	Donors	Countries	Total # of VLSAs	Total # of VLSA clients	Average savings balance (US$)	Gross savings portfolio (total) (US$)	Average loan balance (US$)	Average percentage of savings balance disbursed in loans
Plan International 2003	Plan core funds, Government of Valencia, Spain SIDA Plan UK	15 countries: Benin, Burkina Faso, Ethiopia, Ghana, Liberia, Malawi, Mali, Niger, Senegal, Sierra Leone, Sudan, Tanzania, Togo, Uganda, Zambia	3,182	70,000				
Save the Children 2007	USAID/ PEPFAR, USAID/ Food for Peace, USAID/ DCOF	3 countries: Ethiopia Malawi Mozambique						
Uganda Women's Effort to Save Orphans 2005		Uganda						
World Relief Piloting 2009		2 countries: Kenya Burundi						
World Vision 1996	WV Australia WV UK	5 countries: Ethiopia Mozambique Swaziland Kenya Sudan	 58 47 289 3 20 **Total:** 417	 1,242 N/A 1,789 N/A N/A **Total**: 3,031				

Basic principles and processes of VSLAs

For their savings-based programs, Plan International and Catholic Relief Services use CARE tools and training materials and have been trained through agencies affiliated with CARE that specialize in VSLAs. Oxfam America has adopted a very similar approach. For the most part, these and other VSLA programs adhere to the principles first developed by CARE and outlined in the VSLA Field Officer Guide produced by CARE for its ACCESS AFRICA program in 2009. These principles include:

- Savings-based financial services with no external borrowing by, or donations to, the loan portfolio.
- Self-management (i.e., by the members themselves).
- Simplicity and transparency of operations.
- Flexibility in loan amounts and terms: Today's VSLA clients can borrow up to three times the amount they have saved for up to three months during the first year and, in time, for up to six months.
- Low group management costs (close to zero) met through group earnings. This results in high net returns from loans.
- The retention of VSLA earnings within the group and local community.

The establishment of nearly all new VSLAs consists of these three phases:[96]

1. Preparatory Phase

a. The implementing organization obtains permission from local authorities and leaders to work in a particular area and enlists their support in organizing a public meeting to outline how the program works.

b. The goals, benefits and operations of the program are described at the public meeting, and people are told how they can get more information about it.

c. Individuals and small groups of potential VSLA members are given detailed information about how a VSLA works, what the responsibilities and duties of members are, and what the role of the implementing organization field officer (FO) is.

2. Training phase

The training phase consists of up to eight topic modules delivered by the implementing agency's FO or facilitator at weekly or bi-weekly meetings of each new VSLA. Normally, the training occurs over a period of eight to 10 months. However, saving usually begins within one or two months of the creation of the VSLA.

Module 1:	Groups, leadership and elections
Module 2:	Social fund, share-purchase and credit policies
Module 3:	Development of association constitution
Module 4:	First share-purchase meeting
Module 5:	First loan disbursement meeting
Module 6:	First loan repayment meeting
Module 7:	Share-out audit and graduation
Module 8:	Training of village agents

Village agents: Village agents (VAs) live in the target communities and are trained to promote VSLAs, but they are not paid by the implementing organization. From the start, VAs expect to be paid by VSLAs. Their relationship with an implementing organization is built on the understanding that, in the course of a year, they will be helped to become competent trainers of new VSLAs and helped to develop market demand that they can tap into for their own benefit thereafter. (See VSLA Field Officer Guide.)

3. Maturity phase

a. After approximately a year of supervision of the VSLA, the FO and his/her supervisor will formally examine each VA and, if they pass the examination, the VA will become a certified, independent provider of VSLA training to new VSLA groups, making a steady income from the VSLAs he or she supports.

b. At this point the FO will move to another area and start the process again. Thus, the FO is not only training VSLAs but is setting up a self-financing system of sustainable service delivery that will allow new VSLAs to be continually created.

96 A comprehensive description of the VSLA process can be found in The Village Savings and Loan Association (VSLA) Field Officer Guide, Access Africa Version 1, Hugh Allen and Mark Staehle, CARE, 2009.

Graduating from the implementing organization's supervision: Federations of VSLAs

The primary goal of VSLA programs is development: empowering the poorest individuals to take control of their own resources and build a better life for themselves, their families and their communities. In order for this goal to be achieved, VSLAs must be self-governing, self-sufficient and sustainable over time. While initially nurtured by an implementing organization, they must ultimately be able to thrive, expand and replicate themselves on their own. One way they have begun to do this is through federations of VSLAs.

In recent years, federations of VSLAs have emerged in a number of African countries, including Niger, Tanzania and Rwanda. These federations establish a means of strengthening the VSLA structure and promoting its sustainability. In Niger, for example, CARE facilitated collective activities among a network of VSLAs such as grain banks that have increased food security as well as women's empowerment programs.[97] In Tanzania, the goal of the federation has been to take over CARE's training and supervision responsibilities, thus leading to greater local autonomy and self-sufficiency.

After CARE left its VSLA projects in Tanzania, the supervision of those groups was assumed by four federations (called apex associations), two of which are in Zanzibar. These associations, which are comprised of more than 40 VSLAs, have been involved in linking VSLAs to banks and studying the feasibility of making bank loans to individual groups. Other goals of VSLA federations include:

- Mobilizing new communities to create VSLAs
- Forming and training new groups and replicating existing VSLAs after a CARE project has ended
- Providing and restocking VSLA starter kits[98] for new groups
- Monitoring the performance of VSLAs
- Facilitating linkages between VSLAs and financial services providers
- Partnering with other development organizations to promote VSLAs
- Working with donors on implementing community development projects through VSLAs in areas such as HIV prevention, conservation and water resources

Those Tanzanian VSLAs that are affiliated with an apex association are each represented in the apex general assembly, which meets annually. Each association elects a management committee and appoints a director of operations. Village agents support existing VSLAs and train new ones. One apex association in particular, the Jozani Credit Development Organization (JOCDO), established in Zanzibar, has facilitated an impressive expansion and replication of the 47 groups originally established by CARE.[99] By 2006, JOCDO had trained an additional 111 groups in Zanzibar. There are now 158 groups with a total of 4,552 members under JODCO's umbrella, an increase of 258 percent since CARE left in 2002. CARE plans to federate all of the VSLAs in each district in Tanzania, where it is still working, into apex associations similar to JOCDO. In 2010, CARE will help these apex associations create a national VSLA forum to represent all of the VSLA apex associations in Tanzania.

In Rwanda, VSLA groups have been able to access bank credit through apex associations called IGs (see side bar on right). In Malawi, CARE Access Africa is currently setting up a technical service unit to support a national federation of VSLAs. In Uganda, each NGO has its own technical service unit under a VSLA subgroup within the national microfinance steering committee.

Despite the positive achievements of several VSLA federations, there is some skepticism about the benefits of establishing federations rather than simply expanding the number of VSLAs one by one. "The most difficult part of what I do is to persuade practitioners to keep it simple," says Hugh Allen of VSL Associates. "Whether it's written records, apexes, federations or setting up grain banks, there is a tendency to want to 'improve' on the original VSLA model because, I think, of its embarrassing simplicity." There is also concern that the essence of the VSLA idea – independence, flexibility, self-regulation and personal participation – can be weakened by the federation process and the procedures, rules and bureaucracy that often attend it.

97 Hamadziripi, Alfred, "Village Savings and Loan Associations in Niger: Mata Masu Dubara Model of Remote Outreach," Coady Internatioanl Institute, Antigonish, Nova Scotia, 2008.

98 VSLA starter kits include a cash box with three locks, a calculator, a rubber stamp, stamp pad and other items.

99 Anyango, Ezra, Ezekiel Esipisu, Lydia Opoku, Susan Johnson, Markku Malkamaki, and Chris Musoke, "Village Savings and Loan Associations: Experience from Zanzibar," Department for International Development (DFID), London, U.K., 2006.

Rwanda's Federations of VSLAs

In Rwanda, CARE's CLASSE-Intambwe (Community Learning and Action for Savings Stimulation and Enhancement & Business) model is different from the more common VSLA model. Rwanda's SLAs are linked through federations called "intergroupments" (or IGs), to external loan funds (provided by CARE) at the Banques Populaires, a network of credit unions located throughout the country. CARE decided to provide external credit in the case of Rwanda because members of SLAs wanted larger loans than their internal loan funds could provide.

