



# Crowdfunding Malian diaspora remittances to finance rural entrepreneurship



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# Acknowledgements

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## Background and purpose

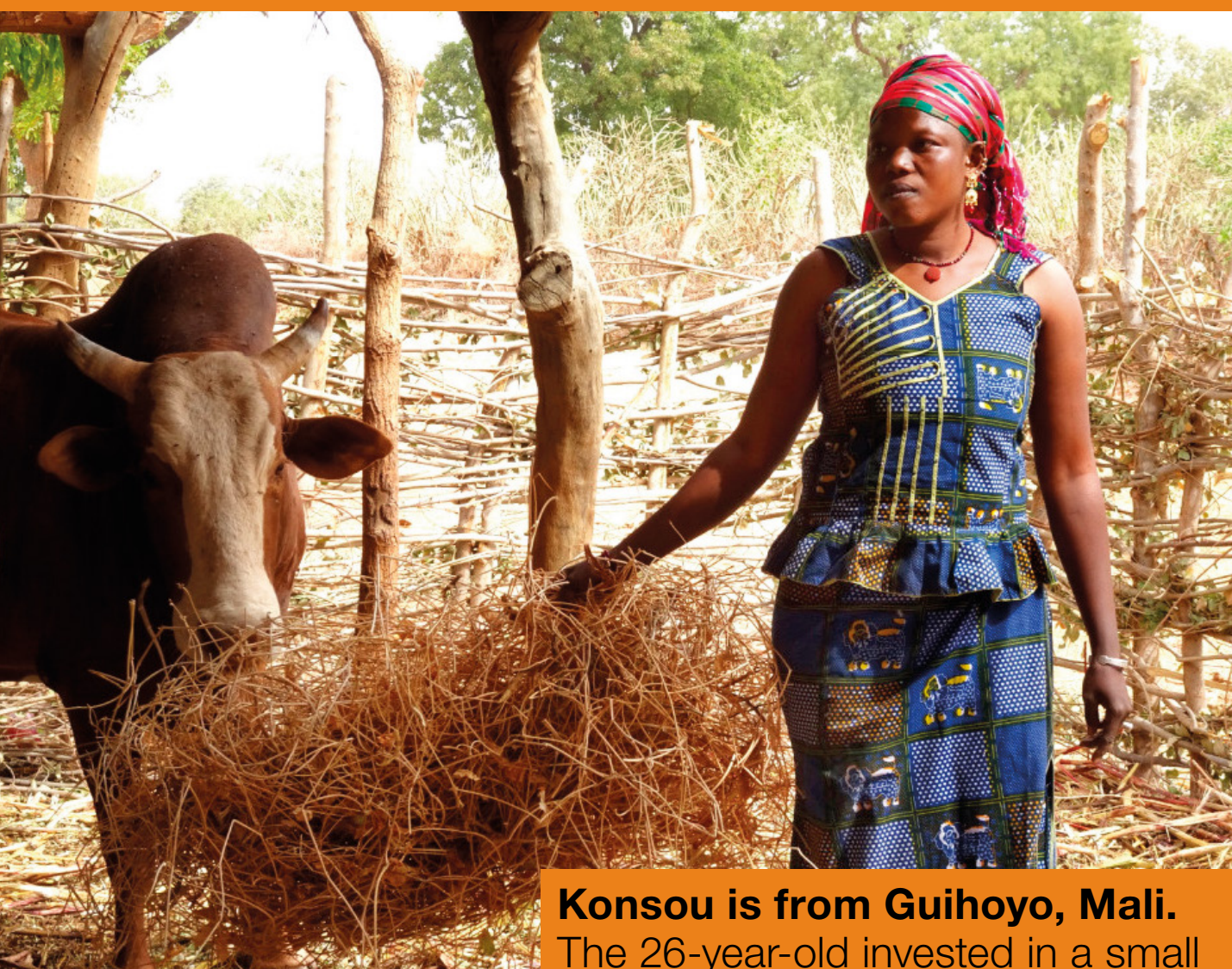
This case study examines the IFAD-supported Rural Youth Vocational Training, Employment and Entrepreneurship Support Project (FIER)<sup>1</sup> in Mali and its partnership with France's ABC Microfinance social enterprise, owner of the Babyloan crowdfunding platform created by Arnaud Poissonnier in 2008.<sup>2</sup> Through crowdfunding, Babyloan provides low-interest refinancing solutions to microfinance institutions in 22 countries spread across Africa, Asia, Europe and Latin America, which enables it to provide cheaper capital to local microentrepreneurs. Babyloan and FIER have implemented a pilot in Mali to test the crowdfunding model as a potential means of leveraging diaspora remittances for raising complementary funding to support rural entrepreneurship in the home country.

The study reviews this innovative approach in the Malian context and analyses how Babyloan has adjusted its crowdfunding model to respond to the diverse needs and concerns of stakeholders: the Malian diaspora in France; and partner microfinance institutions (PMFIs) and rural microentrepreneurs in Mali. The case study looks at the first three years of the pilot's implementation and identifies what has worked, as well as constraints, challenges and expectations and the action taken by Babyloan and FIER to address them. Hence, the purpose of the case study is to draw the attention of development finance practitioners and policymakers to key success factors, as well as to the challenges of the diaspora crowdfunding approach and ways to mitigate them. The aim is to apply lessons learned to expand the pilot on a larger scale in Mali and across the West and Central Africa region. If found to bring reasonable returns, the approach could be scalable globally.

