AFRICA MULTI-STAKEHOLDER CONSULTATION ON
"BUILDING INCLUSIVE FINANCIAL SECTORS FOR DEVELOPMENT"

Bamako, Mali, 6-8 December 2004

Report of the Consultation

As part of the Fourth Annual Conference of the African Microfinance Network (AFMIN), held in Bamako, Mali, 6-10 December 2004, the Financing for Development Office of the United Nations Department of Economic and Social Affairs (DESA) and the United Nations Capital Development Fund (UNCDF) joined with AFMIN to carry out a multi-stakeholder consultation for the African region on "Building Inclusive Financial Sectors for Development."

A total of 124 individuals participated in the meeting, 100 of them coming from African countries and 17 from developed countries, the latter mostly microfinance specialists in non-governmental organizations (NGOs) that provide services and research to the industry. Seven participants came from international organizations, including the Consultative Group to Assist the Poor (CGAP, at the World Bank), the International Labour Organization, the International Monetary Fund and the United Nations (DESA, UNCDF, and United Nations Development Programme). The African participants came from microfinance institutions and networks, government ministries and central banks, and the private sector (Microrate Africa).

The conference was formally opened on 6 December by Ms. Oumou Sidibé, President of APIM/Mali (Association Professionelle des Institutions de la Microfinance of Mali), the AFMIN host organization in Mali, and by Dr. Wolday Amha, President of AFMIN. The Hon. Ousmane Thiam, Minister for the Promotion of Investment and Small and Medium Enterprises of Mali, delivered a welcoming address. Opportunities were then offered to visit one of three Malian microfinance institutions (MFIs) in Bamako: Miselini ("La Caisse des Femmes", an institution that offers "group lending" to more than 13,000 underprivileged women), Jemeni (a network of savings and credit cooperatives that mobilizes savings from shareholders for local lending), and Nyèsigiso (a large union of savings and credit schemes, with 46 branches in 5 regions of Mali plus Bamako district, serving over

Panel presentations

industry codes versus government regulation and recourse for clients. It was also observed that MFIs needed to be protected from clients who abuse their access, and members (shareholders) of MFIs needed to be protected from other members who steal.

Lisa Parrott of MicroSave discussed a marketing strategy for expanding the demand for microfinance products. While there are fundamental life-cycle needs that can be the basis for the demand for household savings and credit services (birth, education, marriage expense, etc), it is also necessary to study the market, calculate costs and revenues of a prospective product, run pilot tests, and so on. She also discussed developing a trademark and a client-service strategy, including staff incentives, on all of which MicroSave can provide assistance.

On the impact of microfinance on the poor

Carolijn Gommans of Hivos (Humanist Institute for Cooperation with Developing Countries) discussed their efforts over the past five years to assess the impact of microfinance on the poor and on women in particular. Based on studies in Bolivia, Ecuador, El Salvador, Uganda and Zimbabwe, she was able to draw some conclusions. In general, clients of MFIs have had increased income from business, increased ownership of household and enterprise assets and improved education, nutrition and health. Economic impact was stronger in households with more resources. The impact in poorer households related more to empowerment and reduced vulnerability, which is rational as crises can rapidly erode hard-won gains. Also, self-esteem and recognition in households increased for women, albeit to a degree limited by social relationships, while HIV/AIDS had reduced the positive impact of microfinance. The assessments underlined the importance of product diversification and improvement for the future growth of microfinance, confirming the importance of savings services and the potential role for micro-insurance.

Godfrey Chitambo of Zamfi (Zimbabwe Association of Microfinance Institutions) reported on the Hivos-supported study of 14 MFIs in his country. That study, which sought to focus on enterprises owned by women and the poor, concluded that gender empowerment was not the main concern in MFI operations (he called for a gender mainstreaming policy). It also found that 60 per cent of MFI clients were 30-49 years old, which was consistent with the finding that the MFIs preferred lending to older enterprises. Indeed, MFI clients were found to have kept better business records than non-clients. However, only 33 per cent of client enterprises employed staff, the rest being fully owner operated, and thus MFIs were not a significant source of employment (one recommendation was to increase the maximum size of loans, e.g., for small factories, which required expanding the capital base). Also, MFIs preferred lending to continuing female contribution to the household was met by smaller male contributions. This had not been tested, but it was found that men wanted to invest in more housing.

increasingly scarce relative to the growing size of the industry, he concluded that MFIs needed to become formal financial institutions rather than remain informal NGOs, and they should build a history of ratings. Even if initial ratings were weak, it would lay the foundation for improvement, which counts significantly with potential creditors. He added that ratings are paid for by the MFIs themselves ($15,000 for the first and $10,000 for subsequent ones), although donors such as CGAP may help absorb the cost. It was later noted that ratings also could give management useful feedback on where improvements were needed.

questions to loan applications, as well as through ad hoc surveys. The questions should be geared to “social performance management,” although tailored to the individual MFI.