Microcredit organizations in Rwanda hardly reach the rural poor, but the Banques Populaires have a strong presence in rural areas. Until recently, however, they focused primarily on middle-income people (salary-earners, traders and cash crop farmers). Thanks to the partnership with CARE, these credit unions have begun to reach the rural poor.

IGs consist of 25 to 35 SLAs from villages clustered in a given area. Their role is to represent SLAs vis-à-vis CARE, the local Banque Populaire, local authorities and others. IGs also provide training and advice to existing SLAs, and often train new associations in the CLASSE-Intambwe methodology. The IGs' most important function is that of an intermediary between SLAs and the Banque Populaire to access credit.

Whereas the savings and internal lending activities of SLAs are considered to be protective (income-smoothing), the link to external credit signifies a more promotional (income-generating) use of microfinance. In addition to access to loans, SLAs receive improved business training and in some cases are linked to value chains.

Monitoring VSLA groups after they graduate from CARE

In Niger, CARE has developed a system for monitoring VSLA groups after they graduate from CARE's training and supervision, based on a sample survey organized at least six months after a group graduates. The study uses a stratified random sample,[100] representative of the entire intervention zone of CARE programs. The sample consists of 80 percent of old graduated groups (at least two years after graduation) and 20 percent of recently graduated groups (at least six months after graduation). The data are collected at least once a year in focus group discussions of eight to 12 group members. The indicators include financial as well as organizational data. CARE plans to use this system (with modifications as needed) in all of the countries where it implements the ACCESS AFRICA program.

Measuring the impact of VSLAs on poverty and women's empowerment

In 2005, in order to systematically assess the impact of CARE's VSLA projects in mitigating the underlying causes of poverty and promoting women's empowerment, CARE began using a new, multi-level, multi-year and multi-method evaluation process called Strategic Impact Inquiry (SII).[101] The first SII involved three years of research on women's empowerment carried out in some 25 research sites and secondary data from nearly 1,000 projects in the CARE portfolio, many of which have VSLA components and all of which intend, at least in part, to advance the rights and well-being of women and girls by providing a venue for solidarity among women. The impacts of VSLAs were studied in Niger, Mali, Tanzania, Uganda and Malawi.

CARE defines women's empowerment as the sum total of the changes needed for a woman to realize her full human rights. The interplay of these changes lies in:

Agency: a woman's own aspirations and capabilities

Structure: the environment that surrounds and conditions her choices

Relationships: the power relationships through which she negotiates her path

This definition takes empowerment beyond the achievement of material outcomes and emphasizes the importance of the structures – accepted norms, rules and institutions – that affect people's lives. It also focuses on the power relationships that shape those structures and institutions and on the processes that can redefine and reshape those relationships and institutions in order to promote gender equality.

It has been assumed that, over time, participating in a VSLA enables women to develop and apply leadership skills in their households, communities and businesses. The SII looked in depth at this assumption and found both confirmation of it and some unintended results.

In Niger, the SII research was based on a desk review of previous evaluations, but in Mali and Tanzania a mix of quantitative and qualitative methodologies and control groups was used. The Uganda data is based on the evaluation of a one-year savings group program, and in Malawi a quasi-experimental design with static group comparison[102] was used.

The SII sought to answer the following questions:

Does VSLA membership increase women's investments and decision-making role in household expenditures?

Most of the studies confirmed that participation in savings groups enables women to contribute to household expenditures, and that this both enables them to make decisions about household finances and enhances their self-confidence. In Niger, thanks to savings groups, women contribute to their children's school fees and to daily household expenses. In Mali, VSLA group members contributed more to household expenses than did women who were not VSLA members. In Malawi, the study showed that women's increased contribution to the household economy resulted in "improved power relations at the household level, particularly between spouses ... [since there is] more consultation between wives and their husbands." There were similar findings in Tanzania and Uganda.

100 A random sample of specified size is drawn from each stratum of the population.

101 The Courage to Change: Confronting the Limits and Unleashing the Potential of CARE's Programming For Women, Synthesis Report: Phase 2 CARE International Strategic Impact Inquiry on Women's Empowerment, Elisa Martínez, CARE USA Strategic Impact Inquiry Coordinator, with assistance from the global CARE International Impact Measurement and Learning Team, February 2006.

102 A study design in which a study group and a control group are measured at one point in time following an intervention or experiment that is experienced only by the study group.

Does a woman's investment in a VSLA improve the livelihood of her family?

For the most part, yes, although this was not clearly demonstrated in one of the countries studied. In Uganda, the pattern is very positive: As a result of increased incomes and savings associated with VSLA membership, the proportion of children attending school increased from 75 percent to 86.6 percent. The number of households having three meals a day increased from 40.7 percent to 53.2 percent. In Malawi, similar findings indicate that "group members are able to invest in agricultural production by buying inputs, which result[s] in their households having improved food security compared to non-savings group member households." Also in Malawi, even though the members' children were still engaged in paid casual labor, fewer were absenting themselves from school. About 64 percent of VSLA members in Malawi were able to contribute to their children's education, compared to 36 percent of non-group-member women.

In Mali, on the other hand, the findings were not conclusive. From a purely microfinance perspective, the study concluded that, "Although there is a general positive appreciation for the group system among men and women, its impact on household livelihood conditions seems small and the data do not reflect real and durable change in the living conditions of women and their households in the study geographical areas." Nevertheless, one of the most striking findings in the SII research in Mali was the discovery of a set of unintended impacts of VSLA membership. These included:

- Increased harmony and cohesion in the home
- Perceptions of women's increased competency by others
- Greater feeling among women of being able to manage their own lives
- Increased openness between husband and wife
- Greater mobility
- A reduction in migration (among both men and women)

Does membership in a VSLA increase women's self-esteem and self-confidence?

The Tanzania findings demonstrated that "participation in groups contributes to women's social empowerment, particularly increasing women's confidence and self-esteem, their ability to engage in the community's social and political activities, and their motivation to take action to improve their lives and those of their families." In Malawi, women who are members of savings groups are likely to be involved in other community-based organizations such as church groups and health committees. The results of the study indicate that 86.9 percent of Malawian women participating in VSLAs are more likely to take specific, concrete action to improve their lives as compared to 67.3 percent of non-participating women.

Do VSLAs overcome cultural barriers to women's participation?

It can be argued that, despite numerous examples of women's empowerment highlighted in the SII, VSLAs do not sufficiently address the cultural and structural barriers that prevent the social empowerment of women.

Nevertheless, the SII confirms that CARE's VSLA programs are expanding women's assets, skills and attitudes, and fostering new modes of social and political relations between women and men in households, communities and social organizations of the state and civil society. In many places, CARE's work to bring women together with local elected officials and customary leaders has led to new opportunities for dialogue about women's issues – such as female genital cutting, women's and girls' education, health, dowry, early marriage, workloads and more – where no such opportunity existed in the past. Over and over, in site after site, women said that the skills and confidence they had gained from contact with CARE programs were allowing them to play a stronger and more active role in the household, to talk with their husbands at a more equal level, to participate in public meetings and to enter the public sphere more broadly.[103]

103 The Courage to Change, Martínez.

At the same time, despite these impressive findings, it does appear that CARE's VSLA programs have been weak in addressing certain restrictive or harmful social norms. The SII study points out, "Currently, VSLA approaches in Niger are not addressing or facilitating structural change that would result in much deeper and wider impacts on empowerment. These projects have had relatively little impact on the structural aspect of gender inequality in Niger, in large part because the projects did not target this aspect of the problem. In Tanzania, it seems that participation in savings groups does not make a significant difference to individual and community attitudes towards gender norms and practices."

Overcoming cultural barriers to women's participation is crucial, but it is not the explicit goal of VSLAs, which are concerned primarily with women's economic empowerment. To the considerable extent that VSLA membership does empower women to move toward overcoming cultural barriers themselves, this is a side benefit and, it can be argued, a huge achievement. Over the next 10 years, CARE's ACCESS AFRICA program will develop and pilot new models of the VSLA methodology in order to directly address needed structural changes. However, care will be taken to ensure that such changes are not perceived as an attack on traditional values.

Do VSLAs reach the poorest people?

Despite the remarkable successes and obvious benefits of the VSLA approach, a number of important questions remain. It appears that the establishment of these village-level groups of women involves a process of self-selection wherein the most energetic and highly-motivated women in a community become involved, while the most marginalized and vulnerable may be overlooked, too poor or simply psychologically or physically incapable of participating.

