MicroSave
Market-led solutions for financial services

Shelter Afrique House, Mamlaka Road
P.O. Box 76436, Yaya 00508, Nairobi, Kenya
Tel: 254 20 2724801 / 2724806
Fax: 254 20 2720133
Email: info@MicroSave.org
Website: www.MicroSave.org

A Comparative Analysis Of Member-Based Microfinance Institutions In East And West Africa

Research Team:

Renée Chao-Béroff (CIDR)

Thi Hanh Houmard Cao (CIDR)

Jean Pierre Vandenbroucke (CIDR)

Muli Musinga (FINELINE)

Edith Tiaro (Cooperative College)

Leonard Mutesasira (*MicroSave*)

March 2000

Table of Contents

EXECUTIVE SUMMARY **4**

I. THE CONTEXT OF THIS STUDY **6**

I.1. THE ISSUES 6
I.2. METHODOLOGY AND CALENDAR 8

II. MEMBER-BASED MICROFINANCE INSTITUTIONS IN EAST AND WEST AFRICA **8**

II.1. MICROFINANCE INSTITUTIONS IN WEST AFRICA 8
II.1.1. The history of the microfinance movement *8*
II.1.2. Members and products *10*
a) Members 10
b) Products 11
II.1.3. Financial techniques *12*
II.1.4. Structure and governance *13*
II.1.5. Outreach and impact *15*
II.1.6. Social, financial and institutional viability *15*
II.2. MICROFINANCE INSTITUTIONS IN EAST AFRICA 15
II.2.1. The history of the microfinance movement *16*
II.2.2. Members, products and interest rates *17*
a) Members 17
b) Products 17
c) Interest rates 21
II.2.3. Financial techniques *21*
II.2.4. Structure and governance *22*
II.2.5. Outreach and impact *19*
II.2.6. Social, financial and institutional viability *20*

III. A COMPARATIVE ANALYSIS OF MICROFINANCE INSTITUTIONS IN EAST AND WEST AFRICA. **21**

III. 1. METHODOLOGICAL SIMILARITIES 21
III.1.1. The history of the movements *21*
III.1.2. Members and products *21*
III.1.3. Financial techniques *22*
III.1.4. Governance issues *22*
III.1.5. Outreach and impact *23*
III.1.6. Viability *23*
III.1.7. The location and position of non-mutualist, member-based MFIs *23*
III.2. METHODOLOGICAL DIFFERENCES 29
III.2.1. The structure of the movements *29*
III.2.2. The legal and regulatory framework *24*
III.2.3. Innovation, opening up to women,and decentralisation *25*
III.3. FINANCIAL PERFORMANCE 25

IV. FACTORS EXPLAINING THE SPECIFICITIES OF MEMBER-BASED MICROFINANCE INSTITUTIONS IN EAST AND WEST AFRICA **26**

IV.1. MARKET FACTORS 26
IV.2. FACTORS LINKED TO ECONOMIC LIBERALISATION. 26
IV.3. LEGAL AND REGULATORY FACTORS 27
IV.3.1. Sector and supervision authority. *27*
IV.3.2. The development of legal frameworks in East Africa *27*
IV.4. FACTORS LINKED TO ECONOMIC POLICY 34
IV.5. FACTORS LINKED TO THE INTERNAL ORGANISATION OF THE MOVEMENT 28
IV.6. FACTORS LINKED TO THE ROLE OF TECHNICAL ASSISTANCE 28

V. THE CHALLENGES AND PROSPECTS FOR MEMBER-BASED MICROFINANCE INSTITUTIONS IN EAST AND WEST AFRICA. 29

V.1. THE CHALLENGES FACING THE EAST AFRICAN SACCOS 29
V.1.1. Kenya 29
V.1.2. Tanzania 30
V.2. THE CHALLENGES FACING THE WEST AFRICAN NETWORKS 31
V.3. THE CHALLENGES FACING THE CVECAS AND THE COMMUNITY-BASED MFIS. 32
V.4. THE CHALLENGES FACING MEMBER-BASED MFIS IN EAST AND WEST AFRICA 32

VI. RECOMMENDATIONS 33

VI.1. EXCHANGES OF EXPERIENCE AND COOPERATION 33
VI.2. TECHNICAL ASSISTANCE TO SACCOS OR THEIR APEX STRUCTURES 33
VI.3. DEVELOPMENT OF THE CVECAS OR VILLAGE/COMMUNITY-BASED MFIS IN EAST AFRICA 33
VI.4. THE ROLE OF PROFESSIONAL MICROFINANCE ASSOCIATIONS IN IMPROVING THE REGULATORY FRAMEWORK 33

Executive Summary

This comparative analysis of member-based microfinance institutions (MFIs) in East and West Africa was carried out for ***MicroSave***, an action-research programme jointly funded by the United Nations Development Programme (UNDP) and the Department for International Development (DFID).
The study looked at member-based MFIs, i.e. savings and credit cooperatives or mutualist institutions (COOPECs/SACCOs), self-managed village savings and credit associations (CVECAs), and financial service associations (FSAs) in two East African countries (Kenya and Tanzania) and three West African countries (Bénin, Burkina Faso and Mali).

1. The combined total population of the three West African countries is 26.6 million, which is roughly equivalent to the total population of either Kenya or Tanzania. The number of members/clients reached by the MFIs in the three West African countries is 772,000, representing 2.9% of the total population and 6% of the active population. The MFIs in Tanzania reach only 150,000 members or 0.7% of the population, while the MFIs in Kenya reach 3.1 million members, representing 10.5% and 21% of the total and working populations respectively. Thus the Kenyan MFIs reach proportionally almost four times as many members as the West African MFIs, which in turn reach more than four times as many members as those in Tanzania.
2. There are many similarities between the West African COOPECs and the East African SACCOs, including their origins in the Northern cooperative movement as transferred to the South by mutualist operators, and also their establishment in rural areas, underpinned by farming cooperatives in cash crop zones.
3. Because of these shared locations the typical client profile is quite similar, namely middle class, male farmers involved in cash crop production.
4. The products offered by the MFIs are fairly rudimentary. Savings products are often simply savings accounts earning low rates of interest. Loan products, to which relatively low interest rates are applied, are used to finance family expenditures and are repaid at harvest time.
5. In terms of outreach these MFIs reach large numbers of members, and considerably more than financial NGOs.
6. The MFIs in both regions are faced with the same governance issues, with power concentrated in the hands of a few individuals, little change in board composition, and decisions often taken more in response to private interests than to those of the institution. These governance problems are even more acute at the apex level.
7. The level of financial viability is quite good at the branch level, but is less so at the apex level which still receives considerable donor support.
8. At the same time important differences exist which are due in large part to recent developments in West Africa.
9. The West African mutualist systems are structured into networks on two or three levels, with COOPECs at the base, then regional unions, and a federation at regional or national level depending on the type of network. None of these systems have converted their central financing facility into a formal bank. The East African credit unions, on the other hand, are organised on two levels with the SACCOs at the base and an apex structure at the national level. It is not, however, appropriate to describe these systems as networks because of the absence of bilateral relationships between the SACCOs, and also the fact that the apex structures function more like service departments than bodies with decision-making power on policy and strategic development issues. At the same time, the SACCOs have invested in Cooperative Banks where they deposit their liquid assets.
10. There are also significant differences in terms of legal and regulatory status. As savings and credit mutualist institutions the West African COOPECs are an integral part of the financial sector. They are registered with the Ministry of Finance whose authority is delegated by the Central Bank[1], and are

[1] The « Banque Centrale des Etats d'Afrique de l'Ouest » generally referred to as the BCEAO

supervised and audited by this same body. The SACCOs in East Africa still come under cooperative law, are registered with the Ministry of Agriculture and Cooperatives, and are either supervised by the ministry responsible or are self-regulated. This state of affairs isolates them from the financial sector.

11. While West African COOPECs have changed a lot in the last six to eight years, their East African counterparts have yet to initiate the change process. The COOPECs have made serious efforts to integrate women into their membership, and have decentralised their facilities and operations to the village level to reach small farmers. They have also revised their loan policy in order to convert more of their savings into loans, resort to bank refinancing, and increase their interest rates to improve profitability. The East African SACCOs could shortly be faced with the same choices as liberalisation forces them to implement change.
12. Beyond the elements described above, four factors seem to have influenced the development of the microfinance sector in the countries concerned.
13. Market forces inevitably affect the economic dynamic and competitive environment depending on the degree of economic liberalisation, and have a strong influence on the behaviour of MFIs. It is easy to see how these forces paralysed the Tanzanian SACCOs for a long period of time while they provided momentum for the COOPECs and the whole microfinance sector in Bénin and Mali. One can imagine how changes in the market will affect the strategic choices to be made by the Kenyan SACCOs in the years to come.
14. The legal and regulatory environment is also a decisive factor for MFIs which are either part of the financial sector with its requirements in terms of professionalism, or the cooperative sector, which is often associated with a public sector approach and low productivity. The obligations created by banking supervision in terms of reporting, the preparation of financial statements, and the observance of prudential norms, are intended to professionalise and strengthen the MFIs. This highlights the importance of an enabling environment to promote the development of the microfinance sector. Similarly, national economic policies play a key role whether by promoting savings or funding growth. Because of their impact on interest rates these policies influence the behaviour of MFIs, making them either income earners or investors.
15. Finally, the structure of the sector also shapes its capacity to plan for the future, to share innovation, and to manage human resources. It is relatively easy for a sector that is networked, as in West Africa, to develop a strategic vision. However a sector that is loosely defined, as in East Africa, loses coherence and dynamism. The role of foreign technical assistance is often crucial for either facilitating or hampering innovation and appropriation. In West Africa the networks that have innovated most in recent years are those that have either shaken off technical assistance from the North, have restricted it to an advisory role, or in some cases have never received technical assistance.
16. In the years to come member-based MFIs will all be confronted with similar challenges concerning their ability to promote a legal and regulatory framework adapted to the changes in the sector while ensuring its security and scope for development, and their ability and desire to become more professional and adopt efficient techniques. The challenges also relate to the speed with which they innovate and adapt to changes in the market to respond to a large unmet demand, and increase their outreach to include new clients and geographic areas. Similarly, they will have to define clearly their relationship with the banks in terms of complementarity, competition and market share.
17. In light of these significant challenges, it is clear that exchanges and cooperation between member-based MFIs in the two regions could be worthwhile, and would help both regions to learn from the successes and failures of their neighbours and peers.
18. MFIs like the CVECAs and the FSAs will continue to act as pioneers and stimulate debate by questioning some of the convictions and habits that have become standard operating procedures, and experimenting with products that allow them to work with the most underprivileged populations in the most remote areas, these being areas where microfinance can make a real difference. The CVECAs and FSAs are currently exploring organisational innovations to ensure more transparent and balanced governance, and thereby strengthen their long-term sustainability.

A Comparative Analysis Of Member-Based Microfinance Institutions In East And West Africa

Renée Chao-Béroff, Thi Hanh Houmard Cao, Jean Pierre Vandenbroucke, Muli Musinga, Edith Tiaro and Leonard Mutesasira

I. The context of this study

I.1. The issues

This comparative analysis was commissioned by ***MicroSave**,* a joint DFID/UNDP programme, and the United Nations Capital Development Fund, and is part of a series of studies that have been conducted since the first half of 1999 in the two African sub-regions on the impact of the financial products and services provided by microfinance institutions (MFIs) on poor populations.

If the status of the member-based MFIs in West Africa is now quite well documented and analysed, this is not at all the case in East Africa where only client-based MFIs have been studied. Member-based MFIs in East Africa have been the subject of very few studies, at least as far as the microfinance sector is concerned.

