

**UNDP MICROFINANCE
ASSESSMENT REPORT
FOR
Madagascar**

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**Reda Mamari, INTERNATIONAL CONSULTANT
Roland Rasoamanarivo, NATIONAL CONSULTANT**

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A. Abbreviations and Acronyms

ADEFI	Association de Développement Financière
ADMMEC	Association de Développement du Mouvement Mutualiste d'Epargne et de Crédit
AECA	Association Economique de Caisse Autogéré (caisse cidr)
AIPB	Aides aux Initiatives Productrices de Base
AINA	Association d'IntermÉdiation Novatrice pour l'Auto-promotion
APEM	Association pour la Promotion des Entreprises à Madagascar
ADEFI	Action pour le Développement et le Financement des micro-entreprises
ARR	Assistant du Représentant Résident
Dep RR	Représentant Résident Adjoint
BCRM	Banque Centrale de la République Malgache
BM	Banque Mondiale
BTM	Bankin'ny Tantsaha Mpamokatra
BNI	Banque National pour l'Industrie
BFV	Bankin'ny Fampanandrosoana ny Varotra (commerce)
BIT	Bureau International du Travail
CA	Conseil d'Administration
CDA	Chef d'Antenne
CCFR	Comité de Coordination des Finances Rurales
CECAM	Caisse d'Epargne et de Crédit Agricole Mutualiste (caisse fert)
URCECAM	Union Régionale CECAM
CFD	Caisse Française de Développement
CIDR	Centre International de Développement et de Recherche
CSBF	Commission de Supervision Bancaire et Financière
CTP	Conseiller Technique Principal
DCPE	Document Cadre de Politique Economique
DGA	Directeur Général Adjoint
DID	Développement international Desjardins
EAM	Entreprendre à Madagascar
EN	Expert National
FAC	Fonds d'Aide et de Coopération (française)
FADE	Fonds d'Appui Direct aux Entreprises
FAO	Food and Agriculture Organisation
FED	Fonds Européen de Développement
FENU	Fonds d'Équipement des Nations Unies
FID	Fonds d'Investissement et de Développement
FIDA	Fonds Internationale de Développement Agricole
FIDEVA	Financement pour le Développement de l'Artisanat
FERT	Fondation pour l'Épanouissement et le Renouveau de la terre

FMG	Franc Malgache
GIE	Groupes d'Intérêt Economique
GTZ	Société pour la Coopération Technique allemande
KFW	Crédit pour la Reconstruction (allemand)
ODAI	Opération de Développement Agricole Intégré (Port Bergé)
ONG	Organisation Non Gouvernemental
OTIV	Ombon-Tahiry Ifampisamborana Vola (caisse did)
ME	Micro-Entreprises
MEC	Mutuelle d'Epargne et de Crédit
MPE	Micro et Petites Entreprises
PADANE	Programme d'Appui au Développement de l'Axe Nord Est
PATFR	Projet d'Assistance Technique en Finances Rurales
PCA	Président du Conseil d'Administration
PDFIV	Projet de Développement Forestière Intégré du Vakinankaratra GTZ
PME	Petites et Moyennes Entreprise
PNUD	Programme des Nations Unies pour le Développement
PPL	Petits Projets Lucratifs
PSE	Programme Sectorielle Élevage
SIDI	Société d'Investissement et de Développement International
SIPEM	Société d'Investissement pour la Promotion de l'Entreprise Madagascar
SG	Sécrétaire Général
SLO	Structures Locales d'Opération
TIAVO	Tahiry Ifamonjena momban'ny Vola (caisse woccu)
UAMA	Union des Artisans de Madagascar
UNCDF	United Nations Capital development Fund
USAID	United States Agency for International Development
WOCCU	Word Council of Credit Union
VSN	Volontaire du Service National

Currency equivalents

1 USD = 1,512 FMG

1 USD = 5.8 French Francs (FF)

Government Fiscal Year

1st January-31st December

Official Poverty Indicators

Annual poverty line income = 248,400 FMG (per person at 1993 prices)

Headcount = 70%

B. Executive Summary

The mainly rural population of Madagascar, an island off the south-east coast of Africa, is faced with extreme and increasing poverty. The large number of micro-entrepreneurs representing more than one quarter of the population are faced with no access to financial services outside of the usurious services of money-lenders. The BTM, a government owned bank with the largest network of branches, is in the process of being privatized and has stopped its very limited services to micro-entrepreneurs.