The exclusion of the very poorest from the savings groups is a multi-country problem. According to the SII studies, the poorest and most vulnerable women do not have the money, even though it's only a few cents a week, to make the regular savings contribution required for membership in a VSLA. "Very poor women are excluded due to their inability to finance the purchase of shares," the study in Tanzania notes. In Niger, "It is not clear that beneficiary women were systematically chosen from among the most vulnerable in the groups visited."[104] As a result, there is a danger that VSLAs can be captured by a community's elite, by women who are already the most powerful and prosperous in the village.

And at the other end of the continent in South Africa, CARE focus groups have revealed that, in at least two villages, VSLA members are taking their VSLA loan money and re-lending it to others in the community at higher interest (sometimes 40-50 percent per month), thereby essentially becoming loan sharks themselves, though they typically charge much lower interest than mainstream moneylenders. CARE is monitoring this phenomenon to ensure that these members' activities are not a detriment to other vulnerable people in their communities.

And to further respond to these problems, CARE's ACCESS AFRICA program is developing methodologies that will ensure that VSLA programs specifically and systematically target populations living on less than $2 a day and are considered marginalized or vulnerable. To do this, country office baseline assessments will incorporate poverty measures, and programs will take steps to target the very poorest members of a community.

Loan Use Reported in a Study of All 812 VSLAs in South Africa (in order of frequency)
Business/IGA
Food
Transport
Household assets
Education
Home improvement/building a house
Funeral
Medication
Hospitalization
Agricultural inputs
Livestock

104 Chidiac, Sybil, and Abdoul Karim Coulibaly, "Summary of Findings from CARE's Strategic Impact Inquiry on Savings Groups and Women's Empowerment, " CARE, Atlanta, Ga.

Do VSLAs sometimes have unintended negative consequences?

Although the positive impacts of VSLAs have been largely in the economic realm, since economics and the welfare of families are indivisible, most VSLA programs have also generated significant social improvements. However, based on its studies, CARE has flagged some possibly harmful consequences of VSLA activity. For example, in Mozambique, anecdotal reports indicate an increase in domestic violence within the families of VSLA members. In Tanzania, concerns voiced by CARE staff include the following:

- Are daughters required to take on more work responsibilities (in the home, on the farm and elsewhere) because of their mothers' income-generating activities? If so, is this affecting their schooling?
- There is a perception among some non-participating women that VSLA members now feel superior to non-participants and look down on them. Can this lead to disharmony in the village?
- Do some men feel threatened by their wives' increased earnings and financial independence? Although many participating women say that group membership and the increased income it brought into their households had led to an improvement in domestic harmony and greater joint decision-making, some women said that problems (including female spouse abuse and violence, for which both VSLA members and non-members have a high tolerance) could arise if women earned more than their husbands.
- Is the greater contribution of VSLA members to household expenses simply relieving men of their responsibilities? Are VSLA members simply making life easier for their husbands at their own expense by assuming greater time commitments, financial and physical burdens, and risk?

Measuring the impact of VSLAs in South Africa

With its combination of first-world and third-world economies, South Africa is a special case for VSLAs, and their impact there requires separate, targeted research. In 2008 CARE conducted extensive, structured interviews and discussions with 80 VSLA members and facilitators from partner organizations in six villages in South Africa's rural Limpopo province. The VSLA members in the area are from chronically disadvantaged groups who have few other means of acquiring business capital or, indeed, enough cash to meet their basic needs. The study showed that VSLA membership is contributing to tangible improvements in quality of life as well as to a sense of self-reliance and pride among participants.

Loan Use

Among the VSLA groups in the study, loans (and shared-out savings) are most frequently used to expand or build a brick or cement house. Despite years of trying, many of those now building a house had been unable to save enough at one time to buy cement, meaning that large families have, for years, been forced to live in shacks made of corrugated iron or wooden slats. The use of loans or savings to start or expand a business, such as selling snacks, re-lending the money to others or making traditional items such as pottery or beadwork is also common, as is purchasing school uniforms or paying school fees, buying food for home consumption and repaying debt.

Impact of VSLAs on Health and Education

The South African study showed a strong link between VSLA participation and improvements in health-related quality of life conditions, such as better housing, better food (particularly meat and vegetables), food security and reduced stress. However, a direct link between VSLAs and improved health remains unproven, although VSLA

CARE's ACCESS AFRICA program is developing methodologies to ensure that VSLA programs specifically and systematically target populations living on less than $2 a day and that are marginalized or vulnerable.

{Table 13} : Changes in Quality of Life Reported by Interviewees

BEFORE Joining a VSLA	AFTER Joining a VSLA
Living in wooden or corrugated iron shack	2+ room brick house
Family eating mostly porridge	Regularly eating meat and vegetables
Unable to pay school fees	Able to pay fees on time
Children have no uniforms for school	Children have at least two uniforms/jerseys
In perpetual debt to loan sharks	No debt, no outstanding accounts
Unable to scale up business	More capital or stock for increased profit
Payments for illness led to debt	VSL loan for transport or clinic fees or both

membership seems to improve mental health, perhaps because it helps reduce stress within families. In South Africa, most clinic care is free, but transport costs remain prohibitive in some areas. A loan is often the only source of income for such luxuries as transport to visit a clinic.

It was unclear whether VSLA membership ensures that children stay in school longer or pass their matriculation exams. Both education indicators do suggest that VSLA membership improves outcomes.

The report produced the following anecdotal before-and-after assessment: The South African experience once again demonstrates how flexible the VSLA model is and how applicable it is to many different situations. Even in developed countries, the circumstances of the very poor mirror those of their counterparts in the least developed countries, especially in respect to access to financial services and capital. The difference in a country such as South Africa is that the components of what is regarded as an acceptable life – a multi-roomed brick house, for example – are usually more complex and costly to acquire than those in poorer countries. But the VSLA concept appears to work as well in the former as it does in the latter – just at a slightly higher financial level. This is especially important in countries like South Africa where a significant segment of the population has entered the middle class while an even larger segment remains in poverty.

CARE develops a standardized management information system for VSLAs

Practitioners of microfinance have long felt the need for a mechanism to measure the results of MFI operations.

In 2007, CARE began developing a management information system (MIS) for VSLA groups in six pilot countries: Ethiopia, Malawi, Mali, Niger, Rwanda and Uganda. Using ratio formulas designed by SEEP's Savings Led Financial Services Working Group (SLFS-WG),[105] the MIS system seeks to measure the achievements of VSLAs in areas such as:

- Client satisfaction
- Financial performance of each VSLA
- Operating efficiency of each VSLA

(For a detailed breakdown of the ratio system, see Annex A.)

The CARE pilot aims to provide lessons and recommendations to enable CARE to expand the use of the MIS to all countries that use the VSLA methodology. In December 2008, CARE's ACCESS AFRICA program hosted a workshop where representatives from the six pilot countries came together to share their experiences and develop a strategy to generalize the utilization of the MIS in other countries. (See Annex B.)

105 SEEP's SLFS WG: The Small Enterprise Education and Promotion Network.

{Table 14} CARE VSLA MIS Data for Six Pilot Countries | July - September 2008

Performance Ratios of VSLA Groups	Uganda Sept.	Mali July-Aug.	Ethiopia Aug.	Niger July-Aug.	Malawi Sept.	Rwanda Aug.
Client Satisfaction						
Member attendance rate at weekly meetings ***(indicates short-term relevance and value of services and appropriate methodology)***	88.0%	83.0%	91.0%	73.1%	87.0%	89.7%
Member retention rate at meetings over four to eight weeks ***(indicates long-term relevance and value of services)***	100.0%	94.0%	100.0%	97.7%	94.9%	93.8%
Membership growth/drop-out rates ***(indicates long-term relevance and value of services)***	1.0%	-3.0%	1.0%	-1.0%	-2.7%	-4.8%
Financial Performance (Association level)						
Average savings per member mobilized to date in US $ ***(indicates level of confidence in VSLA system)***	24.3	4.7	7.7	18.8	17.1	13.1
Annual return on savings	106.0%	48.0%	74.0%	145.0%	86.0%	102.9%
Average member investment in US $ ***(indicates individual member investment: savings + earnings)***	30.9	6.0	10.9	18.7	28.3	26.8
Average outstanding loan size in US $	40.2	23.5	11.2	17.2	39.8	14.5
Portfolio at risk ***(percentage of unrecoverable loans)***	0.5%	0.0%	0.0%	0.0%	0.0%	0.0%
Operating Efficiency (Association level)						
% of members with active loans ***(indicates degree to which access to loans is equitable)***	68.0%	14.0%	42.0%	52.6%	31.7%	53.5%
Fund utilization rate ***((value of loans outstanding / total assets) – (fixed assets + other funds))***	90.0%	62.0%	47.3%	49.9%	45.4%	30.5%

Part IV

CARE's ACCESS AFRICA Program – Extending the Reach of Financial Services

There are more than 300 million economically active individuals in sub-Saharan Africa, yet only about 20 million of them have access to any kind of formal financial services. Reasons cited by traditional financial institutions for not targeting this huge population include high operational costs, the fact that most enterprises operated by the poor are in the informal sector and the perception that the poor are not creditworthy. Nevertheless, a recent World Bank report shows a strong correlation between financial sector development and reductions in poverty and inequality,[106] and experience in Asia and Latin America has amply demonstrated the creditworthiness of the poor. If African countries are to achieve faster, sustainable rates of development, the poor in Africa must have access to savings, credit and insurance, and other financial products and services targeted to their needs.