Member-based MFIs in West Africa appear to be dynamic, innovative, have significant outreach, and are comparable to other MFIs in Asia and Latin America. They also bring to the table their appreciation of how to mobilise savings as a primary financial resource. In contrast, the MFIs in East Africa seem to be less involved in, and sometimes quite isolated from, the microfinance mainstream, and are making efforts to improve their position or define their future.

In order to gain a better understanding of member-based MFIs in terms of their development, their specific characteristics, and the problems and challenges they face today, this comparative study included a field survey in two East African countries, Kenya and Tanzania. Since the West African MFIs are more well known, they were the subject of a desk review which was complemented in the field by focus group discussions, enabling the viewpoints of members and non-members to be taken into account on a variety of issues.

The comparative analysis dealt with the following themes:

1) The history of the movements;
2) Member profiles, products and services;
3) The financial techniques used by the institutions;
4) Structure and governance;
5) Social, financial and institutional viability;
6) Trends and issues.

The objective of this study is to contribute to the debate on the position of member-based MFIs in the microfinance sector, to consider their specific contribution particularly in the area of savings mobilisation, and to determine the main themes on which MFIs in the two regions can exchange information and provide mutual support with a view to improving their know-how and the way they do business.

I.2. Methodology and calendar

The study was entrusted to a team from CIDR comprising:

- a senior expert in charge of coordinating the field studies, carrying out a cross-cutting analysis, and drafting the comparative analysis report;

- two international and two national microfinance experts in charge of field work, data collection on the microfinance sector in the countries concerned, and the analysis of the institutional aspects of the MFIs concerned.

The countries chosen for this study were Kenya and Tanzania in East Africa, and Bénin, Burkina Faso and Mali in West Africa.

In East Africa three MFIs were analysed in each country including savings and credit cooperatives, the SACCOS of Kilimanjaro in Tanzania and Embu in Kenya, and village or community funds, such as the FSAs promoted by K-REP in Kenya.

In West Africa, three savings and credit cooperatives were analysed, namely FECECAM in Bénin, FCPB in Burkina Faso, and Kafo Jiginew in Mali. FECECAM was selected because of its position as the largest savings and credit cooperative in West Africa in terms of number of members and the value of its outstanding savings and loans portfolios. In addition, two villages banking networks were analysed, these being the CVECAs in the Dogon region of Mali, and the Sissili CVECAs in Burkina Faso.

The study describes the microfinance sector and recent developments in this sector in each country in order to situate the member-based MFIs concerned firmly in their national context.

The study also provides an analysis of each institution in terms of its structure, financial performance, and prospects. This analysis was carried out in collaboration with the management of each institution. Next, and after discussion with the institutions, a field visit was organised to meet both members and non-members. Two sites were chosen in each case to illustrate the diversity of the local contexts; rural and urban in West Africa, dynamic and slow-moving in East Africa. In the field target-group discussion techniques were used around pre-defined themes. Members and non-members, men and women, and elected board members and salaried personnel were interviewed separately. The following topics were discussed:

- the profiles of members and non-members;
- income and expenditure schedules;
- schedules for transactions with the MFIs (or other financial services) in terms of deposits, withdrawals, loans and repayments;
- the level of satisfaction with the products and services offered;
- the extent to which people resort to alternative or complementary services;
- other services that would be welcome.

The field studies were implemented from November 26th, 1999, to early January, 2000. Data processing took place at the end of December, 1999. The comparative analysis and drafting of the final document was completed between January and March, 2000.

II. Member-based microfinance institutions in East and West Africa

II.1. Microfinance institutions in West Africa

The following table presenting breadth of outreach and market penetration as a percentage of total population provides a broad overview of the situation in each of the countries concerned.

	POPULATION (in millions)	CLIENTS/ MEMBERS OF MFIs (in millions)	MARKET PENETRATION (%)
Kenya	29.6	3.10	10.5%
Tanzania	24.0	0.17	0.7%
Bénin	5.6	0.28	5.0%
Burkina Faso	11.0	0.19	1.7%
Mali	10.0	0.30	3.0%
Total of the 3 West African countries	26.6	0.77	2.9%

II.1.1. The history of the microfinance movement

The history of microfinance in West Africa can be divided into two distinct stages: the period before 1985-1990, and the one that followed.

Between 1975 and 1985-90 savings and credit cooperatives ("coopératives d'épargne et de crédit" generally referred to as "COOPECs"*)* were promoted by different Northern operators in a number of countries including Bénin, Burkina Faso and Togo.

These COOPECs promoted the fairly traditional objectives of mobilising savings and educating people. The savings mobilisation phase could last several months, and sometimes years, before members gained access to a loan: this was considered necessary to instil a savings discipline without which loans would not be repaid. The first COOPECS operated in relatively prosperous areas (both rural and urban), and most often in cash crop zones (cotton for example) where the members generally earned enough to cover their family expenses. The challenge, therefore, was to ensure that this income was well managed in order to be able to handle significant expenses at certain times of the year, such as school fees for the children.

The lesson learned from these initial experiences was that people were interested first and foremost in savings facilities that guaranteed safety, confidentiality, and accessibility. Access to loans was not considered a priority, and was only needed to finance "social" needs, such as medical bills. Interest rates were only an issue for loans, and had to be low in order to safeguard against usury. The level of the interest rate on savings did not seem to influence the motivation of members to save. Indeed, during this period (and even today) many COOPECs did not pay interest on savings.

The rules for using savings at the branch level were very strict, and did not allow for more than 30 - 50% to be transformed into loans. Liquid assets were deposited at the central financing facility at the federal level for security and investment purposes. This facility manages the distribution of funds between profitable branches and the young and/or unprofitable ones. As a rule, the central financing facility was in surplus and invested these funds in commercial banks or treasury bonds.

In order to have access to credit members needed to deposit preliminary savings, which were frozen as a form of guarantee. The size of the guarantee varied from one system to another, ranging from 30 to 100% of the loan amount requested.

Subsequently, and as a direct result of these operating procedures, the COOPECs were criticised for working only with members of the middle class, i.e. those who were in a position to save and provide the required guarantee to obtain a loan. At the same time, the COOPECs were criticised sharply for mobilising savings in rural areas to finance their business with trades people and white-collar workers in urban areas (they made huge investments in the city-based commercial banks and granted loans to "reliable" clients in urban areas).

The results were not very good either in terms of repayment rates, which were often very poor, or in terms of cost recovery. We should remember, however, that during this period the emphasis was placed on "projects" for educational purposes rather than on the need to develop sustainable financial institutions.

This was also a period during which the COOPECs were developing at their own pace in the absence of competition (they were often the only semi-formal financial institutions in the whole region), using subsidised funding. Finally, during this period "hot money" was advocated versus "cold money", and there was a veritable crusade against credit without the requisite savings, with external resources considered as the source of all problems.

A turning point was reached towards the end of the 1980s. Tired of trying to make COOPEC and banking practices more flexible, and confronted with pressing economic development issues, certain promoters began to experiment with new types of microfinance. A second generation of MFIs was born and this generation, in contrast to the previous one, has a more diverse history and hence a more flexible approach and modus operandi. Generally speaking, although it did not abandon the notion of savings mobilisation, this generation of MFIs emphasised access to credit and was clearly committed to poverty alleviation.

This is how the first "caisses villageoises d'épargne et de crédit autogérées" (CVECAs) and solidarity group programmes in remote areas of the Sahel, and the first microcredit programmes for women in poor urban neighbourhoods were started. At the same time, a new generation of COOPECs emerged that were more flexible and responsive to the demands of their members.

These newcomers were innovative in that they allowed the largest possible number to have access to loans, did not insist on preliminary savings before granting loans, and were prepared to disburse loans in anticipation of savings. They were instrumental in pushing back the frontier of microfinance to include the poorest areas and the most underprivileged populations (such as women and young people). They also introduced higher interest rates which were closer to market rates (including interest on savings) and allowed the systems to become sustainable. Finally, they were open to collaboration with the banking sector for refinancing purposes.

By the middle 1990s change was afoot. In a matter of years the position of MFIs in West Africa changed from one of monopoly status to one where they were subject to strong competition. In order to survive they had to grow and extend their outreach. Moreover, as a result of international pressure**,** it became essential to respond to the needs of poor populations, and particularly those of women and micro-entrepreneurs. Thus, the emergence of "challengers" and competitive pressures played an important role in redefining the microfinance landscape in West Africa.

Today, hybrid approaches are in an advanced stage of development. Dogma has given way to pragmatism and recognition of the need to capitalise on opportunities. The majority of MFIs now seek to make a profit and achieve long-term sustainability.

It has become clear that: the risks associated with granting loans without preliminary savings are manageable; it is necessary to promote the mobilisation of savings and local resources in order to render an institutions sustainable in the long-term and create a sense of responsibility among members; efforts should be made to improve the quality of services and adapt them to demand in order to maintain membership levels; the interest rates applied should reflect costs: institutions should aim to become financially viable in order to offer services on a sustainable basis; refinancing can increase the capacity of an institution to disburse loans without having an adverse effect on the repayment rate and , in certain cases, is essential for an institution to break even.

Thus the microfinance community in West Africa has reached a more mature stage where its members are striving to become more professional and efficient by building their internal capacity, mastering new techniques, and applying new tools.

Another important event in West Africa was the passing and application of the law regulating the "mutuelles d'épargne et de crédit" (MUTECs) starting in 1994. This law marks the integration of the savings and credit cooperative movement into the financial sector and the fact that they are registered with, and supervised by, the Ministries of Finance and the Central Bank rather than the agricultural or cooperative sectors, as was previously the case.

Despite the fact that the law does not recognise other types of MFIs (an omission that has rekindled ideological debate), it does endorse certain practices regarding prudential ratios that will help reinforce the development of the MUTECs. Thus, for example, the law allows mutualist institutions to lend out twice the amount of savings mobilised, and thereby creates the potential for refinancing. Likewise, the interest rate ceiling for MFIs has been revised and increased to the current level of 27% p.a. to take account of the need for wider margins in order to cover costs and remain viable in the long-term. This legislation has played, and continues to play, an important role in the development and institutionalisation of MFIs in countries belonging to the West African Economic and Monetary Union (WAEMU).

II.1.2. Members and products

a) Members

The countries chosen for this study (Bénin, Burkina Faso and Mali) are undoubtedly those in which microfinance is the most advanced and dynamic in the sub-region, and the MFIs selected (FECECAM, Kafo Jiginew, FCPB and the CVECAs) are most representative of member-based institutions in their respective countries.

The origins of all of the institutions studied happen to lie in rural areas, with some of them expanding their operations to urban areas only recently (in the last 3 to 5 years). A typical member for these MFIs, therefore, comes from a rural area and lives off the land. The majority of the members are male, and are either heads of household or own a farming enterprise.

This characteristic can be traced back to the origins of the institutions, as in the case of Kafo Jiginew which grew around the Malian Textile Corporation and was closely associated with cotton producing groups. It can also be traced to a particular cultural context where the extended family's income is collected and managed by the head of household, and the degree of economic independence of other family members (women, young men) remains quite limited.

It is only recently that women have assumed their rightful place as a result of pressure from donors and Northern operators. Generally speaking, the women who become members tend to be those who have previously organised themselves into groups, are engaged in income-generating activities (small trade, market gardening, small animal husbandry, food processing, etc), are living near an urban centre or market place, and often become members of a COOPEC when a special programme like a "village bank" or "credit with education" is introduced. Women find it easier to become members of village banks because they are culturally more familiar and physically closer than the local branches. It should be noted that these MFIs need to always make a concerted effort to ensure women's' participation and put them at ease (by recruiting female staff, for instance), and often use products specifically designed to respond to their demands.