As a consequence of the aforementioned, the past few years have seen the development of a number of micro-finance institutions that have in a limited amount of time designed extensive services for micro-entrepreneurs. These institutions are on the whole very professional and dynamic and have embraced “best practices” as established by worldwide practitioners. The growth of these institutions has been impressive, with membership reaching over 22,000 micro-entrepreneurs.

Achievements have been substantial but much remains to be done to ensure that present micro-finance institutions remain a powerful tool in the fight against poverty in Madagascar.

C. Country Situation

Madagascar is an Island situated in the Indian Ocean near the south-east coast of Africa across from Mozambique. The Mozambique Channel separates Madagascar from mainland Africa by more than 400 km. The Island is 1,580 km in length and 600 km in width representing an area of 592,800 squared km. The Island is dissected from the north to the south by the Tsaratananan range of mountains which rise to 2,876 meters at Moromokotra south of the capital Antananarivo.

The population of the Island is 12,185,000 and the average population density is 21 inhabitants/km². Population increase is estimated at 3% per year. Seventy-nine percent of the population live in rural areas whilst twenty one percent live in urban areas.

1. Political and Administrative Structure

Madagascar was a French colony from 1895 to 1960. Its independence was proclaimed on the 26 June 1960. After many years of neo-colonialism, Madagascar became a socialist country in 1976. The latter was brought about by a military coup that brought Didier Ratsiraka to power. Ratsiraka remained in power until 1993, when he lost presidential elections to Alber Zafy. In elections held in early 1997, Ratsiraka returned to power with reform policies on the agenda.

The country is a Republic with an political structure that is derived from France. The President of the Republic is elected for a five year term, whilst legislative elections are held every four years to elect the house of parliament. It is the house of parliament that designated the Prime Minister.

The Island which is 1600 km in length and 600 km in width is divided into six provinces, which are in turn divided into 3 districts.

2. Socio-Economic Situation

The economy has over the past twenty years been marked by surprisingly slow and often negative growth. The primary cause of this stagnation has been the mismanagement of the economy by previous socialist governments¹.

The country has a predominantly agricultural economy with the main products being rice, manioc, coffee, sugar, vanilla and cotton. The production of the aforementioned is very regionalised with rice being predominantly produced in the area north of the capital around lake Alaotra and in the north-west on the Marovoy plain. Production of cotton is regionalised in the south on the low-lands, whilst vanilla is predominantly grown in the east in the Sambava area.

¹ Madagascar, Evaluation de la Pauvrete; World Bank June 1996

The industrial sector is limited and located predominantly in the area surrounding the capital, and in particular in the Antsirabe area. The government has over the past few years made concerted efforts to increase the industrial base of the country. To achieve this they have granted companies special “duty free” status if they orient over 60% percent of their production towards exports. This policy has had some form of success in establishing duty free companies. The impact of these companies on the general economy of the country is not yet evident.

The economy has over the past 10 years been marked by an IMF induced structural adjustment plan. The results were at first slow, with GNP falling 7% in 1991 and only growing by an average 1.1% between 1992 and 1994. Recent years have seen inflation drop dramatically from 60% in 1995 to 7% in the first quarter of 1997. The drop in inflation has been followed by a drop in the Central Bank’s base rate to 12%. Commercial lending rates have followed this fall at a slower but consistent pace.

In April 1997 in line with the adjustment policy the World bank granted Madagascar a concessional loan of USD 70.6 million. This loan is destined to help the government balance its budget and the balance of payment deficit. The EU, French and Japanese Governments and the African development Bank will also be making funds available to the government to assist in the structural adjustment of the economy.

The exchange rate of the FMG has fluctuated between 780 and 940 to the French Franc and between 3,900 and 5,000 to the US dollar, over the past two years, showing no real sign of significant revaluation.