This is why, in mid-2008, CARE launched its ACCESS AFRICA program. Over the next decade, ACCESS AFRICA will provide access to basic financial services for 30 million of Africa's poorest people – at least 70 percent of whom will be women. ACCESS AFRICA will pursue this ambitious goal at three distinct levels: micro, meso (intermediate), and macro.

- **At the micro level,** which will remain the cornerstone of the program, CARE expects to increase VSLA membership from just over 1 million in 21 countries to 30 million in 39 countries. New systematic efforts will be made to reach the very poorest, most marginalized individuals.
- **At the meso (intermediate) level**, linkages will be established to strengthen microfinance institutions by:
  - Improving the capacity of microfinance institutions (MFIs), to reach downward to clients and upward to formal banks
  - Helping MFIs mitigate and overcome chronic blockages in their finance systems due to lack of access to sources of loan funds by establishing predictable streams of capital through instruments such as MicroVest, a capital-mobilizing intermediary for MFIs
  - Developing an Africa financial grid of electronic and wireless technologies to fill vast hardware, software, and information gaps in the region
- **At the macro level,** ACCESS AFRICA will conduct ongoing research on national policies that affect access to financial services on the part of the poor and incorporate the findings in order to aggressively promote financial environments that serve the needs of the poor.

106 Beck, Thorsten, Asli Demirguc-Kunt, and Ross Levine, "Finance, Inequality and Poverty: Cross-Country Evidence," World Bank, Washington, D.C., 2006.

{Table 15} ACCESS AFRICA'S Three-Level Strategy

Level	Strategic Direction	Objective(s)
Micro	1. VSLA Scale-Up	Increase number of people engaged in VSLAs from 1 to 30 million.
	2. MFI Linkages	Introduce up to 30 percent of VSLA members to formal financial services.
		Increase the number and reach of MFIs that serve VSLAs.
Meso	3. Technology	Identify and adapt technology solutions that increase the effectiveness of MFI and bank linkages with VSLA clients.
	4. MFI Finance Chain	Establish an investment fund specialized in serving growing MFIs in Africa.
		Extend the reach of financial services by facilitating partnerships between banks and MFIs.
Macro	5. Advocacy	Reduce barriers that prevent women and marginalized groups from accessing financial services.

To implement this three-level strategy, CARE has established key partnerships with governments, MFIs, networks, telecom providers and financial institutions. Across the 39 participating countries, ACCESS AFRICA will seek out local organizations that can, in partnership with CARE, introduce and support the formation of VSLAs nationwide. Partnerships will increase speed and scale, significantly reduce outreach costs, and be closely supervised to maintain high quality. Using this partnership approach to expand VSLAs in Uganda, for example, CARE reached 97,000 clients in only 18 months; we expect to reach 200,000 in three years.

The linchpin of ACCESS AFRICA's strategy for scaling up, replicating and multiplying the VSLA model is village agents (VAs). A VA is a member of an existing VSLA who is trained by CARE (or a partner organization) to identify women and men who wish to form new groups and to guide and supervise them until they are ready to operate independently. The VA, in effect, takes on the role historically played by a CARE field agent; she is paid a fee by the groups she forms. The VA method, pioneered in Niger, has become central to CARE's long-term, low-cost expansion of our VSLA portfolio.

ACCESS AFRICA's four principles for scaling up VSLA across the continent are:

1. Reach the poorest and most marginalized. In villages where a VSLA is already thriving, CARE will research non-members to better understand barriers to joining and how to overcome them and then apply these findings in ACCESS AFRICA as a whole.

2. Invest in financial literacy for VSLA members and savings education for youth. To increase the ability of VSLA members not only to save and borrow but to attain financial security and personal empowerment, CARE, partner staff and eventually VAs will offer practical support in budgeting, accounting, business negotiations and the selection, planning and management of income-generating activities. ACCESS AFRICA will also deliberately reach out to young people[107] to build their appreciation of saving and their money management skills.

3. Take advantage of existing groups. Millions of women, men and youth in Africa belong to clubs and associations that revolve around sports, religion, economic activities, socializing or activism. ACCESS AFRICA's VSLA expansion will highlight the potential of existing groups and help them incorporate savings and loan activities.

4. Highlight urban areas and remittance senders. Remittances from relatives in comparatively cash-rich

107 Fifty percent of Africans are under the age of 21.

urban areas are a major feature of rural household economies. ACCESS AFRICA will expand VSLA activities in cities, invest in secure technology to support the flow of remittances and, in villages, increase the likelihood that at least part of these remittances will be invested in VSLAs.

Partnerships and Strategies for Reaching Millions of Africa's Poorest People

Partners: The Gates Foundation, CARE, MicroVest and IPA

Over three years beginning in mid-2008, CARE will extend its VSLA model to reach an additional 300,000 clients (70 percent of whom will be women) in the rural villages and urban slums of Malawi, Tanzania and Uganda. The resulting improvements in livelihood security will benefit an estimated five people per household, or a total of 1.5 million individuals. The program, a partnership between CARE, the Bill & Melinda Gates Foundation, MicroVest and Innovations for Poverty Action (IPA) is called SAVE UP.

After a year of intensive training in group development and the creation and uses of savings and credit, it is expected that a number of these VSLA members will need more sophisticated financial services than their VSLAs can provide: a physically safer place to keep savings, larger amounts of credit to expand their businesses and take advantage of opportunities, and insurance products that will help them respond to emergencies, recover from disasters and meet the needs of old age. SAVE UP will therefore link the approximately 15,000 new VSLAs with the formal financial services of MFIs, insurance providers, and MicroVest, a capital-mobilizing intermediary for MFIs.

Ideally, everyone needs access to a complete range of financial services, including the very poor who live in remote areas. The need to link VSLA clients with MFIs and other financial service providers (including mobile technologies) will be identified by the VSLAs themselves or their federations, and SAVE UP will be on hand to facilitate these linkages. SAVE UP will also create linkages between VSLAs and other types of development initiatives – for example, health, literacy, food security or potable water programs – according to the local needs and priorities of their members.

SAVE UP will enable CARE to:

- Demonstrate the sustainability and replicability of the VSLA methodology
- Promote effective linkages with formal-sector financial providers
- Introduce new technologies in order to reduce transaction costs
- Significantly increase the formal financial sector's ability to reach the poor with accessible, appropriate services

The goal of SAVE UP is to enhance the financial sustainability of savings-led groups by providing tools and models and applying lessons learned on how to reach poor communities in Africa with appropriate, sustainable financial services. Specifically, the SAVE UP project will:

Define the essential components of a cost-effective institutional model to develop, support, sustain and scale up high-quality savings-led groups by implementing national strategies for scaling up in the three countries.

Develop a cost-effective institutional model to manage the linkages between savings-led groups and formal financial services and ensure that innovations in financial services are applied in a way that meets the needs of these groups. For example, in Malawi, some VSLA clients have been linked to the Opportunity International Bank of Malawi.

Partner with financial institutions and insurance providers to provide savings, lending and insurance products and services and develop a MicroVest investment fund (see page 108) to provide formal financial service outreach to VSLAs.

Using lessons learned and models developed through the three-country pilot, design a program to scale up savings-led groups and provide enhanced access to

{Table 16} **Cost-per-Client Outlays: Comparing MFIs[108] with CARE's VSLAs**

MFIs and CARE's VSLA Programs MFI	Number of clients (two year average)	Costs per Client per Year (US $)
ACSI, Ethiopia	940,000	7.50
BOM, Mozambique	18,601	218.60
SAT, Ghana	74,731	73.70
SEF, South Africa (2006)	54,700	85.60
WAGES (Togo)	59,158	122.50
CARE's VSLAs (three countries, three years)	300,000 clients expected	37.02 (for three years)
CARE's VSLAs (three countries, 10 years)	1,613,620 clients expected	6.88 (for 10 years)

a suite of financial services in multiple countries in sub-Saharan Africa.