The ones that tend to be neglected by member-based MFIs are the young men. Because they are marginalised culturally by the heads of household and are economically dependent and likely to migrate, young men have very rarely been targeted by these institutions. The young men in turn are suspicious of institutions that are controlled by local dignitaries or "elders". Moreover, they fear that a lack of confidentiality might allow the heads of household to learn how much they have saved, and prefer that this remain a private issue. Of course, this state of affairs is more prevalent in cash crop areas that have remained traditional, as is the case of Kafo Jiginew. It tends to change quickly in the poorer areas where the income of the young men who migrate translates into bargaining power between the generations, as in the Dogon region.

The definition of wealth and poverty varies depending on the socio-cultural context: during a wealth ranking exercise carried out in remote sahelian areas where there is still a high level of solidarity at the village level, villagers spontaneously define a "rich" person as someone who is "generous, and willing to share and help others", and a "poor" person as someone who is "selfish, thinks only of himself, and is not willing to share". Thus, the notion of wealth is associated more with moral values than material possessions, and the villagers feel that the "rich" will join a village-based MFI automatically in order to participate in, and contribute to, the "common good" and support their neighbours.

The villagers interviewed for this study consider a large majority of households to be “neither rich nor poor” i.e. more or less able to meet their basic needs – food, health, education – in a normal year when there is no drought.

The “rich” and the “poor” represent two extremes that are not very common at the village level, with only a few households falling into each category. In general, notwithstanding the type of MFI, villagers think that members fall into the "neither rich nor poor" category. The rich people are not very interested in joining an MFI because they considered them as “second class financial institutions” which have been created for the poor, and the loans are too small to meet their needs. In the case of CVECAs, some rich people join as net depositors because they find the interest rates attractive, and also out of a sense of “solidarity” with the village. The villagers think that poor people are not members because they cannot save, and are not involved in income generating activities that require a loan. As a rule, they consider poor people to be destitute. They claim that it is the responsibility of the village to show solidarity toward this group of people, and cite examples of how the village has organised itself to help them. They think on the one hand that “the poor will destroy the MFI because they will be unable to pay back their loans”, and on the other hand that “the MFI will destroy the poor because they do not know how to manage the loans they receive.”

When people say that “poor people can save” they are no doubt referring to those who may be “neither rich nor poor” by the villagers’ standards but who are, in fact, very poor by national standards.

b) Products

All member-based MFIs in West Africa provide both savings and loans services.

b.1. Savings products

The savings products offered are not very diverse comprising cash deposits, fixed-term deposits and savings accounts. All are short-term with a duration of less than one year.

Mutualist institutions pay little or no interest on cash deposits and savings accounts, and pay only low rates on fixed-term deposits, and as a result there is little incentive for making fixed-term as opposed to cash deposits.

In a dynamic MFI such as Kafo Jiginew, which is located in a cash crop area, the fixed-term and cash deposits account for 30 and 70% of total deposits respectively. This difference is even more striking in other mutualist institutions.

The CVECAs pay no interest on cash deposits but provide a good return on fixed-term deposits. The CVECAs in the Dogon region of Mali offer interest rates ranging from 12 to 18% p.a., i.e. 4 to 6 times higher than the rates offered by the banks. The fact that the vast majority (more than 90%) of deposits are fixed-term reflects the impact of these higher interest rates, as does the fact that the proportion of fixed-term deposits in mutualist institutions is much lower.

The CVECAs have also introduced a savings scheme (“plan d’épargne*”*) inspired by “roscas” where small amounts are deposited on a regular basis, be it weekly or monthly. This type of scheme earns interest, it designed for women, and is intended to facilitate their savings activities. The term of these savings schemes can vary from 3 to 12 months depending on the contract established between the depositor and the CVECA.

There is also a savings scheme for equipment (“plan d’épargne équipement*”*) for members who require a medium-term loan to purchase equipment. After saving the equivalent of 30% of the loan amount on a monthly basis over 12 to 18 months, a member becomes eligible for an equipment loan which is repayable in 24 to 36 monthly instalments.

The analysis of savings behaviour vis-à-vis the products offered need to be nuanced depending on whether an area is “rich” or “poor”. In rich areas people save for security reasons and show little sensitivity to interest rates, while in poor areas the value of savings deposited with an MFI is calculated in terms of opportunity cost, i.e. the purchase of livestock on which the return in sahelian zones is approximately 17% p.a., investment in a profitable activity, or a personal loan. Here the interest rate plays a decisive role in the choices made. An MFI needs therefore to define its policy according to the importance it attaches to mobilising savings and how it intends to use these savings.

In member-based MFIs savings are usually voluntary, although in mutualist institutions they can be frozen to act as a guarantee which allows a member to have access to a loan. This deposit can amount to 30% of the total value of the loan. CVECAs do not require members to have preliminary or frozen savings before accessing the first loan to avoid excluding the most underprivileged. Nevertheless, it seems that the guarantee requirement can be an effective method of mobilising savings, particularly since members of mutualist institutions are highly motivated to save in order to have access to credit.

b.2. Loan products

The loan products offered are more diverse than the savings products. They can be completely flexible in terms of what they finance, the amount, and the loan term so that borrowers can define the loans according to their needs, and choose a realistic repayment schedule which reflects their ability to repay. This is the case with the CVECAs. Kafo Jiginew offers four or five loan products: seasonal loans lasting 6 to 9 months with no defined purpose which are used as working capital, as bridging loans, or to meet cash flow requirements; short-term loans (less than 3 months) used either to meet urgent financial needs or take advantage of a commercial opportunity; 3-year equipment loans; 6-month storage loans, and; credit with education over a 4-month period. Members can benefit from several types of loan at the same time depending on their activities and needs.

Loans can be repaid either with a single payment or in monthly instalments. Interest rates can be the same whatever the type of loan and quite high, as in the case of the CVECAs (24 to 36% flat), or can vary from one product to another as in the mutualist networks: 24 to 48% on a declining balance depending on the type of short-term loan, and 1.2% per month for medium-term loans. In Kafo Jiginew the seasonal loans are the most popular because they are the most flexible. However, it should be noted that short-term loans are also quite popular despite their high cost (up to 48%) because they can be obtained quickly and involve very few formalities.

Equipment loans are more difficult to obtain because there are more formalities to complete, and the credit analysis takes more time and involves more decision-makers. To purchase equipment members prefer to pay 24% interest on a seasonal loan rather than wait for an equipment loan application to be processed. This is because although the equipment loan is less expensive at 14%, it is not easily obtained.

In the Dogon region borrowers readily apply for short-term loans at a flat rate of 30% p.a., and have no difficulty repaying them. This type of behaviour towards loans and interest rates demonstrates that borrowers value speed and access above all, and are prepared to pay more for this.

Rural MFIs need to offer not only a wide range of products to meet demand, but also products that are tailored to the diverse needs of their members.

In urban areas where member-based MFIs have recently begun to operate, membership is more varied in terms of origin, profession, and social and educational status. This reflects both pressure from urban populations and the expectation of a higher volume of transactions to compensate for and diversify the risks taken in rural areas. Thus you find trades people, craftsmen, salaried workers, haulage contractors, as well as teachers, white-collar workers, young qualified individuals, and retired civil servants etc who are members. These people tend to be economical active but do not have access (for reasons of insufficient resources, or illiteracy) to the classic banking system. To date the MFIs have not designed products that correspond to the life style and activities of these types of members, who are obliged to conform to existing rules and products. Being better acquainted with banking rates, even if they do not have access to formal banking services, these members tend to compare the services of the MFIs with those offered by banks and are reluctant to pay the higher interest rates. They also tend to be less reliable and are often among those who default on their loans.

II.1.3. Financial techniques

Mutualist networks have developed a strong command of savings mobilisation techniques, and manage to collect a significant amount of informal savings in more prosperous areas. The CVECAs, which are generally located in more disadvantaged areas, need to prove their reliability, sustainability, and staying power to attract individual savers. They are better at persuading groups to deposit their savings as a sign of village "solidarity".

All things considered, the phenomenal increase in savings mobilised in West Africa is more a reflection of extended outreach than an increase in the amount saved per member, which could have been used as an indicator of impact. There is still a great deal to learn with respect to impact issues.

The CVECAs manage the process of granting loans quite well; they have adopted a progressive approach, use group guarantees and social pressure, and do a good job of informing people how to obtain a loan. As a result, applications can be processed in a quick, inexpensive and reliable manner. This approach is less appropriate for larger loans, or in a changing social context where the borrower is no longer subject to external social pressures.

Mutualist networks, which were reluctant initially to engage in loan activities for a variety of reasons (they were overly cautious and unwilling to grant loans that were often used for consumption purposes, particularly when they had the option of making secure investments at good rates with commercial banks or in government bonds), acquired the lending expertise, particularly for microcredit (without preliminary savings and based on a group guarantee), by adopting specific programmes. This is how they discovered the vitality of this market, the relatively small risks involved, and also the extent to which microcredit can be profitable.

The introduction of microcredit revolutionised cash flow management in the COOPECs; they moved from a situation of over-liquidity to one where money was scarce and it became essential to resort to external resources or line of credit lines in order to grow. At the same time the financial viability of these MFIs improved considerably.

II.1.4. Structure and governance

In West Africa, member-based MFIs have adopted a network structure.

The CVECAs have a two-level structure comprising village banks at the base and regional associations, and have opted for a regional dimension with a very decentralised modus operandi. They chose to use the existing banking system to handle the most complex banking functions. This type of structure follows the logic of decentralised financial systems by making the members and committees as accountable as possible. Moreover, it is efficient and inexpensive.

The mutualist networks are generally divided into three levels with COOPECs at the base, regional unions, and a federation at national level. They have recently added a fourth level or "dimension", that of the "village banks". To provide an example of this, the village banks created by FECECAM are pre-COOPECs, and are set up in smaller villages with a more modest infrastructure. They collect savings and can disburse loans to a limited extent, and are expected to develop into COOPECs after achieving a certain volume of activity. In contrast, the village banks set up by FCPB are women's' groups created in the context of the "credit with education" programme, but are also located at the village level. The women's groups are "members" of the COOPECs where they obtain their loans and deposit their compulsory savings.

The central financing facility, which is located at the federal level, is responsible for liquidity management and ensures the redistribution of funds and refinancing for the network as a whole. Most mutualist systems have opted for national coverage, with the exception of Kafo Jiginew which has retained its regional focus (and is located in Southern Mali).

This type of structure reflects banking logic with security linked to financial solidarity at a higher level and greater "professionalism" at the centre. Costs at the federal level are high.

With respect to governance the CVECAs have created systems at different levels to balance power and ensure that responsible individuals can be held accountable to the village general assembly, where key decisions are made by all of the villagers (whether they are members of the CVECA or not). The rules and regulations of the CVECA are rooted in the values of the village, and the villagers are expected to respect them as they respect the village authorities. Conflicts are arbitrated by the village council as a last resort.

These mechanisms, combined with the profit-based system of remuneration for both committee members and cashiers and the contracting out of technical services to an external private entity seem, at least for now, to be effective in defusing the conflicts of interest and power struggles which can cause deadlock and

the collapse of member-based systems by creating incentives for good performance and sustainability. Any weakening of the village institution and of the social cohesion between villagers could jeopardise the system in the long run.