The benefits of the structural adjustment policy have not yet been felt by the population at large. On the contrary, the past years have witnessed a negative trend in the socio-economic status of the population.

A recent study by the World Bank² estimates that 70% of the population live below the poverty line (248,400 FMG). This percentage increases to as much as 80% in the south of the island in the area of Toliara. The report estimates that revenues have been consistently decreasing over the past 30 years. The consequence of this pauperization has been an extreme negative impact on the lives of the population. A noticeable result of this regression is the fact that the level of education of children in Madagascar is lower than that of their parents, and that the Human Development Index for Madagascar was 0.396 in 1994 (131th country) and 0.349 in 1996 (150th country).

The area of the country with the lowest income is the south and south-eastern parts of the island. This part of the country is particularly arid and is prone to cyclones and locust attacks. The road network on the island is in poor shape, with the low-lands being worse affected. The capital and the surrounding highlands act as a hub to the country’s main roads thus making communication between the provinces difficult.

² Madagascar, Evaluation de la Pauvrete; World Bank June 1996

3. Cultural Context

The country's population is derived predominantly from the same ethnic group the Malagasy. This group represents about 99% of the population. Substantial Indian and Chinese communities reside on the Island and are important participants in the Island's trading activities.

The Malagasy people's religious beliefs are represented by over 50% traditional animist beliefs and 40% Christians. The Christian population is particularly present on the highlands which dissect the country from the north to the south.

The geographical divide of the country between highlands and lowlands has created some form of cultural divide amongst the population. Residents of the highlands tend to consider themselves apart from their low-land compatriots. This distinction is accentuated by the varied economic activities present in the highlands and low-lands. This divide even though present remains manageable within a country that has as a whole a generally cohesive cultural context.

4. Finance and Banking

This sector has suffered greatly under numerous socialist governments, with little developments taking place in banking techniques and technologies. It has been slowly modernizing itself over the past few years, and it is only in 1992 that local banks were able to join SWIFT and only in 1994 was an inter-bank lending system for forex developed.

Madagascar's banking sector is composed of five banks of which two are state owned. All private banks have significant foreign share holders. Branch networks are limited with the exception of one of the state owned banks, BTM. It has the biggest branch network corresponding to 73 branches in predominantly rural areas.

a) Public banks

Both state banks are being managed by care-taker managers that are preparing the privatization of the banks. This privatization has been on the table for nearly two years and a time-table of December 1997 has now been set by the government. The privatization of the BTM plays a key role in any future development of the rural banking sector in Madagascar. This is due to the bank's historically strong presence in rural areas, and its focus on rural clients both in terms of savings services and loan products (see annex VI). The bank has traditionally been one of the government's main intermediary for affecting rural financing and thus socio-economic development.

The BTM is plagued by problems at all levels. On the one hand the bank's balance sheet is highly contaminated by a very large number of bad loans made over the last fifteen years by the government appointed management, whilst on the other hand the bank is over-staffed by largely unmotivated, and untrained staff that are wholly out of tune with modern banking practices. The third issue facing the privatization of the BTM, is its future vision. The bank having being set-up

in 1977 by the government with a primary goal of serving the agricultural sector, found itself becoming an integral part of the state apparatus (all government salaries are paid through BTM). The government would like to privatize the bank whilst maintaining its “public utility” function. This may be incompatible with the vision of many potential private investors who would possibly orient the bank towards high income individuals and medium size businesses.

Due to the above issues, the bank has significantly reduced all lending operations. One of the main lending activities at present, is credited to a UNCDF program that aims to refinance micro-finance institutions through the formal banking sector. (See below for details.)

The future of the BTM is highly political in nature and it is therefore still not clear in which direction things will develop. It is clear that once the government has cleaned the BTM house out, takers will be found for the institution. Beyond the private sector, some of the credit unions have voiced their interest in taking over some of the branches of the new BTM. This possible private sector/credit union split of the BTM may be the solution that the government is looking for, but is plagued by uncertainties. These include the institutional capacity of the credit unions to undertake such an endeavor, and the credit unions’ lack of capital for such investments (see below for details).

b) Private banks

The three private banks that are at present operational in Madagascar are highly oriented towards large and medium private business. Their banking methods are traditional in nature and rely largely on the personal contacts of managers, rather than on modern risk management techniques. The banks’ senior management and Board of Directors are often closely associated with the large businesses of the country, through either personal investments, family links or merely social contacts.