Cost-effectiveness of the VSLA model: During 2008, CARE completed a detailed analysis of the cost aspects of VSLA programs in Malawi and Uganda (for accounting purposes treated as one-program country) and in Tanzania. The study projected three-year and 10-year time frames and looked at CARE's overall management costs, including sub-grants to partner organizations, as well as specific project management and staff training costs, both in the aggregate and on a cost-per-client basis over a three-year and a 10-year period. The findings provided the basis for projecting the probable cost of reaching a total of 300,000 clients in three years and more than 1.6 million clients in 10 years in the three countries combined.

Taking all expenses into account, CARE's VSLA cost-per-client outlays compare very favorably with the cost-per-clients amounts reported by the five MFIs profiled in this report. (See Table 16.)

The wide range of per-client-year costs between MFIs and VSLAs is due in large part to the fact that VSLAs depend on no institutional infrastructure outside of their home communities. It is also clear that for both MFIs and VSLAs, the greater the number of clients, the greater the economies of scale that can be achieved. Furthermore, new programs initially tend to be more costly than those that have become essentially self-sustaining. Nevertheless, in the case of both MFIs and VSLAs, it is important to recognize that cost and value are not the same thing. It is difficult, if not impossible, to put a monetary value on the improvements in individual lives, families and communities that result from making financial services available to people who did not previously have access to such services, yet these are clearly the most important benefits.

The core objective of the SAVE UP project is to develop national strategies for VSLA implementation and, by comparing the performance of the models and approaches in the three pilot countries, define an institutional model that can be cost-effectively applied across a range of settings throughout sub-Saharan Africa. To do this, CARE will design a minimum package of VSLA training and supervision to be applied in all three countries, using local community members trained in the VSLA

108 These figures are from Mix Market (2007) and are based on annual costs. Ratio is Operating Expense/ Average Number of Active Borrowers (average for this year and last year).

methodology to help residents start groups on a fee-for-service basis. CARE will also develop a standardized village-agent payment package that can be applied across all SAVE UP program countries.

In order to better learn from the experiences of fellow practitioners of the VSLA methodology, in April 2009 CARE staff began ongoing virtual discussions via the Internet to explore linkages between VSLAs and MFIs, federations of VSLAs and ways to apply lessons from the Indian microfinance boom in the African context.

Evaluation: Innovations for Poverty Action, a US-based NGO, will use randomized control trials[109] to evaluate CARE's model to create VSLAs in the three SAVE UP countries. This impact evaluation will provide evidence-based results and guidance to CARE on what works in promoting access to savings, credit and insurance for the poor and the very poor. It will be one of the first rigorous, large-scale impact evaluations of access to savings for poor households ever conducted.

Partners: Barclays, CARE and Plan International

Barclays, CARE and Plan International have formed a partnership to improve the quality of life of half a million poor people in approximately 10 countries across Asia, Africa and Latin America by increasing their access to financial services. The partnership will leverage the core competencies of each partner organization to expand access to financial services, with a particular focus on savings-led approaches and the VSLA model. It will pursue innovations in how financial services can be delivered sustainably to a wide range of customers and communities and will promote financial inclusion by linking individuals to the formal financial sector. And it will promote mutual learning and increased awareness of the impact of microfinance on the poor.

The partnership has three expected outcomes:

- **Outreach:** Provision of direct access to savings-led community financial services for around 500,000 new clients in around 10 developing countries in Africa, Asia and South America.

- **Impact:** Insight into methodology improvements that can enhance the socio-economic impact of community-based financial services, achieve large-scale, cost-efficient expansion of these services and provide long-term, sustainable solutions to meet the needs of the poor.

- **Inclusion:** Understanding and demonstrating the extent to which linking mature, informal savings groups with formal financial services is beneficial for both clients and financial institutions.

Each program country will receive funding for three consecutive years in order to scale up existing savings projects to reach the target number of beneficiaries; where necessary, the savings-led methodology will be improved to increase impact, and linkages to formal financial services will be tested. Key milestones will include learning events for microfinance experts in the field to share lessons learned and regular publications on insights and outcomes.

This unique partnership brings together a leading global financial services provider and two international NGOs. It will make use of the development experience and established delivery structures of CARE and Plan International to promote and train community groups in savings-led community finance. It will also make use of the financial expertise of Barclays to create specifically designed financial channels, products and services. The partnership members have a strong international presence: Barclays operates in 60 countries, CARE in 70 and Plan in 66. Almost all of the African countries in which this partnership will operate are classified as experiencing low human development by the UN. The challenge to deliver sustainable financial services in these countries is huge. But by building on the synergies created by combining Barclays financial services expertise and the development knowledge and experience of CARE and Plan, a great deal can be achieved.

109 RCTs determine the true causal impact of an intervention by comparing the outcome of the intervention to what would have happened without it.

MicroVest

MicroVest, created by CARE and two other nonprofit organizations as a capital-mobilizing intermediary for MFIs, is organized along commercial lines with a strong private sector board. Its objectives are to provide capital to MFIs, to help build capital markets for the micro-enterprise system, and to support self-sustaining financial institutions that serve the poor. MicroVest launched its first fund in 2004 with $15 million in committed assets and the potential to grow to $75 million. The fund makes debt and equity investments in promising MFIs in emerging nations and plays an increasing role in developing capital markets for microfinance with follow-on funds, specialized funds in sectors such as housing and new financial instruments.

See **www.microvestfund.com** for more information.

Partners: CARE, MasterCard and CIDA in Rwanda

CARE has been awarded a $4 million grant to scale up VSLA programs and expand linkages between VSLAs and MFIs in Rwanda. The grant consists of $2 million from the MasterCard Foundation matched equally by the Canadian International Development Agency (CIDA). The partnership between CARE in Rwanda, ACCESS AFRICA and CARE Canada will target 128,000 new VSLA clients over three years.

Partners: CARE and IBM – Building the Africa Financial Grid

CARE and IBM have joined forces to build the Africa Financial Grid, a centralized management information system designed specifically for MFIs in sub-Saharan Africa. Initially, CARE and IBM will provide robust, low-cost, flexible and scalable software to help MFIs grow rapidly, quickly roll out new products, reduce transaction processing costs and avoid computer downtime. The services of the Africa Financial Grid will be sold solely on demand and MFIs will pay only for actual usage of these services, thus avoiding crippling investments in software development, servers, data centers and regulatory compliance. With only a basic computer, web browser and Internet connection, MFIs will be able to electronically access all functions to manage their daily banking activities, plus advanced capabilities in reporting, customer relationship management, handling loans in default and data analysis. When an Internet connection is unreliable, a special offline capability will allow work to continue and the system will automatically go back online when the connection is re-established. Importantly, the Africa Financial Grid will function with mobile devices, allowing, among other applications, MFI officers to take the system into the field to track interactions with clients.

The Africa Financial Grid will also make it possible for MFIs to link easily with other players in the financial arena, such as international payment networks, mobile phone payment systems, credit bureaus, regulators, banks and donors.

In creating the grid, IBM will draw on its deep banking and software experience to design and manage the technology platform, while CARE will leverage its long experience in global microfinance, strong governmental relationships and decades as a trusted development partner in Africa. Once the grid is active, IBM will own it and oversee operations management, regulatory compliance, data analytics and core banking solutions. CARE will establish a for-profit entity that will be the sole licensed reseller of access to the grid. CARE will also manage customer relations, first-level help-desk capabilities, and MFI integration into the system. All profits will be returned to ACCESS AFRICA to help fund its activities.

Paralleling the creation of the grid, CARE is developing ways for MFIs to increase their outreach and reduce the cost of their services. CARE is reviewing the opportunities, constraints and scalability of various business models and examining the approaches and value chains behind a number of mobile and electronic banking systems, both actual and potential.

Partnerships with commercial banks

CARE will form strategic alliances with selected commercial banks in Africa in order to extend the reach of their financial services to previously unserved clients. As indicated above, CARE will mentor MFIs and help them attain creditworthiness ratings; once so rated, the banking partners will meet their credit needs. CARE and the banks will also develop and launch innovative products and product-delivery mechanisms, especially for the urban poor, such as low-cost automatic teller machines, housing loans and insurance. CARE will also pilot the use of mobile solutions for linking the poor directly to banks.