The classic governance problem experienced by mutualist systems occurs at several levels due to the diluted ownership of the cooperative structure which can encourage elected committee members to promote their own interests rather than those of the members. For example, at the COOPEC level elected members grant large loans for themselves in violation of the rules, and the salaried staff are unable to prevent this behaviour because they are in a position of dependence. At the higher levels the problems are often associated with decisions to spend amounts of money that are out of all proportion to the needs and the capacities of the network, and arbitrary decisions regarding the hiring and firing of staff. Policy decisions can also be taken without regard for the interests of the institution but rather for those of private individuals, particularly a small number of powerful, elected members. This classic power struggle between the elected bodies and salaried staff is also the result of the lack of clarity in terms of how roles and responsibilities are shared between these two groups.

What is striking in the cases examined during this study is the poor match between the profiles of the people in charge, the decisions they have to make, and the issues at stake in the urban COOPECs which are, in effect, small banks. Is this type of participatory governance compatible with the increasing size of these institutions and the sums of money involved?

Regarding the domination of the mutualist networks by borrowers or depositors, it seems that the situation has evolved as these institutions have grown. During the initial period when the COOPECs where over-liquid and very prudent in their loan policy, the net depositors dominated the systems and opted for an approach which emphasised the security of their savings. More recently the borrowers seem to have gained the upper hand and have been instrumental in maintaining a low interest rate on savings in order to be able to apply a similarly low interest rate to loans, even if this has an impact on the financial viability of the institution. They encourage the federation to mobilise additional donor funding to subsidise both operating costs and credit activities.

In the case of the CVECAs it seems that the relationship between depositors and borrowers has been more balanced since the borrowers realised from the outset that they desperately needed the contribution of the depositors to make the system work. Therefore, the interest rates applied to savings were very high (15-20%) to attract depositors, and efforts were made to convince them that the CVECAs were well managed in order to build their confidence in these institutions. The first net depositors in the Dogon villages were indigenous groups, followed by individuals.

The high interest rates applied to savings led to relatively high rates on loans (30-40% p.a.) that were endorsed by the village general assembly and have never subsequently been questioned. That said, the committee members have fought constantly for access to bank refinancing facilities to increase the amount of funds available for credit activities.

The similarities and differences between COOPECs, CVECAs and FSAs on key governance and institutional issues are shown in the table below.

<table>
<tr><th rowspan="2"></th><th colspan="2">Structure</th><th rowspan="2">General Assembly</th><th rowspan="2">Vote</th><th colspan="2">APEX</th></tr>
<tr><th>Network</th><th>Number of levels</th><th>Services</th><th>Central Financing Facility</th></tr>
<tr><td>Mutualist systems (COOPECs)</td><td>Yes</td><td>Two to four</td><td>Members</td><td>One member one vote</td><td>Integrated</td><td>Yes</td></tr>
<tr><td>CVECAs</td><td>Yes</td><td>Two</td><td>Village (members and non members)</td><td>Consensus</td><td>Externalised</td><td>No</td></tr>
<tr><td>FSAs</td><td>No</td><td>One</td><td>Shareholders</td><td>According to the number of shares (up to ten)</td><td>?</td><td>?</td></tr>
</table>

II.1.5. Outreach and impact

In the seven WAEMU countries the Central Bank listed 188 MFIs reaching 1,440,000 members, representing 2% of the total population and 5% of the active population. Savings mobilised amounted to $103 million, and outstanding loans amounted to $110 million. Member-based MFIs represented 96% of savings mobilised, 64% of the number of loans disbursed, and 73% of loans outstanding.

The three countries selected for this comparative analysis are among the leaders in terms of outreach with 279,000 members in Bénin, 193,000 in Burkina Faso, and 202,450 in Mali. The three together account for 60% of total outreach, 53% of savings mobilised, and 52% of loans disbursed.

In Bénin, microfinance clients represent 5% of the total population and more than 10% of the working population.

II.1.6. Social, financial and institutional viability

Member-based MFIs in West Africa generally demonstrate good social, financial and institutional viability at the primary level where there is still an element of social control, people actively volunteer their services, and members have a strong sense of ownership. Since the PARMEC law officially recognises the COOPECs and thereby confers autonomous legal status on them, the institutional viability of these structures seems to be assured. In contrast, the village banks of the CVECAs, which are non-mutualist structures, are not formally recognised. On the one hand, this protects them against an excessive standardisation that might paralyse this type of institution which is flexible and adapted to the local environment. On the other hand, the lack of legal status effectively limits their prospects for institutional viability by making them dependent upon the level above them, the regional association, since this is the only body that is recognised by the law and subject to supervision.

These MFIs remain viable at the secondary level to the extent that social control can still be exerted and costs are kept under control.

The federal level of the mutualist networks is the most susceptible to risk. Because of the existence of multiple layers of delegated power, elected members at this level are almost completely immune to the social control of grass-roots members. They are barely accountable either for the policy decisions they make or the management decisions they enforce. Salaried staff cannot easily take a stand against this sort of malpractice even if they are aware and disapprove of it, because they are required to implement management directives. Widespread irregularities, fraud, and disregard for good management practice are observed at this level, and all the more so because it is usually here that donor grants and subsidies are concentrated. It is also at this level that the central financing facility is located, and where sound financial management is essential to handle the large sums of money involved and protect the interests of small depositors. A number of recent experiences in West Africa have confirmed the fragility of social, financial and institutional viability at the federal level of mutualist networks.

This is one of the reasons why the CVECAs rejected the idea of a national level structure and the creation a central financing facility. It also helps explain their decision to outsource the provision of technical services to a private entity in order to ensure that it enjoys greater independence vis-à-vis the elected members without divesting these members of their decision-making authority on policy issues.

The application of the PARMEC law, and above all the reinforced control and supervision on the part of the monetary authorities, could counterbalance this weakness of the COOPEC model. However, it is clear that more rigorous financial management becomes essential once a certain level of financial activity is reached if the integrity of the system is to be ensured. The transformation of part of the network into a (cooperative?) bank, subject to banking legislation and the strict control of the banking commission, would be one way to address this issue. An alternative would be to delegate greater authority to the regional level while granting the regional unions their independence. These two options are not incompatible.

II.2. Microfinance institutions in East Africa

II.2.1. The history of the microfinance movement

The emergence of the Savings and Credit Cooperative Organisations (SACCOs) dates back to the years 1965-70. They grew out of the credit systems of the old farming cooperatives which were common in cash crop areas, particularly where coffee was produced. At that time, the state controlled the production of coffee from farm to market. Farmers were organised into cooperatives, and financial services were provided by "banking sections" (in Kenya the Union Banking Sections) where the farmers could save and obtain advances that were repaid using the income earned from the harvest. In Kenya these banking sections were progressively converted into SACCOs in order to formalise the separation between economic and financial functions, but not without generating a certain amount of resistance. The process took nearly 20 years, and is not complete even today.

In Tanzania the SACCO movement, which is legally autonomous but closely linked to the farming cooperatives, experienced mixed fortunes because of changes in government policy: cooperatives were first promoted as a model, and then replaced by the "ujamaa village". Since that time, the SACCOs have not regained the status they enjoyed in the years from 1965 to 1970.

This overview allows us to identify the key characteristics of the SACCOs which are primarily rural and established for the most part in cash crop areas, with a majority in coffee-producing zones and some working more recently in other sectors. They have strong ties with farming cooperatives which constitute their "common bond".

The banking sector collapsed in Kenya in the 1980s, and was nationalised in Tanzania it for about 20 years (from 1967-1991). More recently it was restructured and privatised, and adopted a more commercial approach which resulted in a decline in the level of business with small-holder clients and in the number of small accounts (such as those held by junior civil servants), leaving the SACCOs in a monopoly position for a fairly long period of time.

The cooperative movement founded the "Cooperative Bank" which collects savings from the SACCOs, can provide them with lines of credit, and should also provide technical services. In Kenya the Cooperative Bank plays this role, and in Tanzania the cooperative movement created a regional institution, the "Kilimanjaro Cooperative Bank", to this end. In addition, there are two SACCO "apex" structures at the national level in Kenya, namely KUSCCO, the federation of urban SACCOs, and KERUSSU, the federation of rural SACCOs. The division of labour between these apex bodies in Kenya is not yet clearly defined. In Tanzania there is an apex structure at the national level, the SCCULT which, according to its own SACCO members, is not very active.

During the 1980s Kenya witnessed the emergence of "microfinance NGOs" which adopted the Grameen Bank model. These NGOs focussed on providing microcredit to solidarity groups, operating in urban areas and targeting micro-enterprises. Five of these NGOs are noteworthy, with K-REP taking the lead and transforming itself recently into a commercial bank.

K-REP introduced a new type of member-based institution in Kenya known as financial service associations (FSAs) in order to diversity its client base and broaden its national coverage. These FSAs started operating two years ago in poor rural areas that were not covered either by the K-REP type solidarity group systems or by the SACCOs, since they are areas of staple crop production. They are based on the internal resources of members who buy shares to form a credit fund. Although they are still at the experimental stage, FSAs seem to be quite popular especially in areas neglected by other MFIs. Their low start-up and operating costs suggest that they might achieve autonomy despite the difficult economic environment in which they operate.

Under pressure from donors certain banks in Kenya (3) have initiated microfinance activities simply by using concessional lines of credit or external guarantee funds to refinance MFIs. Only one, the Cooperative Bank, seems seriously interested in pursuing this course of action. In Tanzania, the Cooperative Rural Development Bank seems to be moving towards refinancing MFIs be they SACCOs or others, and the Government has transformed another bank into a "Microfinance Bank" which is dedicated to microcredit activities.

In Tanzania, while NGOs have initiated microcredit projects, the state dominates the microfinance sector which is characterised by a heavy emphasis on poverty alleviation.

Despite, or perhaps because of, this polarised situation these two types of MFI know little about each other and have had very limited. So much so that, for a long time, the financial NGOs in Kenya (and also their donors) thought that the SACCOs did not belong to the microfinance sector.

Thus it can be said that although the sector has evolved over the last few years and is still undergoing significant change today, this evolution seems to be more strongly influenced by changes in the local environment than by meetings or confrontations between the different approaches or the impact of increased competition among MFIs.

II.2.2. Members, products and interest rates

a) Members

The typical SACCO member is a male head of household, a farmer of one or more cash crops (coffee, tea, sugar, milk, pyrethrum), and a member of the lower to middle class.

Since there are no SACCOs in staple crop or semi-arid areas, the poor and the very poor are not reached. In rural areas those who participated in this study estimated that 20% of households are "poor", 10% are "rich" and 70% are "middle-income". A "rich" person is someone who has assets such as dairy cows, and a "poor" person is someone who has nothing, and does not even have enough to eat.

The "rich" go to a bank for their financial needs. The "poor" cannot join a SACCO because they are unable to save, neither do they join an FSA because they cannot afford to buy a share. Thus, the SACCOs and the FSAs reach mainly "middle-income" households in their respective regions, with the SACCOs in the cash crop areas and the FSAs in the more remote and staple crop areas.

SACCOs seem to be rather insensitive to gender issues, and the proportion of women members is particularly low at about 15 to 20%. No particular effort made to reach them or take their demands into account.

b) Products

The main product is the savings account to which a low rate of interest is applied on a three-monthly or annual basis, ranging from 4 to 6% p.a. in Kenya and from 6 to 8% p.a. in Tanzania. This is a fee-bearing account. Despite these conditions, members deposit their money with the SACCOs largely because they have no alternative, because for a long time this was the method of payment used by the farming cooperatives to pay their members, and finally because the farmers attach more importance to security, accessibility and opportunity.

Indeed, this product appears to be so popular that it attracts large numbers of users (clients) to the SACCOs who are only allowed to deposit money and do not have access to the other services provided. Today, only a third of the 2.9 million accounts held in the Kenyan SACCOs belong to members, with the remaining two thirds held by users (clients).

