

SAVINGS & CREDIT FORUM
JUNE 11TH, 2004

MODELS....

.... LOOKING AT DIFFERENT ORGANIZATIONAL FORMS
(INSTITUTIONAL MODELS), WHICH WORK FOR RURAL FINANCE.

To the participants of the Savings & Credit Forum and other interested persons

July 6th, 2004

Dear colleagues, dear Madam, dear Sir,

DURING OUR LAST SAVINGS AND CREDIT FORUM OF JUNE 11TH 2004, WE HAD THE OPPORTUNITY TO HEAR A PRACTITIONAR AND A RESEARCHER, BOTH SPECIALISTS OF RURAL FINANCE WHO PRESENTED DIFFERENT INSTITUTIONAL MODELS FROM BENIN AND KENYA.

- Mr. **Makarimi A. Adéchoubou**, who is currently working at the Special Unit for Microfinance (SUM) of UNCDF in Togo, provided an in depth presentation of the history and institutional transformation of FECECAM¹ in Benin, where he had been working for many years as director. With its 430'000 members, 650 employees, a savings volume of about 60 million US\$, a portfolio of 42 million US\$ and 160 branches all over the country, FECECAM is nowadays the most important savings and credit institution in West Africa. Created in 1975, the institution witnessed a major governance and growth crisis in 1997, which obliged its leaders to undertake important reforms in order to save the system from collapsing. Mr. Adéchoubou pointed out the necessity of constantly adapting the governance and management structures of an institution to a growing client base and changing environment. He also insisted on the need for donors to adopt a holistic approach to the development of financial sectors, as opposed to a project approach, and the importance of monitoring in order to anticipate major crisis like the one of FECECAM.
- Dr. **Susan Johnson**, microfinance specialist and researcher at the Centre for Development Studies of the University of Bath in the UK, presented five different types of institutions that offer financial services in rural areas in Kenya. Her presentation particularly highlighted how different types of institutions serve different geographical regions (in terms of population density) and client segments in Kenya. The poorer and less densely populated a region is, the more difficult it gets for an institution to become financially self-sustainable, and the more adapted it becomes to have decentralized and user-owned institutions with self management components.
- During this forum, we also had the opportunity to learn about three practical examples presented by the **participants**: on ECLOF², a global network of microfinance institutions; from "Mano a Mano", a savings and credit cooperative for women in Nicaragua supported by SAH³ and on Ashrai, a Bangladeshi NGO, supported by SDC, which promotes the strengthening of Self Help Groups and is in the process to take an institutional decision how to respond to the saving product of the groups.

All presentations are accessible on the BSM website under:
www.intercooperation.ch/finance/download/#pvsc.

¹ Fédération des Caisses d'Epargne et de Crédit Agricole Mutuel.

² Ecumenical Loan Church Fund.

³ Schweizerisches Arbeiterhilfswerk.

Other important topics related to rural finance and more generally to financial sector development came up in the plenary discussions:

1. How to combine national microfinance strategies with the interests of different stakeholders?

Taking the example of West African countries, Mr. Adéchoubou stressed the importance of having all stakeholders (Government, commercial banks and MFIs⁴) participate in the process from the beginning. First, all parties involved should share opinions and analyze the constraints and opportunities of the microfinance sector in their country. Together they should then elaborate and discuss on a common strategy to be executed on the base of an action plan. A process which has been started in several countries in West Africa.

2. How to link the MFIs with the formal banking sector?

Generally, MFIs and banks have a one-way relation, i.e. MFIs deposit their excess liquidity in commercial banks with a low interest rate, but commercial banks do not provide loans to MFIs. In Benin, banks refinance decentralized financial institutions, like PADME and Vital Finance. Given that MFIs do not have the type of client information that banks request, the loans to MFIs have to be backed by an international guaranty. FINADEV in Benin is a microfinance structure affiliated to a commercial bank.

3. How to promote the development of new products in order to better serve the needs of our target population?

The development of new products is a long and expensive process. Institutions have to join efforts and money for action research, as the example of CIF (Centre for Financial Innovations) in Burkina Faso, which has been mandated by six major microfinance networks in West Africa to develop new products. MicroSave Africa (www.microsave-africa.com) is also an important service provider for financial product development in Africa.

4. Why is it so difficult to use land as collateral for loans in Kenya (and elsewhere)?

Land is a problem in Kenya because it is fragmented in small plots and too important socially and historically to be used as collateral. From the point of view of financial institutions, it is too costly to deal with land titles, because of potential corruption and the difficulties to sell land.

5. How can you supervise decentralized financial institutions?

The Financial Service Associations (FSA) in Kenya, which serve poor clients in remote rural areas, are audited by K-REP (a former NGO and now commercial bank that offers financial services to small farmers and entrepreneurs). Other ways of supervising these decentralized systems could be through a system of franchising or through the banking sector (like in South Africa). An APEX institution could also play a supervisory function. Anyhow, in order to facilitate their supervision, these systems should adopt common financial indicators and standards.

On behalf of the BSM Finance team,
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⁴ Micro Finance Institutions.