Investing in rural people

Responsible and sustainable growth for rural microfinance in sub-Saharan Africa

GRANT RESULTS SHEET

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In a challenging context of global microfinance, this project **promoted growth of rural financial intermediaries** so that local entrepreneurs could improve their livelihoods by taking advantage of new opportunities

Goals and objectives

During the period covered by the project, the landscape of global microfinance was deeply modified and "the game has changed". On the one hand, the saturation of the market has led to over-indebtedness of very poor clients, scandals and systemic crises that have swept the whole sector in some prominent countries. On the other hand, it has been difficult for the industry to demonstrate tangible impact and, therefore, show that it has delivered against its promises of lifting hundreds of millions of very poor people out of poverty.

In this challenging context, the project aimed to help unlock the economic potential in sub-Saharan Africa, by promoting the growth of existing financial intermediaries that serve rural areas (rural financial institutions, RFIs) so that local entrepreneurs could take advantage of new opportunities to be more productive and more competitive, and improve their living conditions sustainably. The strategic pillars were:

- Consolidating small RFIs through mergers, acquisitions and institutional transformation to develop sound governance and efficient systems.
- Developing loan products to finance rural water and renewable energy projects in order to enhance agricultural production, while preserving the local environment.
- Establishing technology platforms to allow cost reductions in rural outreach as well as new services such as domestic and international money transfers
- Getting partner RFIs committed to high standards in Social Performance Management and financial education programmes in place for staff and clients.

Beneficiaries

The targeted intermediaries of the project were 14 African RFIs, which are members of the Participatory Microfinance Group for Africa (PAMIGA) network and information-sharing platform, their staff, managers and directors. These RFIs are serving 500,000 clients and family household economies, mostly located in rural areas. The RFIs are located in Benin, Burkina Faso, Cameroon, Ethiopia, Kenya, Madagascar, Mali, Rwanda, Senegal, Tanzania and Togo.

Facts at a glance

Grant implementing agency

Participatory Microfinance Group for Africa (PAMIGA)

Theme

Responsible and sustainable growth for rural microfinance

Benefiting countries

Benin, Burkina Faso, Cameroon, Ethiopia, Kenya, Madagascar, Mali, Rwanda, Senegal, Tanzania and Togo

Total programme cost

US$4.4 million

IFAD contribution: US$1.14 million

Cofinancing (other donors): US$3.26 million

Partners

EU-ACP, Swiss Development Agency, United Nations Capital Development Fund, Liechtenstein Agency for Development, MasterCard Foundation

Effectiveness and duration

November 2012 – December 2015

Main results

The project was truly successful in showing both RFIs and regulators how they could evolve from just a narrow approach based on microfinance service provision to a much broader scope covering inclusive finance and impact investing, using holistic and client-centric methodologies.

Merging/transforming rural financial institutions

This undertaking was achieved by assisting seven small and medium-sized RFIs to merge, transform and spin off greenfield deposit-taking microfinance banks, consistent with their respective regulatory frameworks. The main objective of these transformational activities was to modernize, professionalize and streamline processes in usually low-tech, rural and community-based organizations, while safeguarding their essential strength, which relies on local knowledge, trust and solidarity, and thus giving these basic values a new purpose and meaning. From 2012 to the end of 2014, outreach by these seven RFIs rose from 589,000 to 693,000 (104,000 additional clients). However, the loan portfolio and profitability remained stable at EUR 41 million and operational self-sufficiency at 115 per cent.

It is expected that the outreach number will increase significantly as the impact becomes visible to non-clients.

To date, all of the merger/transformation processes have received prior mandatory authorizations from the authorities and two merged entities received their licence in 2014 (Association de Promotion de la Finance Inclusive in Burkina Faso and Benso Jamanum in Mali).

In achieving this major task, PAMIGA has demonstrated how the rural financial sector can be reformed and is helping to define the conditions for sustainable growth (and outreach) in sub-Saharan African countries.

PAMIGA has also supported the implementation of a robust management information system (MIS) to help improve portfolio management, reliable monitoring and evaluation, and on-time regulatory and non-regulatory reporting.

Nine RFIs have made improvements to their MIS and data collection thanks to PAMIGA's technical assistance.

Network members' key performance indicators clearly demonstrate the progress achieved, especially in terms of outreach, which by the end of the project was close to 1.5 million rural clients (a three-fold increase in three years).

These modernized and professionalized RFIs are ready to embark on new product design and delivery, using participatory market research methodologies.

Access to water and renewable energy

Africa is in an era of rapid growth due, in particular, to an emerging urban middle class with substantial purchasing power. Rural Africa can seize this opportunity to develop its local economy if agriculture and agricultural value chains can be provided with the right funding to grow. Smallholder farmers need to graduate from subsistence farming to making agriculture a profitable business in which they can invest as modern entrepreneurs. Risks need to be mitigated, in particular, climate/rainfed agriculture risks and market/storage risks.

PAMIGA assisted RFIs in designing and developing various products to improve access to productive water (small irrigation) and to renewable energy (for households and for small to medium-sized enterprises), and to provide agricultural value chain financing. These new products aim to help the end-clients mitigate their major risks related to climate change, post-harvest storage and marketing. For RFIs that want to expand their rural loan portfolio, such products are important innovations and diversifications.