In theory the SACCOs also offer credit services to their members only. Two or three guarantors are required but the main guarantee is the harvest, especially in areas where the marketing activities are still fairly well controlled or pass through the cooperative. The loan is linked to the amount deposited, and a multiplier coefficient of 1 to 3 is applied.

In Kenya, "development" loans are available (e.g. for housing), as well as "social" loans (for emergencies or school fees). Between 50 and 80% of loans are granted for social purposes. The loan term varies but is most frequently 12 months. In Tanzania the SACCOs very rarely grant loans. A recent study has shown that in June, 1997, the total number of loans disbursed by the six most active SACCOs in Tanzania did not exceed 250. The experience of the SACCOs interviewed during this study suggests that the main cause for this lies in the lack of lending know-how both at the committee and management levels.

c) Interest rates

The SACCOs apply a nominal interest rate to loans ranging from 12-20% in Kenya and 24 to 48% in Tanzania, which translates into a higher effective monthly rate.

The rates charged by the FSAs are much higher at about 10% per month. These interest rates have sparked a lively debate which seems to be dominated by net investors but has no foundation in the eyes of the borrowers and the microfinance community, and is expected to subside quickly.

II.2.3. Financial techniques

In the SACCOs and FSAs visited the command of financial techniques seems fairly rudimentary and appears to have developed little over time. The savings mobilised are mainly deposited at the Cooperative Bank and then invested in treasury bonds. Loans are granted on the basis of guaranties (deposits and the security provided by payments anticipated at harvest time). In Tanzania the SACCOs grant very few loans and even none at all, while in Kenya the rate of transformation of savings into loans remains low.

The only SACCOs in Tanzania that have taken risks have done so by investing in economic activities that proved unprofitable. They have not given any thought to new types of loans or tried to attract new members.

The SACCOs have almost no cash flow to manage since they simply deposit the savings they collect at the Cooperative Bank.

The FSAs also use very simple savings and loan techniques which resemble those of the SACCOs. They sell shares, do not collect savings, and give out few loans. They do not carry out a rigorous analysis of loan applications. Rather, the credit committee bases its decision on a comparison of the amount applied for with the number of shares held.

II.2.4. Structure and governance

In East Africa, the "credit unions" comprise two or three levels. At the base there are the SACCOs which are recognised by cooperative law and thus possess legal status. They vary in size from a few hundred to a hundred thousand members. There is relatively little interaction between the SACCOs, which cannot be considered as part of a network since this would require a degree of solidarity and interaction between the basic units.

In Kenya there are two apex structures at the secondary level: the Kenyan Savings and Credit Cooperative Organisation (KUSCCO) brings together the urban SACCOs, and the recently created KERUSSU brings together the rural SACCOs. These apex structures are designed to offer services to their members such as supervision, control, insurance products and refinancing options at concessional rates (10% p.a. in the case of KUSCCO). KUSCCO is currently offering such services to SACCOs, while KERUSSU is planning to do so in the near future.

The Kenyan Cooperative Bank also offers services to SACCOs including audits, training for SACCO employees, and advice on management information systems. The bank has created a special unit at the Head Office to cater to the needs of the SACCOs. The respective roles of the apex structures and the Cooperative Bank are not clearly defined, which can lead to a duplication of effort.

In Tanzania this secondary level, represented by the SCCULT, is not very active and only offers training free of charge to the employees and treasurers of the SACCOs. SACCOs are supposed to complete and return a data sheet (providing account and membership information) to the SCCULT on a monthly basis and their audited financial statements on a yearly basis. They complain about the lack of feedback on the information provided, and the fact that the SCCULT fails to transmit this information to the Ministry of Cooperatives.

The Kilimanjaro Cooperative Bank offers savings and loans services to the SACCOs. It is not in a position to develop a special unit to serve the SACCOs due to a lack of appropriately trained staff.

The management of the SACCOs includes many former civil servants from the farming cooperatives as well as large farmers whose pre-occupations do not necessarily correspond to those of members at the grass-roots level. In the absence of strong social control these managers are often tempted to make

financial decisions that are more in line with their personal interests than with those of the SACCOs. Likewise, investment decisions are sometimes made without taking into account the capacity of the SACCO or its needs (prestigious premises, etc). There is little turnover among the members of the board of directors, some of whom have been in office since the establishment of the SACCO, and this hinders change and innovation.

Certain large SACCOs and coffee cooperatives have gained a hold over the boards of these apex structures, and the balance of power vis-à-vis the Cooperative Bank seems to be of greater concern to them than any research into improving the services and sustainability of the primary SACCOs. This is particularly true in Kenya.

Although the farming cooperatives and SACCOs own shares in the Cooperative Banks, the latter appear to operate like regular commercial banks. They are happy to collect the savings of the SACCOs without having to make any particular effort, but are in no hurry to lend to them since they have more credit-worthy clients in urban areas who are prepared to pay a 30% interest rate and can provide a stronger guarantee. Under favourable conditions the Kenyan Cooperative Bank is even willing to turn over the running of its more remote branches to the SACCOs, thus reducing their management costs. Their role is increasingly questioned by the grass roots SACCOs, because even if the services they offer are either free or inexpensive, they are not very relevant.

Here again, the structure and governance of the SACCOs and their apex bodies in terms of ownership, responsibility and accountability is problematic. This is what gives a negative image of power held by a chosen few enjoying certain privileges to the detriment of a silent majority with little share in decision-making processes. Typically members do not attend general assembly meeting, and do not feel involved or able to contribute. They tend to consider that the SACCO belongs to the Board or to the farming cooperatives.

When we observe the behaviour of these SACCOs we tend to think that they are dominated by depositors who choose to safeguard their deposits first and foremost since they grant very few loans to individuals. However, the strategies they have adopted recently to attract users as net depositors with no access to credit services suggests that changes are underway, and these are doubtless linked to market liberalisation and increased competition.

The FSAs in Kenya are still very young and the final model has yet to be determined. However, certain aspects of their ownership and governance structures differentiate them from the SACCOs. For instance, the right to vote during the generally assembly is determined by the number of shares held (and not by a one member one vote system as in cooperative movement), with a ceiling imposed to avoid the concentration of power in the hands of a few. This method of voting gives a clear mandate to the elected body to defend the interest of those whose capital is at stake. It is obvious in this case that the board is dominated more by investors, and this is reflected in the very controversial 120% p.a. interest rate that is applied to loans. Even though small shareholders are more numerous, they still have little power to influence the system. Power struggles may develop in the near future around this issue.

The following table shows some key institutional and governance differences between SACCOs and FSAs.

	Network	**Technical services**	**Financial services**	**General Assembly**	**Vote**
Credit Unions (SACCOs)	No	Apex	Coop. Bank	Members	One member one vote
FSAs	?	Project	No	Shareholders	According to number of shares

II.2.5. Outreach and impact

If all of these stakeholders are included in the community of Kenyan MFIs, microfinance can be said to reach 11% of the population (as compared to an average of 3 to 5% in West Africa). The SACCOs (which have 1 million members and 1.9 million users) account for about 93% of the 3.1 million clients affected in Kenya, with financial NGOs accounting for barely 7%. The SACCOs are relatively concentrated in the

central provinces, in the East (around Embu and Meru), and in both urban and rural areas. The financial NGOs operate exclusively in urban areas. Staple crop and semi-arid zones are virtually without microfinance programmes (the Rift valley, Taïta, or the North and extreme East of the country), and the FSAs are in the process of establishing themselves in these areas.

In contrast, microfinance in Tanzania seems much more embryonic. The SACCOs have 133,000 members (70,500 and 62,500 in urban and rural SACCOs respectively), most of which are concentrated in the Kilimanjaro region, and the NGOs count their clients in thousands (PRIDE, the largest NGO, has 25,000 clients). Total outreach appears to be less than 1% of the population. Whether in terms of geographical scope or outreach, the extent of microfinance in Tanzania is extremely limited.

None of these institutions seem to reach the very poor, and there is no clear will to try to increase the depth of outreach.

II.2.6. Social, financial and institutional viability

Social cohesion based on a common work environment or a particular type of cash crop might seem to be weakening at this stage in the economic liberalisation process, when state production and marketing companies are being closed down and the private sector is taking over commercial activities.

In Tanzania, this economic trend is liable to put an end to the little remaining cohesion among members. If payment for agricultural produce is no longer handled by the cooperative and the SACCOs, then a large number of members have stated their intention of leaving the SACCOs.

In Kenya, liberalisation seems to have created some breathing space for the SACCOs which are no longer forced to respect traditional common bonds. This gives them an opportunity to reach out to other types of members such as trades people and micro-entrepreneurs, and to expand the range of products they offer.

This issue of a common bond will ultimately result in a reconfiguration of the movement and perhaps its structure, which in turn will influence its position in the local financial environment.

The credit union movement has always appeared to be relatively self-sufficient financially, being independent from external subsidies at least at the local level. Viability is reinforced by the size of the SACCOs which are generally quite large; the average SACCO has 5,000 members, and the largest has 500,000 clients.

This financial viability is not necessarily guaranteed if you take a closer look at the apex structures, be they cooperative banks or the Kenyan apex structures where foreign technical assistance and financial aid are concentrated. This explains why these structures are able to offer services almost free of charge to the SACCOs.

Finally, on the institutional side, the legal and regulatory framework of the SACCOs, while recently amended, has remained under the traditional influence of the cooperative or agricultural sectors and thus divorced from the financial sector. This helps explain their lack of involvement in the major trends in the microfinance and financial sectors, as does the reputation for poor financial viability that hangs over their heads.

In Kenya, under the auspices of the Professional Association of MFIs, negotiations are underway to reform the microfinance environment. This reform aims to create a regulatory framework for all microfinance institutions in order to strengthen and "professionalise" the sector and promote its sustainability.

In Tanzania, the national microfinance policy explicitly integrates the SACCOs as financial intermediaries which, although covered by the banking law of 1991, are not supervised by the Central Bank but rather by the Ministry of Agriculture and Cooperative Development. This particular status seems to be transitional in nature as the Government is trying to define its overall policy for the sector, taking account of existing structures as well as the difficulty of supervising very decentralised and small structures.

As for the FSAs, their social viability appears strong because they are well established in the community and village environment. Their modest start-up and operating costs suggest that they could reach financial viability in the near future. Their institutional viability is however not assured, since they have no legal status and are not subject to financial supervision. Moreover, the methodology of the FSAs is very similar

to that of the SACCOs; they require members to deposit preliminary savings (through the purchase of shares) before disbursing loans, and the size of the loan is calculated using a multiplier coefficient of the number of shares owned. Their membership profile is almost the same as that of the SACCOs. Thus, they seem to bring little value added to the microfinance landscape apart from the fact that they operate in remote and disadvantaged areas. However, since FSAs are a recent phenomenon, they will eventually undergo an institutionalisation process as the system matures.

III. A comparative analysis of microfinance institutions in East and West Africa

This examination of the situations in East and West Africa highlights similarities as well as some clear differences at a number of levels.

III. 1. Methodological similarities

III.1.1. The history of the movements

In both East and West Africa the creation of savings and credit cooperatives (SACCOs/COOPECs) dates back over two to three decades. In this sense they should be considered as the pioneers of formal MFIs in Africa.

They were established in the wake of the cooperative movement by operators belonging to this movement in Europe and North America. Since the necessary pre-conditions for the cooperative movement in Northern countries were identified in the South, these operators sought to reproduce the same solutions using the same tools. It is therefore not surprising that these SACCO/COOPEC networks are similar in many ways.