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<sup>1</sup> FIER is the French acronym for the IFAD-supported (US\$52 million) Mali Rural Youth Vocational Training, Employment and Entrepreneurship Support Project. FIER was approved in 2013 and is now under implementation in the regions of Kayes, Koulikoro, Ségou and Sikasso. It will be closing in December 2020. Publicly disclosed documentation on FIER is available at: [www.ifad.org/en/web/operations/project/id/1100001661](http://www.ifad.org/en/web/operations/project/id/1100001661)

<sup>2</sup> [www.babyloan.org](http://www.babyloan.org)



**Konsou is from Guihoyo, Mali.**

The 26-year-old invested in a small feedlot with financing received through the Babyloan crowdfunding platform. She fattened a bull calf, and sold it for a significant profit.

**She used the money earned to pay for many of her family's needs and for investment in her small business.**

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## An innovative partnership

Every year, about 180,000 rural young people<sup>3</sup> enter the labour market in Mali. A lack of employment opportunities<sup>4</sup> leads young people to leave their rural communities in search of decent jobs in urban areas or other countries. In 2012, IFAD and the Government of Mali came together to address this issue. They designed and implemented FIER in order to create economic opportunities for rural youth through entrepreneurship development and formal employment. FIER's core approach is to progressively train young people and encourage them to develop their own business projects. The project coaches those who successfully complete the training towards self-employment, either through income-generating activities or microenterprises, depending on the size of their project.

FIER's goal is to finance 11,500 youth income-generating activities and 4,000 youth microenterprises over its eight-year project life. To do this, the project must balance the supply of available funding with demand for it. On the one hand, it provides grant funding to facilitate young entrepreneurs' access to loans. But it also provides PMFIs with refinancing solutions to strengthen their capacity to finance these new ventures.

ABC Microfinance and FIER signed an agreement in November 2016 with the aim of using Babyloan's crowdfunding platform to raise money from the public.<sup>5</sup> The ABC Microfinance model uses crowdfunding to raise money, which it lends to microfinance institutions (MFIs) across the globe to finance microentrepreneurs. The rationale behind the agreement with FIER was twofold:

- (i) It leverages a powerful emerging tool to shorten the finance supply chain, reduce transaction costs, and create a sense of proximity between lenders and entrepreneurs.
- (ii) It taps into the more than US\$500 million in annual remittances that the large Malian diaspora in France sends home to Mali to support their families (this represents 50 per cent of total global remittances sent to Mali each year).

At the global level, diaspora remittances have grown to become the largest external source of financing for developing countries, outpacing official development assistance, and even foreign direct investment in some places. However, all too

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<sup>3</sup> Estimate used in the FIER project design report (2013).

<sup>4</sup> Employment opportunities that result in decent jobs for rural young people is defined in the global initiative to scale up action and impact on youth employment in support of the 2030 Agenda for Sustainable Development. ([www.decentjobsforyouth.org](http://www.decentjobsforyouth.org)).

<sup>5</sup> ABC Microfinance has operationalized this activity, commonly known as crowdfunding, through its Babyloan platform. Babyloan has built on its 12 years of experience to become the leading European online wholesale lending platform. It has worked with 19 MFI partners around the world to lend EUR 14 million (equivalent to US\$16.4 million; exchange rate September 2020) to 30,000 entrepreneurs through 41,000 regular retail loans.



often, relatives who receive the cash spend it mainly on vital needs, such as food, housing and health, and other consumer goods. In Mali, for example, recipients use only 5 per cent of the total remittances they receive each year for productive investments. This suggests significant opportunities exist to channel more of these valuable resources into economic and sustainable activities.

IFAD and FIER saw the partnership with Babyloan as an opportunity to use the crowdfunding platform to establish a direct connection between Malian migrant lenders in France and rural microentrepreneurs in Mali. Although not in the original FIER design, IFAD recognized this innovative approach as a potential means to mobilize remittances to fund productive endeavours. The Malian community in France is gradually becoming familiar with the crowdfunding approach as a new way to leverage and amplify their remittances for more impactful social and economic development in their home country.

## How it works

IFAD and ABC Microfinance invested US\$529,850<sup>6</sup> in their partnership to co-pilot the diaspora crowdfunding model. Grant funding provided by IFAD financed five activities to contribute to the achievement of project outputs and outcomes. These activities were:

- Map the Malian diaspora in the Paris region of France and segment them according to remittance habits and expectations.
- Create the Mali-dedicated webpage on the Babyloan website.
- Develop partnerships with Malian MFIs to extend loans to small entrepreneurs.
- Conduct an in-depth study to develop marketing approaches to engage the Malian diaspora in France.
- Set up a knowledge management system, including a monitoring and evaluation system and organize a number of progress performance assessment workshops, a midterm evaluation report and a final evaluation workshop.