Introducing up to 30 percent of VSLA members to formal financial services

CARE's experience shows that, in time, between 20 and 30 percent of VSLA members are likely to want a greater array of financial services than those the group itself offers. In terms of ACCESS AFRICA, this means up to 9 million people will need to be linked with mature MFIs

110 PlaNet (headquartered in France) and MicroRate (headquartered in the U.S.) are independent agencies that evaluate and rate MFIs around the world.

that, in turn, will understand and be able to serve this non-traditional banking population. To date, CARE has typically linked groups (rather than individuals) with MFIs. The group mediates, for example, larger loans and may even add its own interest rate to the loan. In this way, all group members benefit from the linkage even if only a few members take direct advantage of the larger loan.

Of course, in order to serve this clientele, it is essential that a sufficient number of capable MFIs be able and willing to do so. ACCESS AFRICA will partner with MFIs using a successful model that CARE developed in India. Via assessments, technical assistance and small grants, CARE will help the MFIs redesign and diversify their financial products, collaborate as needed with formal banks to provide a wider array of services, and obtain external accreditation from institutions such as PlaNet and MicroRate.[110]

Adapting technologies that increase the effectiveness of linkages between VSLA members, MFIs and banks

MFIs in sub-Saharan Africa face significant hardware, software and information needs, and operate in an environment that – often lacking electricity and land telephone lines – demands innovation if they are to serve their clients efficiently and cost-effectively. New technologies are constantly appearing; one of the most popular is M-Pesa in Kenya. While such innovations make transactions easier, they do not necessarily encourage savings, let alone provide the solidarity and empowerment of group membership.

Building a predictable MFI financial chain

All MFIs seek to become entirely self-sustaining in time, but achieving this goal can be exceptionally challenging. It is estimated that the average MFI executive in Africa spends between 50 and 90 percent of his or her time searching for and arranging financing. Without reliable financing, MFIs cannot plan for consistent growth – or even short-term viability. ACCESS AFRICA will establish a predictable financial chain that will ensure stable financing to MFIs who meet performance targets.

Through MicroVest (see box on p. 108), CARE will establish a specialized investment fund to serve established MFIs with fewer than 50,000 clients. The fund will make equity investments in small and growing MFIs that need equity to bolster their balance sheet and attract debt financing in order to grow. The fund will also have a larger debt component that will directly fund expansion and outreach among growing MFIs. MicroVest will collaborate with CARE to structure the equity and debt components of ACCESS AFRICA and will manage both funds.

Reducing the barriers that prevent women and marginalized groups from accessing financial services

ACCESS AFRICA's commitment to building the skills and capacities of VSLA members and MFIs on a vast scale will lay the groundwork for lifting millions of people out of poverty. But the policy environment must also favor this growth if it is to be sustained. CARE is developing an advocacy agenda, based on an assessment of program learning and complementary policy analysis. This will help CARE and its partners to influence the policy environment by:

- Increasing the understanding of financial exclusion and the ways in which policies reinforce it in sub-Saharan Africa
- Increasing the understanding of issues that uniquely affect women's access to financial services
- Assessing the gaps between ideal and actual policy environments
- Analyzing potential policy barriers to ACCESS AFRICA's success at various levels (national, sub-regional)

Through research, CARE and its ACCESS AFRICA partners will identify gaps between actual and ideal national financial policies, and advocate for changes that can transform the financial environment in sub-Saharan Africa.

The Way Forward

After more than 30 years of supporting microfinance and nearly 20 years of nurturing VSLAs, CARE and other development actors have reached a consensus: The poor, like people everywhere, need access to an array of flexible, cost-effective and sustainable financial products and services. And they need more. They need a durable structure – the group – where they can benefit from solidarity with one another and from opportunities to learn new skills, solve problems and tackle myriad development-related issues that will help them build strong, prosperous communities.

As CARE moves forward in its 10-year ACCESS AFRICA program, the need – and the potential benefits – of reaching out to the poorest people in remote rural areas and city slums is becoming increasingly apparent. CARE's VSLAs reach clients that formal financial institutions are unlikely to serve in the foreseeable future, if ever: poor women and men who save as little as 10 cents a week and who require comparably small amounts of credit. But providing financial services that will enable the poor to lift themselves out of poverty requires institutions of increasing capacity – not only VSLAs but MFIs and traditional banks, as well as technological innovations and improvements in public policies. VSLAs meet the needs of people on the lowest rung of the economic ladder and enable them to move up to take advantage of more sophisticated financial services along the continuum.

VSLAs have also demonstrated a remarkable ability to proliferate, scale up and replicate themselves both in rural and urban areas of Africa, enabling the poor to build their assets and expand their economic activities. As CARE and its partners reach more and more African savers and borrowers in the years ahead, CARE will continue to listen to its clients, respond to their needs and use the dynamic of group membership as a springboard for learning.

CARE's ACCESS AFRICA program will provide opportunities for improving the quality and effectiveness of its programs while maintaining the basic simplicity of the VSLA model. CARE will work to better understand what constitutes a strong group, how to measure and increase group member satisfaction, how to increase members' access to more sophisticated financial services and their ability to take on community development activities. Among the critical issues CARE will be addressing in the years ahead is the question of the tipping point, the amount of outside investment and time that is required before CARE and other implementing NGOs can pull out – leaving behind strong, self-sufficient VSLA groups and well-trained and motivated VAs who can create and train new groups. ACCESS AFRICA will ensure that such groups can link up with a complete range of financial products and services to meet their needs, taking advantage of the latest technological innovations.

We invite all partners to join us.

ANNEX

ANNEX A

Ratio Analysis of Community-Managed Microfinance Programs
SEEP (Small Enterprise Education and Promotion Network), 2008

The Ratios

Financial ratios for CMMFGs (Community-Managed Microfinance Groups)

Ratio No.	Ratio Name	Formula	Purpose
Group 1: Member satisfaction ratios			
R1	Attendance rate	No. of members attending meetings / No. of active members	Indicates short-term relevance and value of services and appropriateness of methodology
R2	Retention rate	No. of active members / (No. of active members + No. of dropouts)	Indicates long-term relevance and value of services
R3	Membership growth rate	(No. of active members – No. of members at start) / No. of members at start	Indicates long-term relevance and value of services
Group 2: Financial performance ratios			
R4	Average savings per member mobilized to date	Cumulative net value of savings / No. of active members	Indicates level of confidence in CMMF system; may be compared to alternative and similar savings opportunities
R5	Annualized return on savings	(Net profit/loss / (Cumulative value of savings / 2)) x (52 / Average age of CMMFGs, in weeks)	A measure that allows for comparison of the efficiency with which different CMMFGs generate profits
R6	Average member investment	(Total assets – Total liabilities) / No. of active members	Indicates retained individual investment (savings + earnings)
R7	Average outstanding loan size	Value of loans outstanding now / No. of loans outstanding now	Indicates changing debt capacity of members
R8	Portfolio at risk	Value of loans past due / Value of loans outstanding now	Measures amount of nominal default risk; may not be reliable indicator of loan losses
R9	Loan losses	Value of loan write-offs / (Value of loans outstanding at start of period + Value of loans outstanding now) / 2)	Indicates extent of uncollectable loans compared to the simple average value of loans outstanding over a given period
R10	Risk-coverage ratio	Net profit-loss / Value of loans past due	Indicates degree to which current yields cover potential maximum losses

Ratio No.	Ratio Name	Formula	Purpose
Group 3: Operating efficiency ratios			
R11	% of members with loans outstanding	No. of borrowers / No. of active members	Indicates degree to which loan access is equitable
R12	Fund utilization rate	Value of loans outstanding / (Total assets – (Fixed assets + Other funds))	Indicates level of credit demand
Group 4: Implementing organization operating efficiency ratios			
R13	Caseload: CMMFGs per field staff	No. of CMMFGs being supervised / No. of field staff (including supervisors)	Indicates operational efficiency of total field staff
R14	Caseload: Members per field staff	No. of active members / No. of field staff (including supervisors)	Indicates operational efficiency of total field staff
R15	Ratio of field staff to total staff	No. of field staff (including supervisors) / No. of all staff	Indicates level of organizational efficiency
R16	Cost per member assisted	Total program costs to date / (No. of active members + No. of graduated members)	Measures how much it costs to provide CMMF services to individual clients
Group 5: External debt ratios			
ER1	External portfolio at risk	Value of external borrowing past due / Value of external borrowing outstanding	Measures the amount of default risk on external loans to CMMFG; a reliable indicator of default
ER2	External borrowing	Value of external borrowing outstanding /(Total assets of CMMFGs borrowing externally – liabilities)	Indicates the degree to which CMMFGs are able to leverage external funds

ANNEX B

Management Information System (MIS) Pilot Countries Workshop Report Dar-Es-Salaam, November 6-8, 2008

Final version December 1, 2008

CONTENTS

ACRONYMS

AA: Access Africa
CO: Country Office
EDU: Economic Development Unit
HIBRET: Household Income Building and Rural Empowerment for Transformation
M&E: Monitoring and Evaluation
MIS: Management Information System
N/A: Not Available
NGO: Nongovernmental Organization
PACOB: Programme d'Accompagnement des Communes et Organisations de Base
PC3: Children Community and Care Project
ROCAM: Renforcement Organisationnel Crédit et Aménagement au Mali
VSLA: Village Saving and Loan Association

Background

The Economic Development Unit (EDU) of CARE Atlanta led since September 2007, as part of a Peter Bell fellowship program, the implementation of a Management Information System (MIS) for Village Saving and Loan Association (VSLA) groups in four different countries: Mali, Niger, Malawi and Ethiopia. This was a pilot experience aimed to provide lessons and recommendations for CARE to generalize the utilization of the MIS to all countries using the VSLA methodology.