The BNI that is largely owned by the Credit Lyonnais of France is at present the most dynamic private bank. As of March 1997 the bank had 8,117 companies and 56,000 individuals as clients. Two hundred and thirty-six clients represent three-quarters of the bank’s business. They are therefore in the process of reducing the number of individuals that bank with them, whilst focusing on large export oriented duty exempt companies. The smallest loan that is at present being offered is for the purchase of equipment and is of minimum value of FMG 500 million (USD 100,000). The BNI believes that its market niche lies in corporate banking.

The direction of the BNI towards cooperate and high-end retail banking will be emulated by the other two private banks BMOI and UCB who also see easy and juicy pickings in this area of banking.

It is noteworthy that the private banks’ liquidity has greatly increased during recent years. The banks have not used this excess liquidity to increase their lending portfolios and to broaden their client base. This has been explained by some, as a result of the close link between large businesses and the banks. The latter will only lend to businesses that would not threaten the

broad based investments of their share-holders, thus limiting access to financial services even for medium size business.

Government authorities have received requests for two new banking licenses. Large Malagasy business coalitions have made these requests. It is not clear which market niche these banks will choose if and when they are established. By the nature of their share-holders, one can presume that these new banks will not be much different in their target clientele from the present private banks. Notwithstanding this, one may expect them to establish more modern risk management techniques as a means to compete with the present banks.

c) Semi-Formal Financial Intermediaries

To compensate for the corporate specialization of the private banking sector and the uncertainty surrounding the public banks, the government has over the past two years put important emphasis on the development of micro-finance services to the agricultural sector through the development of micro-finance institutions.

The legal model chosen by the government for micro-finance institution is the cooperative model. The reasons for this choice are not particularly straight-forward. The past twenty years have seen extremely negative experiences with the cooperative structure in rural Madagascar. The socialist government set-up numerous producer cooperatives in all rural areas of the country. Farmers were forced to join these cooperatives, and to commercialize their products through their respective cooperative. All management of the cooperatives was removed from the hands of the members and was controlled by the government. Management decisions were thus not geared towards the maximization of revenue for cooperative members, but rather towards the achievement of the ambitions of government leaders and bureaucrats. This resulted in mismanagement and thus substantial economic loss for the cooperatives' members.

Given that the present government is largely derived from socialist roots that previously established the producer's cooperatives, it is maybe not surprising that they have chosen to promote a cooperative structure for micro-finance institutions. What is of surprise is that the farmers have embraced this model that is being implemented by international operators under the name of Savings and Credit Unions (not "cooperatives"). The new name along with a change in management techniques (see later), and limited choice for the micro-entrepreneur may explain the survival of this institutional structure. This has not been without difficulty. Due to clients' lack of comfort with the cooperative structure, the opening of some savings and credit unions has necessitated larger than expected up-front investment.

It is important to note that the government has not excluded the delivery of micro-finance services through other institutional structures such as banks, and Public Limited Companies (PLC), but has given special attention to Savings and Credit Unions, offering them special legal and fiscal benefits.

A statement made by the vice-Prime Minister at a conference of credit unions exemplifies the government's commitment to this policy. He stated the government's goal of having 100,000 peasants as members of non-subsidized credit unions within the next few years.

A Central Bank senior employee re-iterated the government's focus on the credit union movement as a means to compensate for the failure of the banking sector, and in particular the government run banks, to meet the needs of the peasant population. In her view it is imperative that in the long-run 85% of the peasant population have access to financial services through savings and credit unions and other micro-finance institutions.

d) Legal framework

The government's commitment to the micro-finance sector has led to the development of a number of laws governing the legal obligations of micro-finance institutions and credit unions in particular. New laws governing financial and banking activities are in place, but the decrees detailing the implementation of some of these laws have not yet been issued.

As a result of the above, new micro-finance institutions are operating in a transitory legal context that ought to be formalized by the end of 1997; by which time all implementation decrees are expected.