FIER field activities are the starting point for the partnership's operational model: to identify, train and mentor rural youth candidates towards building their entrepreneurial venture. Ad hoc committees validate the young entrepreneurs' proposals before passing the business projects on to the PMFI to conduct its own due diligence based on internal criteria. If the PMFI classifies the business

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<sup>6</sup> IFAD provided a grant of US\$425,000, while ABC Microfinance contributed US\$84,850 in cofinancing. IFAD's Financing Facility for Remittances (FFR) provided an additional US\$20,000.

project as viable, it provides the young entrepreneurs with a loan to finance their project. Loans are usually in the range of EUR 600-700 (US\$700-820) per microentrepreneur, which accounts for almost 100 per cent of the young people's needs. FIER encourages the PMFI to support small and risk-prone businesses by providing them with guarantee pledges in the form of certificates of deposit, which cover almost the full value of the loan. As an added incentive, FIER provides the PMFI with support to strengthen its operational capacity to finance small businesses on a larger scale.

FIER also encourages PMFIs to upload entrepreneur profiles on Babyloan's Mali-dedicated webpage – a unique feature added to the platform for this project. This makes it easy for prospective lenders among the Malian community in France to see ongoing projects selected based on the viability of their business plans, including a photograph and short profile describing each entrepreneur. They are also able to read more about the purpose and geographical location of each project. Although migrants are generally most eager to support entrepreneurs from their home region, all lenders on the platform, including those who may have no country-specific orientation for financing small entrepreneurs across the world, have access to the Mali-dedicated webpage. The money the PMFI crowdfunds through the platform for refinancing the microloans in Mali is lent on a solidarity basis, meaning that lenders are repaid the principal but do not earn interest on the amount they remit.

The Babyloan platform has adopted this philanthropic approach<sup>7</sup> to fighting poverty by providing seed capital to entrepreneurial people who have no assets. This enables them to build their income-generating activities and microenterprises. The platform links lenders and entrepreneurs through the crowdfunding model, which leverages the power of digital technology to collect small amounts of money from large numbers of individuals.<sup>8</sup> Babyloan makes the money collected available to rural entrepreneurs on the ground through the local PMFI. This mechanism allows the PMFI to reduce its refinancing cost, enabling it to offer a more attractive interest rate to fledgling rural businesses. Babyloan's PMFIs in Mali pay the cost of transferring funds in addition to 4.5 per cent yearly on their refinancing capital, which is much less than the cost of capital offered by local banks.

The opportunity for migrants to use their remittances in the form of repayable loans for productive investments is at the core of this tailored approach. The platform thus functions as a refinancing facility that is able to recycle the money repeatedly for maximum impact on the ground. In the past, inadequate traditional financing, caused by inefficient institutions, lack of liquidity, and other market failures, has been a major constraint for rural microentrepreneurs in Mali. But this crowdfunding innovation has the potential to be a game changer.

<sup>7</sup> Thanks to this approach, Babyloan can provide inexpensive capital to MFIs to indirectly support productive investments in poor countries. Babyloan is a not-for-profit business, which charges MFIs a low interest rate only to cover its costs.

<sup>8</sup> The assumption is that with low transaction costs and no obligation to pay interest to the crowd of lenders, low-cost resources available to the targeted borrowers become potentially unlimited.

## Partner roles and responsibilities

The FIER-Babyloan partnership navigates the complexities associated with remote investments in rural-based micro, small and medium-sized enterprises (MSMEs) that are risk-prone and offer low return on capital invested. It is the bridge that links diaspora private-sector lenders to rural youth borrowers.

Seven key partners joined forces to design and deploy the Babyloan pilot in Mali: (i) IFAD and its Financing Facility for Remittances (FFR);<sup>9</sup> (ii) FIER; (iii) ABC Microfinance/Babyloan; (iv) Réseau de Micro-Institutions de Croissance et de Revenus (a network of microinstitutions for growth and income – RMCR); (v) Groupe de Recherche et de Réalisations pour le Développement Rural (Research and Realization Group for Rural Development – GRDR); (vi) mobilizers; and (vii) targeted rural youth.

The operational role undertaken by IFAD/FFR included IFAD providing a grant of US\$425,000, while the FFR provided an additional US\$20,000. It is understood that the role of the targeted rural young people is to borrow money to invest in their MSMEs. The initial and ongoing responsibilities of other partners are as summarized below:

- FIER's role in supporting the design of bankable projects with a focus on agriculture is critical. The project ensures that the young rural candidates who apply for financing have the potential to become successful entrepreneurs with the capacity to work independently. FIER advisers facilitate vocational training and skill-building to develop and nurture the candidates' respective projects over several months. An independent selection committee assesses each mature business project for its robustness and the young entrepreneur's capacity to implement the project's business plan to generate a reasonable return on investment. Finally, FIER provides the young people with an 18-month coaching programme to help successfully launch and operate their small economic activity or microenterprise once they have received financing.
- The key role of Babyloan and ABC Microfinance is to raise funding from the diaspora and securely channel it to carefully vetted PMFIs in Mali. They started in 2017 by conducting an in-depth market study to understand the remittance habits of the Malian diaspora and the impact they expected their remittances to have on their families' lives. Based on the study's findings, the Babyloan team developed a campaign, which they implemented in 2018, using various tactics to familiarize the community

<sup>9</sup> For more information about IFAD, see: [www.ifad.org/en/](http://www.ifad.org/en/).

For more information about IFAD's support to the FIER project, see: [www.ifad.org/en/web/operations/project/id/1100001661](http://www.ifad.org/en/web/operations/project/id/1100001661).