It was planned that a workshop, bringing together participants from the pilot countries, would be organized at the end of the process to share their experience and develop a strategy to generalize the utilization of the MIS to other countries. After about 10 months of experimentation, VSLA and Monitoring and Evaluation specialists from the four pilot country offices (COs) as well as specialists from Uganda and Tanzania came together to share their experience and discuss common challenges they had faced.

The workshop was facilitated by Access Africa (AA) program, and conducted for three days (from 6 to 8 November 2008) in Dar-Es-Salaam, Tanzania, pursuing the following objectives: 1) share the progress in implementing the MIS, 2) develop a strategy for scaling up the MIS to other COs and 3) improve interaction between COs on VSL and MIS issues.

The following topics were discussed during the meeting:

1. Deepening participant understanding on the MIS ratios
2. Reviewing progress in implementing the MIS in the pilot countries
3. Orientation of participants on the last version of the MIS (version 2.10)
4. Developing a strategy for MIS implementation in other COs and for AA

1. Deepening participants understanding on the MIS ratios
The MIS allows tracking of ratios that give an image of the financial health of a VSLA group. Thus understanding the ratios is important in order to be able to analyze the data produced by the software and to use them to improve program quality. The workshop tried to provide the participants with clear understanding of the ratios: how they are computed by the software and how to interpret them. Thus, the first day's participants, through a puzzle exercise, received different pieces of each ratio, with the task to put the pieces of the puzzle together. Then participants discussed the ratio and shared their experience in collecting, analyzing and using the data from this particular ratio.

After this first exercise, participants were split into two groups to analyze the data from two VSLA associations of CARE Tanzania's successful WAGE program: the Usseguile and Mabependa women groups. The purpose of the exercise was to identify as many assumptions as possible, considered as potential explanation of the trend shown in the data. In the afternoon, the two groups went to the field to meet with their respective VSLA groups.

2. Progress in implementing the MIS in the COs
The second day, each country presented their experiences with the MIS and the challenges they are facing. In each country encouraging progress has implemented the MIS, as presented in the following table.

ANNEX B

Countries	Level of implementation	Challenges	Key questions/ recommendations
Ethiopia	4 projects (PC3, HIBRET, Getting ahead and CARE-Plan partnership program) and 4 partner NGOs are currently using the MIS	• Monitoring of the graduate groups • Aggregation at CO level • Quality of data collected by partners • Working in multi-sector program • Data entry time consuming • Lack of data analysis by partners	• External donation, how to consider in the MIS • The supervisor need to understand and interpret the ratios
Mali	2 projects (PACOB and ROCAM) and 5 local NGO partners are currently using the MIS	• Monitoring of graduated groups • Illiteracy of group members • MIS systematization in the entire CO VSLA program	• How and when do we aggregate data • How do we ensure good data analysis at diverse levels (partners, supervisors, village agent/ field officer)
Niger	7 regional VSLA projects, 4 MIS trainers, 56 staff trained, 186 groups monitored	• Data aggregation • Aggregating data from different projects and at headquarters (data from all the COs) • Collecting MIS data and other information for the project • Collecting MIS data at the same time all the other information needed on groups and without upsetting current collecting mechanisms and meet with the specific needs of other donors	• Need more flexibility in the MIS • Develop a MIS as a database
Malawi	4 projects (SMILHE, I-LIFE,ICON and SAFE) and 6 partner NGOs are currently using the MIS	• Aggregation of data from different projects and partners • Using MIS in multi-sector projects were VSLA is just a component • Problem of record keeping by the groups • Data collection by village agents	• Modification of the record-keeping system of VSLA groups to fit into the MIS
Uganda	Sustain project	• Continued data collection from groups beyond project period (monitoring of graduated groups) • Data aggregation • Lack of interpretation • No record keeping by illiterate groups	• Make recordkeeping mandatory for groups • Create database for trend analysis
Tanzania	Currently only the ONGEZA AKIBA project is using the MIS. The program works with 4 APEX associations.	• Timely data collection • APEX associations tend to neglect data collection	• Does data collection change with illiterate groups, if so is it still compatible • How do we ensure and donor support for the MIS

Following the presentations, common challenges were identified to address in group work during the last day. These challenges included monitoring of graduated groups, aggregation of data, weak data analysis at diverse levels (partners, supervisors, VAs, etc.), quality insurance working in partnership particularly when the MIS is used as a management tool to make hard decisions, collecting data from illiterate groups, ensuring donor support for the MIS to avoid duplicated systems, timely data collection.

The last day, MIS data from the countries were presented; this allowed participants to identify some mistakes in the data and to compare their VSLA methodology with others. The key point identified during the discussion was the negative return on saving. The common mistake is due to the fact that some field officers tend to exclude the withdrawal of the group from the cumulative value of saving, leading to negative values. The following table provides an aggregation of the data from each COs.

	SEEP Performance Ratios	Uganda Sept	Mali July-Aug.	Ethiopia Aug.	Niger July-Aug.	Malawi Sept.
Client satisfaction						
R1	Attendance rate	88.0%	83.0%	91.0%	73.1%	87.0%
R2	Retention rate	100.0%	94.0%	100.0%	97.7%	94.9%
R3	Membership growth rate	1.0%	-3.0%	1.0%	-1.0%	-2.7%
Financial performance (Association level)						
R4	Average savings per member mobilized to date	24.3	4.7	7.7	18.8	17.1
R5	Annualized return on savings	106.0%	48.0%	74.0%	145%	86.0%
R6	Average member investment	30.9	6.0	10.9	18.7	28.3
R7	Average loan size	40.2	23.5	11.2	17.2	39.8
R8*	Portfolio at risk	0.5%	0.0%	0.0%	0.0%	0.0%
Operating efficiency (Association level)						
R11	% of members with active loans	68.0%	14.0%	42.0%	52.6%	31.7%
R12	Fund utilization rate	90.0%	62.0%	47.3%	49.9%	45.4%

*The data for ratios 9 and 10 are not available, as these ratios are determined by the value of loans past due and loan write off (calculated by the groups at the end of the cycle).

The exercise was useful and provided participants with examples of how to interpret the data. Each participant was then asked to check the validity of their data once back in their respective countries.

3. Orientation on the new MIS

Based on some of the recommendations made during the piloting process, VSLAs produced a new MIS version (version 2.10), that takes into account some recommendations such as ratio table for graduated groups, more flexibility in allowing users to add their own data, etc.

Before the presentation of the MIS, we went through the different terminologies used by the software to calculate the ratios. The purpose was to make sure everyone speaks the same language while collecting the information. The following points were discussed:

- The difference between cumulative value of saving and cash on hand or bank: Most often there is some confusion between the value of saving and the amount in hand that leads to negative figures when the computer determines the profit of the group, or when it comes to determining the return on saving. We clarified the fact that the cumulative value of saving is a net value; nothing should be deduced from it, even if the group has withdrawn some amount from it; while the cash on hand or bank, counts for all the available cash that the group possesses in its cash box or at the bank during the time of the visit.

- Determination of the property of the group: the value of property of a group is generally easy to determine. It was agreed to consider the amount spent by the group to acquire the property. Nevertheless the problem remains for groups receiving non-monetary donations. For instance, that's generally the case of groups in Ethiopia where groups often receive agricultural equipment; the same situation occurs with groups in Mali and Niger. The question is then whether or not to count such properties? In the case we would decide to acknowledge them, how then should we value them? The question still remains and the AA team will have to clarify this issue in order to make it standardized across countries.