An interesting specificity of the Malagasy legal context regarding the finance sector is the distinction between the financial activity undertaken by an institution and the legal personality of the institution. Law No 95/030 governs the legal requirements associated with a specific financial activity. This law is applicable no matter what the legal structure of the institution (Co-op, NGO, limited liability company, etc).

The requirements for each legal structure are governed by a variety of other laws such as the new law No 96/020 that corresponds to the creation of savings and credit unions.

The aforementioned laws, place all credit and savings institutions firmly under the supervision of the government. Even programs managed within an NGO structure have to request a license from the government for their activities and are under the control of the banking regulatory agency (CSBF).

This legal structure opens the door for institutions such as credit unions to ultimately borrow funds from the Central Bank for on-lending to their clients. Due to the lack of systems in place within these new institutions, the Central Bank does not expect this to take place in the foreseeable future. This is compounded by the fact that the new micro-finance institutions, by virtue of their youth, have not yet built a reputation and a trusting relationship with the government banking authorities.

The government has been strengthening its capacity to supervise financial institutions. The CSBF was established in 1993 and was previously part of the Central Bank, as the CCBEF. Upon its creation, it was staffed by only two people. The staffing of the CSBF has been

constantly increasing since 1995 to reach a present level of 15 staff. Recruitment of new staff is still underway, and the IMF has posted a full-time consultant at the CSBF to assist the staff.

The IMF consultant is strengthening the CSBF's capacity with respect to the mainstream banking sector. Little is being done regarding the micro-finance sector where staff knowledge is clearly limited. CSBF staff have expressed their need to acquire knowledge and skills regarding the operation and supervision of the micro-finance sector.

The government envisions the establishment of a unit at the Ministry of Finance, whose role will be to over-see the development of the micro-finance sector and in particular the credit unions.

D. UNDP Country Office

1. Strategy³

The strategy of UNDP in Madagascar is to promote sustainable management of resources in the fight against poverty. This fits within the government's broader national poverty alleviation strategy that promotes an integrated approach to poverty alleviation.

2. Programme Overview

The Madagascar country program has three main tenets. These are

- Government support for economic management;
- Sustainable management of natural resources, and
- Reduction of poverty

1/ Government support for economic management

UNDP is assisting the government in building capacity at an institutional level to produce adequate statistical data concerning the economy. UNDP is also assisting the government to manage and coordinate external aid and technical assistance.

2/ Sustainable management of natural resources, and

UNDP is strengthening the capacities of the National Environment Office to manage environmental issues. It is also financing an extensive program to protect marine life and coastlines.

3/ Alleviation of poverty

This is one of the main components of UNDP's national intervention. It is focused around programs with significant job creation components. The creation of jobs and the improved

³ As articulated in the UNDP Advisory Note, Country Cooperation Framework (CCF)

access to financial services is the foundation stone of the UNDP's assistance in the fight against poverty.

Income generating agricultural activities, and the improvement of irrigation techniques in the South also form part of this strategy.

UNDP Madagascar is also assisting the government in establishing an Aids awareness and prevention policy.

3. UNCDF

The primary goal of UNCDF's present program is to provide a line of guarantee and refinancing to the micro-finance sector through the formal banking sector. It was established in 1995 for a period of five years. The program is structured through the formal banking sector for two reasons. On the one hand the program hopes to create a precedence with local banks to encourage them in the long run to lend to the micro-finance sector. On the other hand it aims to encourage emerging micro-finance institutions to deal with the banking sector, thus building good financial management practices.

The present banking partner of the UNCDF program is the BTM. USD 3.5 million of funding is made available through the BTM. This funding is available to both individuals that need to finance their small businesses and to micro-finance institutions that require loan capital to lend-on to their clients. The majority of financing (65%) has to date gone to finance three operators of credit unions, CIDR, FERT and DID. The lending terms are negotiated between the credit unions and the bank with, if need be, the help of UNCDF. The interest paid to the bank is similar to that offered by the bank for its normal banking services.