For more information about IFAD's Financing Facility for Remittances (FFR), see: [www.ifad.org/en/web/knowledge/publication/asset/39186121](http://www.ifad.org/en/web/knowledge/publication/asset/39186121).

with the Mali-dedicated platform. The team gave away promotional items, used the voices of influencers, and organized events to engage the Malian community throughout the yearlong campaign in 2018. These activities raised diaspora awareness about the microlending approach and promoted the Babyloan crowdfunding model as a smarter and more impactful way to invest their money in Mali. For example, the team organized a conference in December 2018 – Associations of the Malian Diaspora: What Roles Here and There? – which presented the innovative Babyloan model as the link between diaspora remittances and economic development. Babyloan used such events successfully to develop a large network of Malian associations across the Paris region to leverage their remittances to fund entrepreneurs through the platform. To close the loop, Babyloan communicates effectively with the lenders to keep them informed of the entrepreneurs' performance in terms of developing their small businesses and paying back the loans.

- Babyloan conducts a thorough performance analysis and review of prospective PMFIs' financial health and social responsibility before approving them as a financing partner. To meet Babyloan's criteria, PMFIs must be able to: (i) guarantee the quality of services offered to the young rural borrowers; (ii) manage repayments; and (iii) build trust between lenders and borrowers. The PMFIs primarily offer microcredits, but some also provide other types of services, such as savings accounts, microinsurance, coaching and training. The FIER-Babyloan initiative provides technical expertise to help strengthen the PMFIs, which sometimes lack the robust procedures needed to effectively monitor loan processes and reduce the risk of non-payment. In the long term, Babyloan envisions that the PMFIs will take over full responsibility for, and increase, the financing available to small economic activities to continue creating decent jobs and employment for rural youth. Building the professional capacity of the PMFIs is therefore essential to the sustainability of the Babyloan model. The RMCR (the Malian network of institutions for income growth) was the first (and to date, the only) PMFI in Mali to join the Babyloan platform and extend loans to rural youth microentrepreneurs. The RMCR selects the entrepreneur profiles it chooses to publish on the platform and sends them to the Babyloan team to validate and upload. Its role – and the role of PMFIs generally – is pivotal in the global scheme of things. The PMFIs are the partner with the on-the-ground access needed to interact with the young entrepreneurs and manage the loan process. Their proximity to the young borrowers is key to managing the lending process, since many of the young people do not have access to the internet and cannot read or write.
- The French NGO GRDR is an international association with more than 50 years of experience on issues related to migration, citizenship and development in West Africa. It is a leader in the field of development research,



**Elisabeth is from Dossébougou, Mali.** With the loan she received from Babyloan, she was able to buy a motorized pump to irrigate her plot more easily. This enabled her to extend her plot and to increase production capacity. **Elisabeth has increased her household income by selling the surplus production.**

and works to support the realization of development initiatives across West Africa. It has extensive experience in structuring and building the capacity of associations from African diasporas in France. Because of this, Babyloan brought GRDR into the partnership to map migration patterns from villages and regions in Mali to diaspora communities in France. GRDR conducted surveys in and around Paris to understand the communities' solidarity patterns and expectations regarding potential investments. It supported the crowdfunding initiative by informing migrants about the platform in order to mobilize funding from the Malian diaspora.

- The mobilizers are leaders and influencers among the Malian diaspora. They have formed an association that serves as a catalyst for the diffusion of information and calls to action within the Malian community across France and other European countries. The mobilizers have been influential in promoting the idea of collective crowdfunding from diaspora associations to fund "solidarity pools".<sup>10</sup>

## Outcomes<sup>11</sup> and actions

FIER and ABC Microfinance set four targets for the Mali Babyloan platform to aspire to in its crowdfunding pilot. Despite the uncertain environment in Mali, the crowdfunding model is working, although challenges have been identified and are being addressed. The different actors involved acknowledge the value added that crowdfunding brings to the project. The midterm evaluation report documented the following outcomes directly related to the four interdependent targets.

### Target 1: Mobilize 2,000 Malian lenders

#### A preference for engaging in collective solidarity pools

It has been more complex than foreseen to attract lenders from the Malian diaspora who are eager to redirect their remittances to the platform. The project has fallen far short of its target to mobilize 2,000 individual Malian lenders in France, despite the team's efforts to adopt innovative solutions that align with the diaspora's remittances habits. Only 339 (17 per cent of the target) contributed on the platform, accounting for just 9 per cent of the 3,597 remittances (loans). The project has adapted by introducing the option for Malian associations or families to contribute through collective solidarity pools. Malian migrants who recently

<sup>10</sup> Babyloan developed solidarity pools for multiple reasons: to reassure lenders who may feel more comfortable investing collectively; to achieve greater impact on the ground; and to be able to lend larger amounts.

<sup>11</sup> Outcomes documented in the final midterm evaluation report of the Mali Babyloan Project (May 2020).

responded to a Babyloan survey indicated that this financing instrument is the tool of choice for many. Fourteen solidarity pools comprising 192 individuals have come together to make collective contributions.