Kasuama Pakinzi Wa S'Hako of RIFIDEC (Regroupement des Institutions du Système de Financement Décentralisé du Congo) explained the process that the Government of the Democratic Republic of Congo had recently begun in concert with the microfinance sector to create a national microfinance policy. The policy would involve particular roles for the State, the central bank, commercial and development banks, MFIs and other ("decentralized") financial institutions, donors and international NGOs. It would aim to strengthen the micro and other small-scale finance institutions through capacity building, more effective supervision and risk-mitigation, as through an insurance fund. It would seek to rebuild savers' confidence in the institutions and promote savings through incentive schemes (e.g., saving for credit), promotion and education.

Wolday Amha of AEMFI described a consultant's study of the effectiveness of the Ethiopian network, which is both a service organization for the 23 licensed MFIs in the AEMFI network and an intermediary with the Government of Ethiopia on policy matters. In addition to the improvements in the operation of MFIs that could be linked to AEMFI training and research, the study found it contributed to the development of a national Rural Financial Intermediation Programme that is supplying financial, technical and capacity-building support to MFIs and cooperatives. It had also reduced antagonism between government and NGO supported MFIs and created a sense of partnership. An important open question was how to fund AEMFI in the future. Although donors and the Ethiopian Government are willing to continue support in the medium term, foreign donors prefer to fund particular projects rather than the network per se and additional revenue sources were needed. One potential answer lay in more of a business orientation and a new law covering NGOs that permits them to engage in income-generating activities to help cover their costs, which could include the services provided by AEMFI (including a training centre it is planning to build that would generate income). It is also planning to attract savings and credit cooperatives to broaden its membership.

Toward more effective international donor policy

Sharyn Tenn of the SEEP Network described recommendations that emerged from the SEEP Donor Guidelines Working Group for microfinance associations (MFAs). The Working Group was composed of regional and national microfinance networks, international and regional technical service providers, and multilateral, regional and foundation donors. It endorsed supporting MFAs that helped members improve performance through technical assistance, training, building industry capacity, promoting transparency (to build confidence), serving as a forum for the industry and representing its interests. It called for support of networks that avoid duplication, do not compete with members, start small and were efficient. The networks should also have strategic plans, have members cover the cost of the MFA core services, seek long-term institutional support, and provide services that can ultimately be supported by members. The Group endorsed performance-based grant funding (with tranched disbursements), but also funding of adMFA -4mbericroniategi in below) reported that the German techni

one of the roundtables saw an excessive number of steps needed to get a loan from MFIs and called for simplification (as a participant in the other roundtable put it, make it "simple, short and to the point"). They also needed to make sure clients understood the obligations they were undertaking when borrowing. This was put forward as an example of transparency needed from MFIs themselves.

MFIs needed to better understand their clients, as their needs differed and "one size did not fit all" as far as product design went. The savings heard better politically. Indeed, it was felt that the "AFMIN Consensus Statement on Financial Policies and Systems for Microfinance," adopted in 2002, remained a relevant set of principles to use with all key stakeholders. With agreement on the "oughts", the discussion focused on the politics of the actions actually taken.

Among the comments about specific countries, a participant from a central bank acknowledged that financial sector regulation in his country did not reach beyond the urban areas; finance in the rural areas remained informal and out of reach of national policy. Another national particip

Fleshing out the “bottom up” approach to policy development in contrast to “top down”, it was argued that the microfinance sector in African countries had to organize and effectively advocate for appropriate policies and for their full and fair implementation. The staff of government ministries would not necessarily act fully on the views of their authorities. It was necessary for the microfinance industry to “cultivate relationships” and generally raise consciousness, as through national forums. One speaker detailed how the microfinance sector in his country had to overcome sceptical technocrats in the government and central bank in order to forge a policy framework for small-scale finance. International donors had given $400 million for financial sector development in his country, but it did not include microfinance. It took pressure through lobbying of the government by organized local groups to raise the visibility of the problem. Another participant commenting on that case emphasized that those groups had credibility in the country and were locally driven, not external (“not fronting for some other player”), and had strong leaders. Those were all important ingredients for its success.

While actions such as these would primarily be at national level, it was argued that a regional approach could sometimes be helpful in mobilizing effectively for reform. This was being demonstrated in West Africa, where a participant reported that the BCEAO was drafting regulations that could apply across the UEMOA region. It was said that BCEAO engagement helped to sensitize national authorities to the need for policy reform. Organized lobbying and ensuing political commitment in one country could now more easily spill over into another country in the same region.

On the other hand, a seemingly stalled regional initiative in UEMOA underlined the problem when initiatives are “top-down” and seem driven by a political need to take an initiative. That is, eight countries proposed establishing a “regional solidarity bank” to support microfinance in the region, including refinancing microfinance institutions. A major criticism of this proposal was that it did not take account of existing structures, nor give voice to what the microfinance institutions themselves felt they needed. It also appeared that no international donors had yet accepted to take part and the project had not gone far.