- We discussed terminology such as "active members" that seemed to be confusing among many MIS users and field officers. Most people tend to think that it represents the members who are active in participating in debate during group meetings. Clarifications were given to consider this as the registered members of the VSLA group who owe shares in the groups, not exclusively members participating in debates.

  In the afternoon of the second day, the new version of the MIS (version 2.10), was presented to the participants, emphasis was on the differences between this version and the previous ones. The differences include ratio table for graduated groups, flexibility with the possibility to produce your own tables and monitor some more variables, changes in some of the input data (such as property at start of cycle and property now). Since CARE Uganda was using the version 1.14, the differences with this version were also highlighted during the meeting.

- Ratio table for graduated groups: Generally groups get graduated after one year of training. Due to difficulty tracking the groups after graduation because of workload of field officers and VAs, it is recommended to monitor a sample of the graduated groups. In the MIS 2.02 used by the pilot countries, there are two archive sheets for graduated group. The first one is more passive: The users have no possibility to change the data once a group is stored in this first archive sheet. The second one is more active: Here the users can select a sample of archived groups to update their data. Nevertheless, there was no way of producing ratios for the sampled graduated groups. The new version incorporates this functionality.

- Flexibility: Many COs have asked for a more flexible MIS. In fact COs are interested monitoring some of the information often requested by donors. The previous MIS version restricted them to the only variables needed to produce the ratios. This limitation has now been addressed in the new MIS version: The user can define its own indicators to monitor, while monitoring the key ratios.

- Property of the group: In the new MIS version, the terminology for property has changed. In the initial version it was "new fixed assets this cycle" and "new other assets this cycle"; these terminologies have been replaced with "property at start of cycle" and "property now." This allows, for instance, tracking a groups moving from cycle to cycle with property acquired during previous cycles. For most of the non-graduated groups, "property at start of the cycle" should be zero.

4. Strategy for implementing the MIS in other COs

The last day, it was planned to have group discussion about key challenges and provide some recommendations for MIS generalization to other COs. Before moving into group work, presentations were given in order to provide insights to the participants on some of the challenges: monitoring of graduated groups and data aggregation.

CARE Niger's experience in monitoring of graduated groups: CARE Niger has developed a consistent methodology to monitor the graduated groups. In order to inspire groups' work, Philippe Tossa from CARE Niger presented the experience of CARE Niger in monitoring the graduated groups. This methodology is based on a sample survey organized at least six months after graduation. The sample is a stratified random sample, representative of the entire intervention zone of CARE Niger programs. The sample consisted of 80 percent of old graduated groups (at least two years after graduation) and 20 percent of recently graduated groups (at least six months of graduation). The data are collected at least once a year in a focus group discussion of 8-12 group members. The indicators include financial as well as organizational data.

AA M&E plan: After Tossa's presentation, Abdoul Karim gave a brief presentation of AA M&E plan, with a focus on the MIS and the client survey. AA will have a client survey as part of the impact assessment plan and the MIS will be used by all the AA countries. After graduation, a sample of VSLA groups will be selected for monitoring. These groups will be the same as the ones selected for client survey, so that we can correlate the result of group performance and changes on clients' livelihoods. Who will be in charge of collecting these data? Instead of hiring external data collectors, AA will recruit some VAs as data collectors for client survey and MIS graduated group data collection. These VAs would receive some incentives for the purpose of the exercise.

Solution for aggregation: The aggregation of data was a key cross-cutting issue raised by all the COs. In fact, each CO is working with a range of partners and projects, and concerns remain about how to ensure an aggregation of all these data at the CO level and at the AA headquarter level. VSL Associates has developed a data aggregator to solve this problem. Nevertheless some limitations remain due to the fact that it doesn't allow doing aggregation of aggregated data as required for a multi-level system. The data aggregator software was presented, and examples were provided. But the COs will continue to work with what they have – aggregating manually or using the data aggregator – until a relevant solution for aggregation is developed.

After the presentations, group exercises were organized to discuss key challenges and provide some recommendations for AA to use the lessons from this experience.

The first group discussed the MIS institutionalization, the second group discussed the MIS buy-in by different stakeholders and the third group discussed the quality of data and timely data production.

The key recommendations were as follow:

- Adopt MIS as VSLA package, include ratio on the training of VAs and group members.
- AA should develop a participatory, basic way to simplify the use of the ratio for VAs and group members.
- Pilot COs should orient and train other project staff and COs on the MIS and act as core MIS regional trainers; any version change in the MIS should be initiated by the pilot COs.
- It is important to communicate with COs to clarify the role of the MIS core team (pilot COs), and review the job descriptions to reflect this.
- Document lessons, experiences and commonly agreed standards on the MIS in a participatory way and come out with documented MIS implementation guidelines.
- Create a network of MIS users, through Yahoo groups, so that pilot COs can continue to interact and exchange experiences.
- AA should conduct sharing workshops at least once a year.

Below are the detailed outputs of each of the groups.

Group 1: MIS institutionalization

1. The role of the pilot CO in the future
   - Share the MIS implementation experience and lessons learned
   - Document lessons, experiences and commonly agreed standards on the MIS
   - Orient and train other project staff and country offices on the MIS (core MIS regional trainers)
   - Conduct follow-up and monitor the respective countries
   - The pilot CO team should be in charge of MIS version implementation (improvement only implemented after 3-5 years, no yearly changes)
   - Communicate with CO to clarify the role of the MIS core team (job descriptions to reflect this responsibility)
2. How to use this experience in AA
   - AA should conduct sharing workshops at least once a year
   - In a participatory way, AA should create MIS implementation guidelines
   - Version changes should be initiated by pilot COs
3. Communication mechanism between pilot COs
   - Create an MIS website
   - Create a listserv working group (e.g., Yahoo groups)
   - Bi-annual newsletter
   - Workshop, regional and in-country

Group 2: How to ensure MIS buy-in?

Donors

- Orient on ratios
- Invite donors to review meetings
- Negotiate to avoid some reporting formats

Among partners

- Adopt MIS as VSLA package
- Capacity building of partners (training, technical support)
- Partners sensitization, so they can take it as their own tool

VSLA members

- Aware of the purpose of data collection
- Provide feedback on the analysis
- Encourage participatory monitoring
- Include ratio on the training of VAs (as well as VSLA members)
- Participatory monitoring: Group members should know what they are supposed to achieve at the end of the cycle, they should be able to analysis
- AA should develop a participatory basic way to simplify the use of the ratio for VAs and group members

CO senior team

- Create awareness/orientation on the ratios
- Involve COs in review meetings

Multi-sector projects

- Human resources
- Use VAs for data collection
- Use data entry clerk for data entry
- Enhance common understanding
- Specialization among project
- VSLA as entry point

Group 3: Quality of data and timely data collection

Frequency of data collection

- Monthly from groups
- Quarterly at CO level to AA
- Annually to AA

Record keeping of groups

- Improve capacity and understanding of members (weekly, bi-weekly, monthly)
- During group meeting (weekly, bi-weekly, monthly)
- Simpler records for accuracy and quality of data

Graduated groups

- Collect data after six months, i.e., twice a year
- Sampling of graduated groups (10-50%) depending on the number of graduated groups (qualitative and quantitative data)

MIS as a management and/or learning tool

- Use the tool for management but also use the ratios to understand how the results portrayed performance of trainers, groups and the general program. Use MIS to improve groups' quality
- Need for capacity building of partners
- How to make sure the partners will ensure quality of the groups?

5. Action plan

The workshop ended with a work plan; and a prize was given to the best poster presentation, received by CARE Ethiopia team.

Action	Who	When
MIS report on countries	AKC	Feb 2009
Finalize the report of this workshop	AKC	17 Nov 2008
Share the recommendation with AA team and formalize the recommendations	AKC	30 Nov 2008
Share the outcome of the workshop in countries		20 Nov 2008
Ethiopia	Zemach	
Mali	Keita	
Niger	Tossa	
Malawi	Joseph	
Uganda	Rebecca	
Tanzania	Richard	
Create a MIS Yahoo group	AKC	30 Nov 2008
Each CO to send its MIS report		31 Jan 2009
Ethiopia	Yetnayet	
Mali	Keita	
Niger	Tossa	
Malawi	Joseph	
Uganda	Rebecca	
Tanzania	Richard	
Develop a guide for MIS data analysis	AKC	
Translate the ratio manual into French	Consultant	Feb 2009

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