### **Growing trust linked to evolving results**

Trust between lenders and operators is critical to the success of crowdfunding. Individual Malians in France have shared with the team their previous bad experiences and disillusion with some development organizations. This is complicated further by their concerns about institutional, security and political crises in Mali. As a result, many are generally suspicious of solidarity schemes, even those that propose greater development impact for their families back in Mali. Babyloan and FIER have worked to reassure the diaspora by demonstrating the platform's strong achievements in terms of managing and monitoring contributions and the lending process. FIER carefully documents its robust process for selecting quality projects and its follow-up with entrepreneurs to measure impact. Sharing concrete results with lenders has led to growing trust and an accelerated evolution in the number of Malians who contribute to the platform, particularly for the period between February 2019 and April 2020.

### **A need to supply project investment opportunities to meet investor demands**

To date, the supply of projects offered through the platform has not kept up with the strong demand from lenders. The relatively few project profiles promoted on the platform quickly raised the requested investment amount in a maximum of two days. The lack of available projects for prolonged periods had a negative impact on the diaspora mobilization agenda. It was necessary to postpone planned outreach activities to engage the diaspora in financing microenterprises in Mali, leading to possible reputational risk among the Malian diaspora. Babyloan has recently signed a new agreement with Nyèsigiso, an MFI. This should help to address the supply issue by increasing the flow of projects uploaded to the platform. FIER's extension of operations beyond the Kolokani community in the Koulikoro region into the Kayes and Sikasso regions should boost the activities even more. Eighty per cent of the Malian diaspora in France originate from this latter region.

### **A new concept yet to prove itself**

The individuals within the diaspora community have expressed their reluctance to commit to a customer experience that is completely new to them. The solidarity loan is a new mode of financing. Babyloan Mali is a new player with a new digital platform. And a long chain of intermediary partners, including MFIs, FIER and IFAD, were previously not known to Malians. Communication and diaspora mobilization strategies<sup>12</sup> have paid off in terms of informing people about these matters and in raising trust and awareness about the platform. As outlined above,

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<sup>12</sup> Babyloan contracted the research and consultancy firm Innogence Consulting to carry out a midterm evaluation of the project in this context.

actions have been taken to increase investment opportunities for them. These measures will be decisive for reaching the target number of 2,000 lenders during the final year of the project.

### **Target 2: Raise a cumulative amount of EUR 350,000 (US\$410,000) in loans from individual lenders and associations in France<sup>13</sup>**

#### **A slowly growing loan portfolio**

The project has not crowdfunded the target amount of EUR 350,000 (US\$410,000) from the Malian diaspora, although it did reach the goal of financing 200 microenterprises in Mali. At the end of March 2020, the total amount of loans on Babyloan Mali was EUR 195,680 (US\$229,000), slightly more than half of the target amount. Consequently, the average amount lent to each young entrepreneur was significantly less than the amount originally planned (EUR 1,750, equivalent to US\$2,050), just 36 per cent of what had been initially anticipated.

### **Target 3: Identify PMFIs in Mali to receive long-term, low-cost refinancing lines, allowing them to diversify their sources of funding and increase their credit portfolio in agriculture by a total of EUR 275,000 (US\$322,000)<sup>14</sup>**

#### **A challenge to identify qualified partner microfinance institutions**

The microfinance sector in Mali lacks maturity despite the favourable regulation that exists in the country. Babyloan has experienced challenges in identifying MFI partners with the professional capacity to meet the platform's basic selection criteria listed above. In fact, to date, Babyloan has worked exclusively with only one PMFI, the RMCR. This is largely attributable to the sector's inability to prove to partners and investors its level of professionalization to ensure integrity and competence. This is particularly true in the aftermath of the most recent microfinance crisis fuelled by structural, political and security issues.

#### **A realignment with FIER activities and processes recognized as key to PMFI success**

Babyloan was dependent on only one partner microfinance institution (the RMCR) for the first three years of operations. Moreover, sourcing of microentrepreneurship projects was limited to Kolokani in the Koulikoro region, where FIER operations were more developed. Between September and December 2019, the RMCR experienced a lack of trained credit officers, and a disruption to its operations due to security concerns in central Mali. During that time, the

<sup>13</sup> The total amount of EUR 350,000 includes EUR 40,000 in donations received from Malian organizations and associations in France. Donations made through the platform have been temporarily postponed for now due to French regulatory issues.

<sup>14</sup> EUR 350,000 (US\$410,000) is the target for all MSME loans, of which EUR 270,000 (US\$316,000) is for loans specifically targeting agricultural MSMEs.



RMCR did not upload a single project profile to the platform. In addition, the RMCR experienced long delays in receiving loan guarantees<sup>15</sup> from FIER. The internal operational processes of FIER and the RMCR were not aligned, as it took up to two months from the time FIER received requests from the RMCR to make the funds transfers. Consequently, the RMCR was not able to approve financing, which led to further delays in uploading profiles to the platform. The resulting domino effect of process gaps ultimately was most detrimental to the borrowers – the young microentrepreneurs. FIER has since worked to implement a streamlined process, which is more closely aligned with the RMCR, in order to avoid delays.

#### **A fear of currency devaluation deters microfinance institutions**

The fact that many financial institutions see themselves as too large to be categorized as MFIs compounds the challenge of identifying qualified PMFIs. Meanwhile, others are too small and undercapitalized to be considered. This situation is not specific to Mali. Some MFIs considered as candidates for the euro-based Babyloan refinancing scheme in Mali expressed their reluctance in fear of devaluation of the local currency (West African CFA franc) against the euro, which would pose a potentially serious currency risk. The project has reviewed different ways to incentivize MFIs to commit to collaborating with the platform. One consideration would be to lend to participating MFIs in West African CFA francs to limit their exposure to exchange rate fluctuations. As indicated above, Nyèsigiso has recently signed an agreement, making it the second PMFI to sign on to the project.