Similarities also exist in terms of geographical focus; in both the North and the South the cooperative movements took root in rural and cash crop areas. In the North, the origins of savings and credit cooperatives were also rural at a time when small farmers did not have access to the banking sector. The choice of cash crop areas can be explained by the need either to graft these systems onto existing organisations (the states introduced farming cooperatives for the primary export products), or to clarify the economic and financial roles of multi-purpose cooperatives.

Indeed, for a long time, the activates of the SACCOs/COOPECs were confined to these areas (and still are in East Africa), although they incorporated some much needed adaptations when the channels of production were restructured as was the case a few years ago in West Africa, and is so today in East Africa with liberalisation.

III.1.2. Members and products

These movements have been greatly influenced by their establishment in rural, cash crop areas and their symbiotic relationship with the farming cooperative movement; the majority of their members are male heads of households who own a farm and generally earn a good income when compared with that of the average farmer.

Since the SACCOs/COOPECs emphasise savings mobilisation and consider savings as a necessary prerequisite for obtaining a loan, the image of a middle-class, rural membership has persisted in Africa as it has elsewhere in the South. In both East and West Africa the savings products offered by the SACCOs/COOPECs are simple and not very diversified, based on cash deposits or savings accounts, with little or no interest earned.

Because they are established in fairly rich and well monetised rural areas, the SACCOs/COOPECs are able to mobilise considerable amounts of savings with these sort of products, which has led promoters to the rather hasty conclusion that in Africa people are interested above all in the security and confidentiality of their savings, are not very sensitive to interest rates, and only need credit for social purposes (housing, schooling etc).

The number of loan products offered is also relatively limited and the products themselves are rather basic; they are based on savings and the existence of financial guarantors, and repayment is often linked to the harvest and income from cash crops. It is also possible to repay in instalments.

Interest rates on loans are generally low at close to a "symbolic" figure of 12% (1% per month), the origin of which resides in the cooperative movement that championed the struggle against usury for a long time.

Until recently the SACCOs/COOPECs in the two regions counted very few women and young men among their membership. This was seen either as a minor problem, or was discounted by taking the family as the basic unit and defining membership in relation to this unit. Hence no effort was made to become acquainted with the needs of these two groups, and even less effort was made to adapt savings and loan products to their demands. Over the last few years, however, this situation has changed considerably at least in West Africa.

	West Africa	East Africa
Savings Products ➢ Credit Unions (COOPECs/ SACCOs)	Share Cash deposit @ 0 or 2.5% p.a. Fixed-term deposit @ 3.5% p.a.	Share Cash deposit @ 4-8% p.a.
➢ CVECAs	Cash deposit @ 0% Fixed-term deposit @ 15% p.a. Savings scheme @ 6-15% p.a.	
➢ FSAs	Share (w/ dividend) Cash deposit @ 0%	Share (w/ dividend)
Loan Products ➢ Credit Unions (COOPECs/ SACCOs)	Seasonal loan @ 12-24% Medium-term loan @ 18% Very short-term/emergency loan @ 48% Salary advance Credit with education @ 36% Loan amounts calculated as a multiple of frozen/forced savings	Loans repayable at harvest time @: ➢ 12-20% p.a. in Kenya ➢ 24-28% p.a. in Tanzania Loan amount calculated according to the profit from the harvest which passes through the cooperative
➢ CVECAs	Short-term loans (purpose undefined) of 1-12 months' duration w/ single repayment @ 24-30% p.a. Individual loan w/ personal or material guarantee Solidarity group loans	
➢ FSAs	Individual loan, which is a multiple of the shares purchases (120% p.a.)	Individual loan, which is a multiple of the shares purchased Pilot of solidarity group loans Interest rate of 120% p.a.

III.1.3. Financial techniques

For quite a long time the financial management activities of the COOPECs were limited to investing their surplus savings in local banks.

Few loans were granted, and for those that were the analysis of the application usually involved simply a financial guarantee provided by either forced savings or the income from cash crops. Since little effort was made to refine the products offered or develop new ones, it was not necessary to develop new management methods. Hence management and control techniques remained fairly basic in both sub-regions.

III.1.4. Governance issues

With respect to governance issues the terms of membership, the way shares are issued, the method of distinguishing between members and users, and the creation and functioning of the managing bodies are quite similar, having all emerged from the rules of the cooperative movement.

Hence, the same type of governance problems are encountered in East and West Africa: power is monopolised by prominent individuals, authority does not change hands, personal interests drive the

decision-making process, conflicts of interest exist, there are power struggles between elected officials and salaried staff etc. The problems that exist at the local level are amplified at the apex level where the socio-economic distance between management and the members is even more pronounced.

Because the CVECAs are member-based institutions they face the same problem of attenuated ownership. Nevertheless, this is balanced by a strong sense of ownership felt by the village as a whole. The village general assembly is convened to define the savings and loan policy and review the performance of the CVECA, and this body has the authority to modify the rules and regulations of the CVECA. The elected committee is accountable to the whole village, which is a large enough constituency to diffuse certain types of opportunistic behaviour. The committee members and cashiers earn a wage when the CVECAs become profitable, and this creates a strong incentive for good performance and sustainability.

The very decentralised decision-making model adopted by the CVECAs prevents the accumulation of power in the hands of senior management and the creation of extremely expensive superstructures. The CVECA networks have no central financing facility capable of intermediating between the local branches and interfering in the financial policies of each of these branches. These networks have a very flat and simple organisational and governance structure which has low operating costs and is easily controlled by its members.

The FSAs can be considered as an hybrid model, drawing elements from both the COOPECs and the CVECAs. Like the COOPECs they are member-owned, but like the CVECAs have developed a very decentralised management structure with decisions taken at the village level. The FSAs are distinguished by their system of capital creation, with shareholders voting according to the number of shares purchased (up to 10 shares). This approach ensures that decisions are made by those who have invested in the institution and are taking the financial risk, and is appropriate in contexts where social cohesion at the community level has weakened.

Each methodological innovation helps to expand the horizons of these member-based MFIs, who can choose to refine their institutional and governance structures to take into account the local context and the challenges they face.

III.1.5. Outreach and impact

In both East and West Africa the SACCOs/COOPECs have a large number of members and their outreach is significantly larger than that of financial NGOs. However, there is an absence of accurate data to assess the actual number of active members who make regular transactions with their SACCO/COOPEC, and especially in East Africa where the institutions offer little or no loan products.

III.1.6. Viability

Institutions in both sub-regions experience difficulty financing their apex structures which are expensive, often top-heavy, can be tempted to make “prestigious” investments, and are characterised by high administrative costs. These structures are also a long way from their base in both geographical and socio-cultural terms.

III.1.7. The location and position of non-mutualist, member-based MFIs

Non-mutualist member-based MFIs, the FSAs or CVECAs, were established recently in the two sub-regions starting in the 1990s in East Africa and the mid-1980s in West Africa.

They chose to operate in poor, semi-arid or staple crop areas that were remote and had low population densities, these being areas where the SACCOs/COOPECs were not present and where the financial NGOs had not ventured given their more urban orientation. Although they are normally open to everyone, they tend to reach quite poor populations that are more disadvantaged than the national average because of their location.

These institutions mobilise the savings or internal resources of the community, but maintain an active approach towards credit which, due to the nature of the areas involved, is the primary incentive for becoming a member. The CVECAs convert all of the savings collected into loans, use line of credit from banks to supplement their internal resources, and generally apply higher interest rates than the COOPECs.

Costs are kept low by mobilising member participation, with the result that the institutions soon become viable at the primary level, and potentially viable even when the cost of technical services at a higher level is included.

In fact, by filling a gap in the financial services market and serving populations that were not previously reached, these institutions have shaken the beliefs and practices of the COOPECs by questioning some of their achievements. In particular, they have led the debate about the possibility of operating viable microfinance programmes in underprivileged areas by giving loans to poor populations without the traditional form of guarantee, and applying an interest rates that cover their costs while still obtaining satisfactory repayment rates.

Their very existence has contributed to the renaissance of the SACCO/COOPEC movements.

III.2. Methodological differences

III.2.1. The structure of the movements

There are noticeable differences in the way these movements are structured in East and West Africa.

In Tanzania and Kenya the structure is divided into two levels; the SACCOs at the base with a huge membership potential (hundreds of thousands of members), and an apex structure directly above them at the national level, with no intermediate body. Thus it cannot be said that the East African SACCOs are organised into networks.

Alongside but not necessarily closely linked to the apex structure is the Cooperative Bank. The respective roles and responsibilities of the apex structure and the Cooperative Bank vis-à-vis the SACCOs are not clearly defined, and at times they compete to provide services or lines of credit to the SACCOs.

In West Africa the COOPEC networks are organised on two or three levels with local branches at the base, regional unions at the secondary level, and a federation at the national level which houses the central financing facility and provides technical services.

Even if the networks in West Africa are thinking along these lines, there is no Cooperative Bank with genuine bank status created from COOPEC shareholdings, with perhaps the unfortunate exception of the CNCA[2] in Bénin. It should be noted that the CNCA, which collaborated with the local branches of a mutualist network, was a state-owned, development bank.

In East Africa the fact that there is nothing at the regional level between the SACCOs at the base and the apex structure at the national level accentuates the social and cultural divide between these two. In Tanzania where SCCULT, the apex, does not provide many services for the SACCOs, the latter are losing interest completely and are considering cancelling their subscriptions. The absence of a regional structure can be explained by the economic basis of the SACCOs which, unlike the COOPECs in West Africa, are not particularly territorial by nature. It can also be explained by some failed attempts to set up such structures in the past, although these failures were not linked to the regional dimension as such.

III.2.2. The legal and regulatory framework

In Kenya and Tanzania, the SACCOs are covered by cooperative law, are registered with the Ministries of Agriculture and Cooperation, and are either monitored by these bodies as in the case of Tanzania, or are self-regulating as has been decreed recently in Kenya. Microfinance policy in Tanzania places the SACCOs and other MFIs under the general cover of the banking law, but does not subject them to control by the Central Bank.

In the West African WAEMU countries the COOPECs come under the law regulating mutualist institutions and savings and credit cooperatives, which is itself an integral part of the banking act. They are registered with the Finance Ministries which are also responsible for supervision and control. The CVECAs, which are non-mutualist institutions, come under the same law and are registered with the Finance Ministries

[2] Caisse Nationale de Crédit Agricole

upon signature of a basic agreement. Thus the position of member-based MFIs in the finance sector is clear, as is the need for them to respect reporting requirements and observe of prudential norms.

III.2.3. Innovation, opening up to women, and decentralisation

The most noticeable difference, however, concerns some practices that have been adopted recently by West African mutualist networks in a gradual but nonetheless significant way.

At the beginning of the 1990s the mutualist movement reached a turning point when it adopted some of the techniques used by financial NGOs or CVECAs. This allowed the COOPECs to reach a very large number of women in a short period of time by creating new financial products better suited to their demands. It also allowed them to transform a much larger proportion of the savings mobilised into loans, to apply higher interest rates with a view to making the institution as a whole sustainable, and to make an effort to extend the scope of their activities towards new members, particularly less privileged new members living in remote area or villages.

The new mutualist networks created during the last decade, such as Kafo Jiginew in Mali and Taïmako in Niger, are often completely different from their predecessors not only in terms of members, products and techniques, but also in terms of viability.

The East African SACCOs have yet to reach this turning point.

Therefore, although there are certainly similarities between SACCOs and COOPECs in the two sub-regions, West African mutualist networks are very different today from their peers in the East which, when viewed from the perspective of a dynamic microfinance industry, could be considered as somewhat behind the times.

III.3. Financial performance

It would be unwise to generalise from an analysis of the performance of the SACCOs, COOPECs, FSAs and CVECAs studied here because the sample is too small to be in any way representative, and also because of the differences between them in terms of maturity and context.