During the pilot phase, a total of 4,400 water and energy loans were provided to rural clients.

RFIs have only just started to support smallholder farmers in graduating to the level of agricultural entrepreneurs, and to empower women to expand their businesses through access to lighting and energy. They can now begin attracting new clients by offering these new products, and are gaining a positive image as financial institutions that care for their clients and innovate to meet their needs. This is really the beginning of a big change for all of them, but the potential for gain and impact is enormous.

PAMIGA has demonstrated how to **reform the rural financial sector** and is helping to define the conditions for sustainable growth (and outreach) in sub-Saharan Africa

Voices of the beneficiaries

In Burkina Faso and Mali, clients say: “Now, the service is smoother and quicker, with professional staff working as tellers and agents”. “Clients save more at the bank now, as there is more trust.” “Before, the bank was only open once a week. Now, we can have access to the services twice or even three times a week. It is much more convenient, especially on market days.”

Improved lighting and living conditions

In Cameroon, a PAMIGA case study on energy and microfinance (Energy and Microfinance: the cases of A3C and UCCGN in Cameroon) revealed that, on average, Solar Loan clients increased their daily lighting duration by two hours, with the solar kits allowing them to have lighting for up to five hours per day. “We used to use kerosene lamps for lighting, especially when cooking. Now, we have good light from the time it gets dark, at 6:00 p.m., until we switch off, at 10:00 p.m.” (female client, Bivouna, Cameroon). “We used to have lighting only in one room, and we always had to stay together in the same room. Now, with solar, we parents can be in the living room, and the children can play in their bedroom” (male client, Tuli village, Ethiopia).

Reduced energy expenditures

In Cameroon and Ethiopia, interviewed clients had experienced a significant decrease in their energy expenditures, including a reduction in the use of mobile phone-charging services in town. “Before the solar kit, we would use two litres of kerosene per week. Now, we only use one litre per week” (female client, Bivouna, Cameroon). “Before my solar kit, I used to pay FCFA 58,000 for lighting my bar and my house. Now, I only pay FCFA 28,000. It’s a miracle!” (couple, Bivouna, Cameroon). “We are a family of six. Before the solar kit, we used to spend Birr 20 per week for kerosene, and Birr 6 per week for charging our mobile phones. Now, we do not use kerosene anymore. We can save that money” (male client, Bola village, Ethiopia).

During the pilot phase, a total of 4,400 **water and energy loans** were provided to rural clients

Lessons learned

The main lesson learned is the indispensable partnership that needs to be built among players in different fields and with different, complementary skills in order to ensure that complex initiatives are successful, sustainable and at scale.

Furthermore, RFIs and local distributors do not fully understand the constraints that can be faced by each partner (such as minimum volumes for delivery for distributors, or seasonality of loan applications in rural areas for RFIs). These differences in expectations and misunderstanding of each other’s constraints have sometimes led to tensions between the partners. The pilots showed that for the two sectors to understand each other, communicate and work together effectively, it is essential to have an organization that can act as a facilitator during the start-up phase to ease any tensions and progressively work towards a better understanding between partners (through regular workshops, exchange visits, adjustments of detailed procedures, moderation, etc.). However, this type of model cannot be expected to be fully functional and sustainable from the outset: building partnerships between RFIs and solar solution providers is a learning process that requires strong motivation, commitment, patience and perseverance from all partners.

Similarly, in projects tackling value chain financing or productive water schemes (small-scale irrigation), building partnerships between key players that have different logics and approaches is essential, but it is also a significant challenge to overcome if results are to be reached at scale.

A clear and agreed division of tasks and responsibilities is key for success.

Way forward

In 2016, PAMIGA is launching its strategy to consolidate and amplify the results of the present project.

To accelerate financial inclusion of rural and smallholder clients, RFIs in the PAMIGA network will be supported in adopting and expanding the use of different forms of digital financial and non-financial services, while securing transactions and reducing costs.

Digital finance will be the enabler for PAMIGA's follow-on project, for which three main risk-mitigating solutions for agricultural growth will be promoted at scale: access to water, including drinking water and for sanitation; access to renewable energy; and access to funding for all the players of promising agricultural value chains.

Thanks to PAMIGA FINANCE, an Impact Investing Vehicle, RFIs will be able to provide loans to 1 million rural and smallholder clients in the next seven years to invest in water, clean energy and agricultural value chains.

By the end of 2019, PAMIGA and its members will be sustainably servicing more than 3 million rural clients in sub-Saharan Africa, using a client-centric approach that will empower smallholders and rural entrepreneurs to grow while respecting their environment. All members will be applying the Universal Standards of Social (and Environmental) Performance.

Knowledge generated

The process, methodologies and tools used in the project – both for the merger and transformation of RFIs and for access to water and renewable energy – have generated knowledge, which has been shared in regional and international events such as expert meetings in Dakar in 2013 and in Addis Ababa in 2014. Case studies and toolkits are available in soft and hard copies. An IFAD toolkit on formalizing community-based microfinance institutions was published in 2016.

Other publications include:

- Microfinance Barometer 2015: the impact of product and service innovations on microfinance clients: The case of Buusaa Gonofaa
- Microfinance Barometer 2014: how would technological innovations influence microfinance?
- The Green Index, an innovative tool to assess the environmental performance of MFIs (Brief No. 5)

IFAD

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