### **Target 4: Fund projects of 200 young Malian entrepreneurs by the end of the third year**

#### **A platform that seems to have created a demand**

The project has exceeded its target of financing 200 young microentrepreneurs<sup>16</sup> in Mali within the first three years of operation. In fact, the platform successfully crowdfunded a total amount of EUR 119,450 (US\$140,000) – enough money to fund an average amount of EUR 635 (US\$745) to each of 307 projects in Mali.<sup>17</sup> Sixty-three per cent of the financing went to projects implemented in the Guihoyo local government area, in the Koulikoro region. The majority of projects were in cattle fattening (53 per cent), sheep fattening (30 per cent) and market gardening (14 per cent). Babyloan registered 3,597 remittances, mainly from men (59 per cent), with an average age of 32 years. Almost 60 per cent of the business projects proposed by the young rural entrepreneurs were classified as viable and received funding.

<sup>15</sup> This sort of cash collateral locks up resources for additional capitalization with PMFIs to the detriment of borrowers, who do not receive a proportionate volume of loans due to prudential norms and restrictions.

<sup>16</sup> The target has been increased. The new target is integrated in the new IFAD-supported INCLUSIF project and additional resources that could come from the FFR.

<sup>17</sup> The RMCR financed almost 1,800 youth projects with the support of FIER in the same period.

The FIER Babylon partnership will continue to work through the challenges as they arise and adjust the approach in order to build the diaspora's confidence and buy-in. This will be key for IFAD if the organization wishes to incorporate this innovative financing tool as an element of its exit strategy for FIER, and to ensure sustainable funding for young rural entrepreneurs.

## Feedback from diaspora lenders and borrowers

The majority (almost 70 per cent) of diaspora lenders who responded to an interview survey as part of the midterm evaluation have a positive opinion about Babyloan's Mali initiative. Positive assessments included:

- The platform provides funding assistance (39 per cent).
- FIER provides technical support (23 per cent).
- The project provides social impact in the country (23 per cent).
- The platform allows low loan amount contributions (15 per cent).

### POSITIVE FEEDBACK

**Mariam is a 25-year old Malian** who lives in the Paris region and works in the logistics sector. She learned about Babyloan's Mali platform in June 2018 via Facebook and decided to support the projects of Modibo and Seybou. Mariam said, "I still have relatives living in Mali and I maintain an emotional link with the country. That is what motivated me to commit with a migrant association in France and engage in small economic support activities. I was immediately interested in the Babyloan concept, precisely due to the fact that the platform does not propose to give a grant, but rather to lend money to young people who invest in small businesses and create added value locally. This was in line with the kind of support I wanted to give to my home country. Moreover, investing in agriculture means to me that we channel funding into a sector that is useful for the local people, with a sustainable perspective."

However, 30 per cent of those who responded to the survey were sceptical and expressed a negative opinion of the platform. Some reasons for negative ratings included:

- Unfavourable conditions are applied to the entrepreneur (56 per cent).<sup>18</sup>
- The number of intermediaries in the model leads to high financing cost for young people (33 per cent).
- The model lacks adaptability to meet the diaspora's concerns (11 per cent).

<sup>18</sup> Respondents think that solidarity lending should be interest-free to small entrepreneurs.

## NEGATIVE FEEDBACK

**Saba, a 37-year old Malian,** responded, “I do not adhere to the Babyloan model at all. The conditions of the loan to the entrepreneur disappoint me. I do not see the solidarity side. The lender pays a commission and that entrepreneur pays interest. The entrepreneurs are already very poor and ultimately Babyloan will get rich on the back of these people. Babyloan should allocate part of its revenues to entrepreneurs.”

## Lessons learned

A number of lessons can be drawn from the results documented over the first three years of project implementation. Some of these are:

1. The Malian diaspora in France is not a homogeneous group of people. Babyloan must go further to adapt its outreach strategy to reach distinct groups within the community. The initial market study identified three segments of the diaspora population, which generally are based on generation. Its unique motivation and interests define each age group:
  - a. First-wave Malian migrants expressed suspicion of aid initiatives, such as the Babyloan crowdfunding platform. They lack confidence in the Malian MFIs' capacity, and their low level of familiarity with digitalized tools exacerbates their doubts. Because of this finding, the Babyloan team has decided to exclude this generation of the diaspora from the main target group.
  - b. The second generation stressed the importance of investing their contributions specifically in projects in their place of origin (village/region) as a key priority to their remittance strategy.
  - c. The third generation demonstrated greater sensitivity to the business approach, often having launched economic projects in France and Mali themselves. The link with the family's specific place of origin is not a fundamental selection criterion for this age group. However, lending to women entrepreneurs is a top priority for them. This group also expressed a willingness to pay a higher commission if it would expedite the money transfer process to Mali.

Babyloan revamped its Mali-dedicated webpage to better align with these generational concerns, and it is streamlining its marketing tools for more-effective outreach. Feedback from the diaspora community indicates that this realignment has not yet reached migrants' expectations. Babyloan will continue to adapt the platform to meet the community's needs.