That said, the evidence suggests that the level of profitability of the SACCOs, COOPECs and CVECAs is rather low as a result of narrow margins. The profitability of the CVECAs is also limited because of the high costs incurred working in remote, rural areas. This low level of profitability prevents the institutions from making appropriate provision for unforeseen events (return on assets ranges from 1 - 7%, return on capital ranges from 10 - 50%).

It is too soon to form any judgement about the FSAs since they are still subsidised by promoters and apply interest rates (120% p.a.) which are not sustainable.

The level of capitalisation in these member-based MFIs is low with the exception of the FSAs that work exclusively with their own capital.

In terms of operational efficiency (operating expenses/average loan portfolio), the West African MFIs appear to be more efficient (at between 10 and 20%) than their East African counterparts (between 30 and 40%). This is due mainly to the inflated number of salaried staff in East Africa, and also to the low productivity rate and high costs of premises in East Africa.

IV Factors explaining the specificities of member-based microfinance institutions in East and West Africa

The organisational model of the COOPECs/SACCOs has been standardised and has spread worldwide. As a result, they share many basic features in terms of the way they are established, the profile of their membership, the financial products offered, their structure and, to a certain extent, the degree of social and financial viability is similar wherever they are established. This has been confirmed by the numerous similarities highlighted in this study.

That said, some noteworthy differences have developed in recent years. This chapter attempts to analyse the key factors that have contributed to these differences.

IV.1. Market factors

In East Africa the SACCOs still enjoy a monopoly position in their market; they have been established for many years in rural areas while the microfinance NGOs are more concentrated in the towns.

Even in terms of clients served their respective market share differs sharply; the SACCOs serve cash crops farmers in rural areas and salaried individuals in urban areas (schoolteachers for instance), while the microfinance NGOs serve micro-entrepreneurs in towns, and the banks serve formal enterprises and wealthy individuals.

In Tanzania where the microfinance sector is fairly limited in scope, the absence of competition is evident. Even in Kenya, where the sector reaches more than 11% of the population, competition is not a serious consideration and does not pose any sort of threat because of market segmentation.

Monopolies have never been conducive to either innovation or attempts to improve services.

In West Africa this monopoly situation was almost universal until some six or seven years ago, and the mutualist networks had also adopted a fairly traditional approach to their members and the products they offered up to that time.

A more competitive environment developed when a few leading networks of comparable size decided to increase their geographical coverage in order to improve their outreach and viability, as well as their weight and influence in the sector. These activities, which were often concentrated in the same areas of high economic potential, produced competition that was often fierce.

Clearly, this was not the sort of genuine competition that would occur in a completely free market environment, since microfinance is a sector that is still heavily subsidised. But even competition to “please” the donors can provide an incentive for change and a certain amount of improvement.

Competition was a factor in speeding up the reform process in West Africa. It also led to problems of unmanaged growth, which in turn resulted in serious setbacks for a number of networks.

In East Africa today there is no sense of urgency about increasing geographical coverage, even if in a country like Kenya there is a tendency for microfinance NGOs to extend their activities beyond urban areas towards the richer rural areas where the SACCOs are already established.

The FSAs are too new to the microfinance environment in East Africa to be able to threaten the SACCOs. However, their more community-based approach, which relied more on neighbourhood solidarity, is radically different from the SACCO approach based on products, and is likely at some stage in the development of the systems to provoke similar changes to those observed in West Africa.

IV.2. Factors linked to economic liberalisation

The recent economic liberalisation in both Kenya and in Tanzania has broken the monopoly in the marketing of cash crops like coffee and tea, and encouraged the appearance of private operators on the scene who can choose to deal with the cooperatives or bypass them by buying directly from individual producers.

This new state of affairs will lead the SACCOs to examine closely certain practices. In fact, to the extent that loans were repaid using debits from payments made by the cooperative for crops harvested, the flow of money was reliable and this led to reasonably good repayment rates.

Likewise, liberalisation can lead to a fall in the prices paid to farmers, which may induce them to review their economic strategies and even change their profession. Today the SACCOs in the sub-region are product-based. This situation could result in the disappearance of the SACCOs, as has happened in certain areas where cash crop production experienced a crisis (Taïta in Kenya for example).

These two factors are likely to lead the SACCOs to revise their membership policy by opening up to other economically active groups in the region. This represents a virtual revolution in view of the "common bond" principle on which the SACCOs are based, and the prospect of such change is proving alarming to existing members and decision-makers. Moreover, these factors will also force them to review their policies for disbursing and repaying loans, in order to design a reliable repayment system.

It is perhaps in this area of broadening the scope of membership that the experience of the FSAs could make a methodological contribution by posing this question: is a "common bond" based on a product stronger than ties of solidarity based on a sense of community, neighbourhood, and shared experiences?

The other factor related to economic liberalisation that is emerging clearly is the policy of the "classic" banks, which consists of making the terms of access to their services more demanding in order to attract and maintain only the "profitable" customers. This policy is producing a new category of people without access to banking services who will seek out financial institutions ready to respond to their needs. These people will certainly put pressure on the SACCOs to open their doors to new members.

IV.3. Legal and regulatory factors

IV.3.1. Sectoral and supervisory authority

The Kenyan SACCOs come under cooperative law as do those in Tanzania, which are also covered by banking law. However, this is not clearly reflected in the attribution of a specific function to the Central Bank or the Ministry of Finance.

It is certainly one of the reasons for their marginalisation from the financial and microfinance sectors, the lack of interaction and exchange between the SACCOs and other MFIs, and the virtual non-existence of methodological cross-fertilisation between the two types of institution.

In the West African WAEMU countries the law covering mutualist institutions in an integral part of banking law, and subjects the COOPECs and their apex structures to the approval and supervision of the Ministry of Finance. They receive instructions from the Central Bank regarding the preparation of financial statements and the prudential norms to be observed. This law, which has its limitations particularly with respect to non-mutualist MFIs, nevertheless has the advantage of clearly positioning the COOPECs in the financial sector under the supervision of the Central Bank.

Numerous debates between COOPECs and non-mutualist MFIs about this law have led to in-depth exchanges on methodological issues, and have produced a certain degree of replication around performance indicators. They have also led to the sort of technological "cross-fertilisation" that generates innovation.

IV.3.2. The development of legal frameworks in East Africa

In Kenya recent reform of the cooperative law has created a new legal framework for the SACCOs. The provisions of this law include:

- The possibility of creating SACCOs outside the traditional "common bond" framework, which implies the opening up of SACCOs to new types of members and the creation of new types of SACCOs (such as trader SACCOs);
- The possibility of increasing interest rates in the absence of restrictions, which would allow certain SACCOs to approach banks for the complementary resources they need to meet a significant demand for credit;

- The withdrawal of the state from the supervision and regulation of the SACCOs, with the movement now required to ensure its own internal control and self-regulation. This opens the way for the restructuring of the movement particularly at the apex level, where the constraints of power and influence are felt most strongly;

In Tanzania, the existing framework needs to be overhauled, which will lead inevitably to profound changes in the internal organisation and structure of the SACCOs.

The position and role of the legal and regulatory framework in the reform of this type of MFI is clear, as is the importance of the institutional environment in the opening up or the isolation, the expansion or the stagnation, of such a movement.

In Kenya, the situation seems ripe for profound changes in the SACCO movement in the next few years.

IV.4. Factors linked to economic policy

The West African networks habitually deposited their liquid assets with local commercial banks, especially when the interest rates offered by these banks were acceptable (up to 10%). The return on these investments was enough to pay the interest on savings collected (when indeed interest was applied) and cover the costs of the institution.

Policy in WAEMU countries, which was designed to encourage all financial institutions, and banks in particular, to support economic development, resulted among other things in a marked decrease in the Central Bank rate, and a decrease in interest rates applied to commercial bank deposits. Today the rates applied range from 3 to 3.5%.

These very low rates, which are close to or even below the rate of inflation, force the COOPECs to seek alternative sources of income and thus to adopt a more aggressive credit policy.

In East Africa, the rates offered by the cooperative or commercial banks (8%) and by treasury bills remain too attractive for the SACCOs to consider a more active credit policy.

The macro-economic policy also plays an important part in the behaviour of COOPECs / SACCOs as economic agents.

IV.5. Factors linked to the internal organisation of the movement

In West Africa, the apex structures draw up the business plan for the network after studying demand and market issues. These plans forecast the extension of the network in terms of the number of new branches to be created and their location, provide guidance regarding the type of member to target, introduce innovations in terms of products or membership, and establish areas for piloting such innovations.

Thus, once an innovative idea is accepted at the apex level, it becomes part of an action-research agenda, is evaluated and validated, and then rolled-out and mainstreamed.

In East Africa the apex structures do not seem to be organised in this way. The process of creating SACCOs starts in the field. Most often, a few former members of an existing SACCO decide to form a new SACCO further to a change in their personal situation. They then go through the process of registration with the governing authority, namely the Ministry of Agriculture and Cooperatives. It is quite likely that the statutes and internal regulations of the new SACCO will be identical, or at any rate very similar to, those of the SACCO from which the founding members came. This method of increasing the number of SACCOs certainly has the advantage of grounding them in a clear demand from members, thereby ensuring a genuine social basis. It is not, however, a source of innovation.

Similarly, the top-down relationship between the apex structures and the SACCOs, and the absence of horizontal links at the local level, fail to promote the spread of innovations among SACCOs in the event that one of them should innovate successfully.

IV.6. Factors linked to the role of technical assistance

Technical assistance to savings and credit cooperatives is always provided by organisations from the Northern cooperative movement. It tends to transfer both values and the organisational model and does not

place much emphasis on the need to adapt to the local social and cultural environment, since the cooperative movement is considered to be “universal” by definition.

In certain contexts where appropriate forms of social organisation prevail, the model takes root and develops. In other contexts, in contrast, it remains a “borrowed” model and will always be alien to the community and its values.

In West Africa, the mutualist networks that innovate are often those that have shaken off technical assistance from the North, either by distancing themselves, or by limiting the role of the technical assistance providers to a purely advisory one without decision-making power. Some very dynamic networks have never received foreign technical assistance. Certain microfinance leaders in West Africa have identified a direct relationship between the capacity to innovate and the degree of independence from foreign technical assistance.

Indeed, as long as the original model that was developed in a specific socio-economic context and during a particular period in the North remains the point of reference, it will foster neither appropriation, nor a sense of accountability, nor the will to move ahead.

Consciously or not technical assistance from the North fosters this attitude. And it does so all the more easily because it supplies the financial resources that the networks need to survive, and because those that provide the technical assistance manage to persuade funders that they are the only ones capable of preserving the integrity, the discipline, and the sound management of the model. Thus technical assistance structures can sometime remain with a network for more than 25 years.

In East Africa the diagnosis is more difficult since only the apex structures receive technical assistance, and its influence is not felt directly at the SACCO level. However, one might question the extent to which technical assistance has provided concrete support, particularly in the areas of innovation and professionalisation, despite the fact that here also technical assistance has provided large-scale subsidies to the movement during the last 25 years.

Other initiatives and new practices may develop in East Africa with the arrival of new SACCO promoters, of national promoters free from the original model, or simply of a new generation of SACCOs created in a more free market context which will resemble more closely the other MFIs, and will appreciate more readily the advantages of adopting hybrid approaches in a fast-changing economic environment.

V. Challenges and prospects for member-based microfinance institutions in East and West Africa

V.1. The challenges facing the East Africa SACCOs

The challenges facing the SACCOs are not the same in Kenya and Tanzania, because the sector is not at the same stage in development in these two countries.