2. Ongoing communication with the donor base begins with building awareness about the platform and with start-up fund-raising campaigns, and this must be sustained throughout the project cycle. Building trust is fundamental to maintaining the relationship with the lender community and to encouraging people to keep their money in the system. It is particularly important to keep the community informed about results and impact throughout the post-financing phase. This transparency is probably a contributing factor that instils confidence in an estimated 60 per cent of Babyloan lenders who reinvest on a regular basis. However, at the PMFI level, the need to continuously monitor, collect and package borrowers' economic and social data for regular entrepreneur-profile updates on the platform is costly – a burden for which they see little added value. From the PMFIs' perspective, these extra operational costs erode Babyloan's competitive refinancing rate and should be borne by other partners.
3. It is too early to fully assess the microentrepreneurs' performance.<sup>19</sup> However, the pilot experience has already proved the need for intense, on-the-ground, technical assistance. Babyloan typically looks to the PMFIs to provide ongoing support to the entrepreneurs' project implementation if other local partners do not provide technical assistance. In practice, the PMFI used to date in Mali (the RMCR) generally lacks sufficient skilled staff with the capacity to offer this support. In Mali, FIER sources, selects and trains the youth candidates. This involvement is instrumental for the identification of quality, viable projects, which drastically de-risks the projects that the PMFI finances. FIER also provides post-financing technical support to entrepreneurs to ensure they make a good start. The PMFIs will be challenged to undertake the vetting process on their own, and to provide the same support to entrepreneurs that FIER currently does. Additional operational and transaction costs related to these activities would not be acceptable to their investors and shareholders. FIER, the FFR and the Inclusive Finance in Agricultural Value Chain Project (INCLUSIF) will continue to pay for the technical assistance as a part of their ongoing capacity-development initiatives.

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<sup>19</sup> According to the March 2020 midterm evaluation report, the reimbursement rate recorded by Babyloan stands at 99.65 per cent.

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## The way forward

The Babyloan diaspora crowdfunding concept has experienced significant challenges in its first three years of its implementation, and has yet to realize its full potential in the Malian context. However, the project has already identified mitigation measures and taken action to integrate improvements. As summarized in the midterm evaluation report, this evolution appears to be advancing the pilot in the right direction to achieve the expected results and objectives.

No irreparable flaw is apparent in the concept's design that would warrant discarding the approach in Mali. Three years is not enough time to develop, test and make a rational economic and business decision to scale up – or drop – a piloted financial product. On average, it takes at least seven years to generate a reasonable amount of data, information and intelligence that can be analysed to make an informed judgement on which direction to follow when the pilot phases out.

The pilot will close at the end of December 2020. Based on the considerations mentioned above, Babyloan and FIER decided to continue their partnership to further develop and capitalize on the concept and to ensure sustainability for the PMFI refinancing scheme.

IFAD took a first step in this direction by signing a renewed partnership agreement with Babyloan Mali, which is an integral part of the new IFAD-supported stand-alone rural finance project, INCLUSIF (2019-2025). INCLUSIF, which took over from FIER with a start-up workshop at the end of 2019, includes a scaling-up strategy with plans to expand the number of PMFIs with the capacity to finance 400 additional youth entrepreneurs. To do so, the project has set a goal to raise and refinance EUR 600,000 (US\$703,000) in loans.

INCLUSIF will implement the proposed mitigation measures to address the challenges that have been identified. The project will work with and support the new PMFIs first in the Kayes region, before extending to the Sikasso region, to develop their digital solutions, and to develop adapted rural financial instruments, including their refinancing operations, loan guarantees and other relevant de-risking schemes.<sup>20</sup> IFAD's FFR is working in parallel with the European Union Emergency Trust Fund (EUTF) to develop a design for its contribution, which will aim to accelerate Malian diaspora investment in the investors' regions of origin. The combined efforts of the EUTF and INCLUSIF should ensure a more sustained flow of projects uploaded on the evolving Babyloan Mali platform to feed investors' financing appetite.

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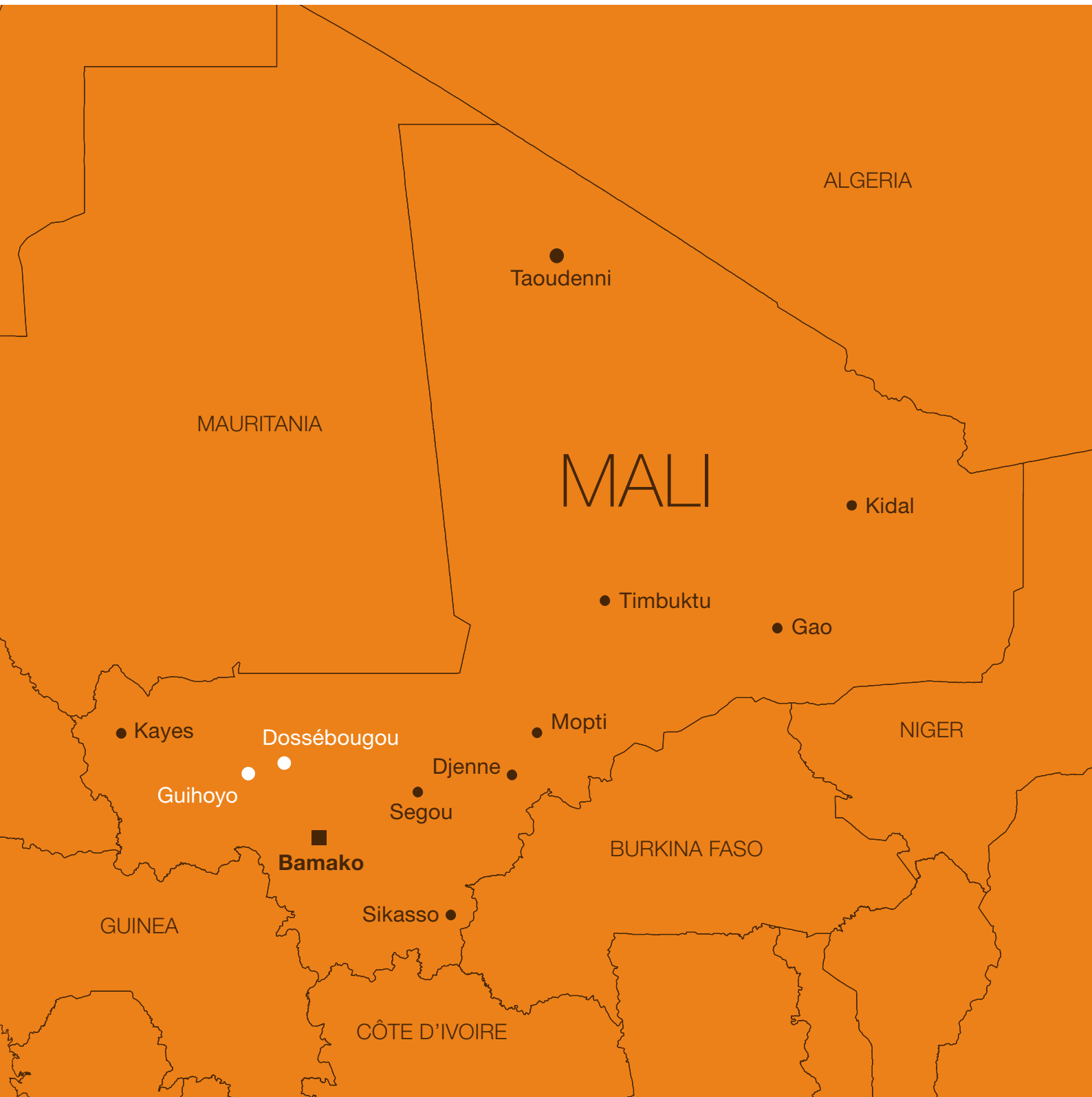
<sup>20</sup> The Capacity-Building in Inclusive Rural Finance (CABFIN) paper *A Technical Design and Performance Review of some Integrated De-Risking Schemes to Promote Rural and Agricultural Finance in Sub-Saharan Africa* on five IFAD-supported integrated rural finance de-risking schemes in sub-Saharan Africa (Ghana's GIRSAL, Kenya's PROFIT, Nigeria's NIRSAL, Togo's MIFA/ProMIFA, and Zimbabwe's LSFT) provides lessons for INCLUSIF to draw from.

Babyloan is reshaping its diaspora mobilization strategy by building on lessons learned from the midterm review. It plans to extend the catchment area by expanding the network of Malian associations to all of France, as well as to Italy and Spain, where the Malian diaspora has a strong foothold. To support this effort, Babyloan has hired a marketing manager fully dedicated to further developing outreach around the crowdfunding model.

This innovative initiative with Babyloan has allowed IFAD to explore a new frontier and to learn substantial lessons that contribute to its knowledge base of rural finance. The Fund needs to build on the experience and further strengthen its knowledge base in order to integrate more effectively this and other similar sources of inclusive rural financial services for entrepreneurs in its new projects. Two key issues will require in-depth analysis and appropriate action:

1. The crowdfunding model's current capacity to achieve sustainability within a reasonable time frame is debatable. Babyloan requires continuous technical assistance and external funding to support the selection and vetting of the best projects to finance, and to secure repayment of microloans. Such support for capacity development is costly to the extent that the platform cannot depend on the crowd of donors and Babyloan solidarity lenders in France to bear the risks related to the weak capacity of PMFIs in Mali. The platform will continue to depend on FIER, FFR, INCLUSIF, etc. to bear these costs, which have been factored into their respective allocations for capacity development.
2. Babyloan must respond appropriately to the needs of the end-beneficiary, while meeting the lenders' expectations in terms of return on capital invested, impact and sustainability. Detailed demand segmentation analysis and quantification are needed in order to define the most appropriate type of directed or targeted financing tools (loans, grants, equity, etc.), balanced with flexible procedures and concessional pricing.

IFAD must address both of these issues in order to assess its expectations with respect to value for money, and explore the possibility to strengthen the Babyloan platform with additional financing from the Agri-Business Capital Fund or the private-sector funding facility (non-sovereign private-sector operations).



MAURITANIA

ALGERIA

Taoudenni

MALI

Kidal

Timbuktu

Gao

Kayes

Dossébougou

Mopti

NIGER

Guihoyo

Djenne

Segou

BURKINA FASO

**Bamako**

GUINEA

Sikasso

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