V.1.1. Kenya

In Kenya the main challenges are:

- Market liberalisation: currently the SACCOs are linked closely to the marketing systems of the coffee cooperatives and the Tea Development Office. But the liberalisation of the market for agricultural products is leading to the weakening and even the eventual disappearance of these cooperatives in the long-term, especially those dealing with export products. Fierce competition between private buyers will lead to reorganisation and a different way of doing business for the SACCOs if they want to continue to offer loans, and above all recover these loans.
- Rapid growth in outreach: recent years have witnessed an acceleration in the growth of the largest SACCOs. In order to avoid being overwhelmed, the SACCOs need to revise their internal organisation, their management style, their tools, and their approach to staff training.
- The legal and regulatory framework: several SACCOs have started collecting savings from the public and providing banking services in the absence of a well-defined legal or regulatory framework or a deposit insurance fund. The SACCOs still come under the authority of the Ministry of Agriculture and Cooperatives.

Given these constraints, the main challenges facing the financial cooperative sector in the coming years are as follows:

- Organisational development: these institutions, be they urban or rural, need to adopt a shared outlook and a national strategy since these are the necessary prerequisites for achieving some form of synergy and avoiding duplication. This could lead to rationalisation at the structural and operational levels. The SACCOS will have to expand their membership to include other economically active groups beyond their current base which focuses on commodities. They will also have to decentralise their operations by opening autonomous "units" in villages and urban areas to facilitate access to services and rationalise management in the very large SACCOs. In order to improve governance they will have to strike a balance between existing members and the fast-growing number of new members, probably by enrolling user*s* as members with full rights.
- Operational development: new products will have to be developed to meet the demand of farmers in a free market environment, as well as the demand from a category of client that has been neglected thus far, namely women. Likewise, these institutions will have to acquire techniques for issuing loans in order to make better use of excess liquidity, which is still considerable, for the benefit of their members. Refinancing activities between SACCOs could be considered as a form of financial cooperation within the movement. An increase in interest rates seems necessary to correspond more closely to markets conditions despite reluctance on the part of the movement's leaders. Synergies could be identified for developing tools such as computerised operations, the creation of reliable information systems, and the "professionalisation" of staff.
- Regulation: a dialogue should be initiated with the government in order to define a national policy and a suitable regulatory framework. Supervisory and control responsibilities will have to be clearly defined, whether they are assumed by the self-regulating system that those working in the sector would prefer, or by the monetary authorities within a broader framework that would be conferred through integration into the financial sector. Some thought should be given regarding how to provide improved security for deposits.
- Innovation: different types of innovation will need to accompany the changes described above. This could be the result of collaboration with the "roscas" and informal savings and credit groups that are numerous and very dynamic in Kenya. It could also arise from exchanges with other MFIs, particularly the financial NGOs and the FSAs, concerning issues such as human resource management and the creation of management information systems, or even decentralisation to the village and community levels.

V.1.2. Tanzania

In Tanzania, the demand for financial services in rural areas is largely unmet. Recent reforms and market liberalisation have led to the withdrawal of banks from rural areas where they were making a loss, and financial NGOs still have limited outreach.

Thus today, even if the Tanzanian SACCOs do not appear to be very dynamic or innovative, they are nevertheless faced with the challenges associated with increasing outreach and improving the sustainability of microfinance in the country.

In fact the challenges to be met are considerable and can be defined as follows:

- An enabling environment created by the Government which is committed to allowing the microfinance sector to develop with the least possible interference. Indeed, the current weakness of the SACCOs is a result of their marginalisation in 1976 in favour of the "ujamaa village";
- An appropriate structure at the secondary level with an apex body that is more familiar with the needs and concerns of the SACCOs, is able to give advice, provide quality services, and help them to implement the reforms needed and combine forces. The regionalisation of such a structure would be a first step in this direction.
- Links should be formed with the financial NGOs so that innovation and techniques can be shared in order to promote change.

- The management style of the SACCOS should be modernised and professionalised with the introduction of computer systems, the training of management in the financial techniques used in the networked banking sector, and the introduction of management to credit analysis and credit management techniques.
- The extension of the movement to rural areas in Tanzania beyond the area of concentration, and to members other than coffee farmers.

In this particular case it would appear that an injection of technical assistance specialising in microfinance is needed to change attitudes. The decision about where this technical assistance should intervene is a strategic one. However, it is not clear that the level of intervention of the SCCULT or the Cooperative Bank would be the most efficient one because of the distance between these two structures and the SACCOs.

V.2. The challenges facing the West African networks

In the last few years, considerable efforts have been made by the mutualist networks to open up to new members, decentralise towards more remote areas, and develop a more diversified range of services more suited to the demands of its members. Thus the most well know networks, including those studied here and a few others, no longer reflect the traditional image that we have of this type of institution; they are fully-fledged microfinance institutions, modern, enterprising and professional.

However, the movement is at a crossroads. A few large networks have folded or been restructured following serious management problems, widespread fraud, and a significant deterioration in the quality of their loan portfolio. An analysis of these cases can help shed light on the challenges facing these systems in the near future:

- Controlled growth: as a result of pressure from donors and occasionally market forces the networks, and especially those with national coverage, have experienced high rates of growth that were too sustained to be adequately controlled. The governance structure of these networks, while well suited for managing locally based systems, is not appropriate for managing such an increase in the scope of activities. In addition, the networks experience difficulties with human resources; time and care need to be taken to select and train good staff and monitor their progress in the field. A number of networks have spun out of control precisely because they failed to take these issues into account.
- Pursuing institutionalisation: when warranted by the volume of transactions, this implies the creation of genuine Cooperative Banks that are subject to regulation and to more strict and rigorous banking supervision.
- Ongoing efforts to make the apex structure profitable: these include rationalising the organisations, seeking economies of scale, and adopting a private sector approach to management (as opposed to a project approach), and could ultimately be combined with an increase in the level of autonomy at the regional level.
- Research and development: this encompasses a variety of issues ranging from methodology, financing techniques, products, services, and the definition of new objectives. With this in mind, six of the largest mutualist networks in West Africa have recently become founding members of the Centre d'Innovations Financières (CIF) in order to pool their knowledge and experience, and publicise the innovations they have developed. They are also exploring the idea of establishing financial links among each other.
- Competition with the banking sector, especially with banks that are interested in the same clientele (rural, micro-enterprises etc) and have developed the means to reach them directly.

The West African networks are in a strong position to meeting these challenges, but the issues of appropriate governance and institutionalisation continue to be major problems that some will not be able to overcome.

V.3. The challenges facing the CVECAs and the community-based microfinance institutions

In the last ten years community and village-based MFIs like the CVECAs and the FSAs have been created and developed in a number of countries. They operate in underprivileged rural areas, including villages, in order to reach people who do not have access to financial services, even those provided by "classic" MFIs such as COOPECs or financial NGOs. They therefore occupy a market niche that was hitherto neglected because it was not considered profitable. Likewise, the link between the CVECAs and the banks for refinancing purposes opens the door to a financial relationship with this sector, thereby securing a position for MFIs in the financial sector and inviting reflection on the possible complementarities between banks and MFIS.

There are three types of challenges facing the CVECAs:

- Inclusion within a more sustainable regulatory framework than the present framework agreement that they have access to today, which would secure investment in this type of institution and promote their development. Recognition of the unique organisational structure of the CVECAs and of the soundness of their management style would contribute to their replication.
- Establishment of an "auditing" and "rating" system for institutions of this sort to promote the establishment of quality standards and the assessment of performance according to these standards. This is likely to foster emulation among the institutions and make them more professional. It would also improve their "visibility" not only vis-à-vis the funders and investors who want to work with them, but also vis-à-vis the banks which are interested in given them access to refinancing facilities.
- The establishment of guarantee mechanisms, partly funded by the CVECAs themselves, to secure access to bank refinancing facilities on a sustainable basis, this being essential for their development.

As for the FSAs and the community-based MFIs, these models were developed as a response to demand and opportunity. They do not really have any specialised operator to support them, particularly for the development of tools, concepts and institutionalisation. Thus the challenges these institutions face concern how to finalise their institutional model, improve the level of professionalism among staff, and choose a suitable legal and regulatory framework that will allow them to become sustainable.

V.4. The challenges facing member-based MFIs in East and West Africa

Broadly speaking, the challenges confronting member-based MFIs in East and West Africa concern the need to establish a clear position within the regulatory framework of the financial sector. This will establish the context for their activities and place them unequivocally under the supervision of the monetary authorities. It will also contribute to their professionalisation, if only with respect to their ability to meet reporting requirements and prepare financial statements.

The MFIs also face a significant challenge with respect to innovation if they are to be able to face up to increased competition created by the liberalisation of the economy and demand which is largely unmet. If the member-based MFIs, and the COOPECs in particular, wish to maintain their position as leaders, it is crucial that they innovate in terms of their approach and the products they offer in order to improve their capacity to respond to new types of members.

Finally, the relationship between the MFIs and the banking system is another challenge that will need to be addressed quickly. The MFIs could address this challenge by:

- creating their own (cooperative?) bank;
- increasing their capacity to influence the political orientations of the existing cooperative banks, or;
- establishing long-term, framework agreements with partner banks which allow for a rational distribution of tasks and markets, as in the case of the CVECAs which seek complementarity with their partner banks.

VI. Recommendations

Although seminars and fora have been organised to facilitate the exchange of information between West African COOPECs and financial NGOs in Africa, these activities have not had a significant impact probably because these institutions do not share the same preoccupations and operating principles.

That said, the West African COOPECs contacted for this study claimed to know nothing about the East African SACCOs and are barely aware of their existence, their nature and their stage of development. They showed a keen interest in learning more.

Following this comparative study, activities could be encouraged to promote synergy between the member-based MFIs in the two sub-regions.

VI.1. Exchanges of experience and cooperation

Several types of exchange could be organised. There could be study tours intended to improve the understanding of operational and thematic issues:

- between SACCOs and financial NGOs in East Africa to compare the unique aspects of each system and the profiles of the clients they target;
- between East African SACCOs and West African COOPECs to promote reflection on the innovations developed in West Africa and how they can be adapted to the East African context;
- between the West African COOPECs and the East African Cooperative Banks to assess the complementarity and the relationship between these banks and the SACCOs.

There could also senior staff exchanges with the SACCOs seconding one or more staff members for several months to work with a COOPEC network.

VI.2. Technical assistance to SACCOs or their apex structures

If the opportunity and desire to test certain innovations is confirmed following such exchanges, specific technical assistance might be needed to accompany the introduction and integration of innovative practices into the individual institutions.

It would be interesting to test South/South cooperation to this end, either by calling in experts from the West African COOPEC networks, or by using the advice and support of a structure like the CIF that is in a position to offer this type of expertise.

VI.3. The development of the CVECAs or village/community-based MFIs in East Africa

East Africa has very little experience of CVECAs or village/community-based MFIs and attempts to offer microfinance services in disadvantaged, staple crop areas have been few and far between. Even so, the demand for the services these institutions have to offer seems to exist (based on the enthusiastic reaction to the FSAs in Kenya) and, with sound financial management, such systems have the potential to cover their expenses and become sustainable.

This would no doubt promote an increase in the outreach of the microfinance sector in these countries to include disadvantaged areas and groups of people who even today do not have access to financial services. This could be done independently, or in collaboration with existing MFIs.

VI.4. The role of professional microfinance associations in improving the regulatory framework

Exchanges could also be organised between professional microfinance associations, such as those established in Kenya and in several West African countries (Mali, Burkina Faso, Bénin, Togo), to reflect on how to improve the regulatory framework, and how these associations can best organise themselves to improve their credibility.