The uncertain future of BTM, has made the partnership with UNCDF questionable. The investments made by the program in training BTM staff, and in attempting to create a precedence with the bank in lending to micro-finance institutions may be jeopardized by the restructuring of the bank. This, compounded with the excess liquidity of the private banks, has enticed the UNCDF program to investigate possible partnerships with the private banks. Nothing concrete has yet come out of these discussions.

The client institutions that have to date borrowed funds from the UNCDF program have greatly benefited from this line of credit, but have in general found dealings with the BTM to be bureaucratic and far from efficient. They clearly prefer to borrow directly from UNCDF or alternatively through one of the private banks.

UNCDF is planning to expand its activities beyond the present program. The planned expansion involves the establishment of an eco-development program in the Ambato Boeni area in the north-west of the country. This expansion of activities will entail an increase in UNCDF's budget. This program will involve a number of components including the re-building of a key access road and the development of micro-finance services in the area. The micro-finance component of the program will be sub-contracted to an implementing institution. This institution

may either be already operational in the country or may be an institution wishing to establish operations in Madagascar. Preliminary discussions have begun with locally active operators, but nothing concrete has materialized.

4. Program for poverty alleviation

UNDP Madagascar's Poverty Alleviation program envisions a micro-credit component. A consultancy was undertaken in early June 1997 to review the project and to design the micro-credit component. The exact recommendations of the missions will only be known at the beginning of July, but a de-briefing was held by the consultant prior to his departure.

The proposed micro-credit intervention for UNDP's poverty alleviation program is based on a number of assumptions. The first being that the delivery of credit must quickly be undertaken across the impact area. The other assumption is that the two micro-finance programs that are presently operational in the area are not appropriate partners. One is too small to be considered for partnership within this program (WOCCU) and the other (Vola Mahaso) has an interest rate that is deemed in-appropriate for lending to the poor (too high). The third assumption of the program corresponds to the services required by poor micro-entrepreneurs. The program assumes that an approach that is purely financial will not achieve a substantial impact on the lives of very poor micro-entrepreneurs. Technical and social support must accompany the credit and saving service to achieve the desired impact.

The above assumptions have resulted in a proposition to deliver subsidized credit to farmers through a series of small local NGOs whose activities are structured around agricultural training, education and health services. It is foreseen by the consultant that these NGOs will be given basic training in credit delivery, before they begin undertaking this new activity. The financial services will be delivered in parallel to other assistance being offered by the NGOs (such as agricultural extension, education, health etc.) After two to three years, the client portfolios of these NGOs will be transferred to one of the large specialized micro-finance service providers that would by then have strengthened their networks in the target areas.

Two NGOs recommended by the above mentioned consultant were visited. They showed limited understanding of the institutional and methodological requirements for sustainable micro-finance service delivery. The NGOs have no commitment to sustainable credit and clearly do not have the will to develop even parts of their institutions into specialized micro-finance service providers.

UNDP's poverty alleviation program could in parallel, and independently, work with the local NGOs in the area to strengthen their capacity to deliver extension services leaving credit provision aside if it is not to follow best practices.

5. Entreprenre a Madagascar

UNDP Madagascar has established in association with the ILO a program "Entreprenre a Madagascar" (EAM). The aim of this project is to provide business counseling and support to

start-up small businesses. The project's focus is on the creation of jobs through the establishment of new businesses. The original project document envisioned that start-ups assisted by EAM would prepare business plans and present them to the formal financial sector for funding. Lack of interest by the financial sector in funding these new enterprises has resulted in a grant of USD 500,000 being issued from UNDP to EAM. This grant is to serve as a revolving loan fund for the project. The project has also received small loan capital grants from other donors.

The project is operational nationwide through seven offices, present in both rural and urban areas. The project's credit activities are being managed along-side the business counseling activities. There are at present about 300 active loans with an average loan size of 17 million FMG (3,500 USD). The fee structure of the loans is complex and varies depending on who is the donor of the specific funds being lent. The staff were unable to establish what percentage of their costs is being covered by the fees. The fees charged to the client are below market rates, (interest can be as low as 4% up-front and 2% per year, and is at a maximum of 17% per year). Payments past due more than 30 days represent 15% of repayments.

An NGO that is also called *Entreprendre a Madagascar* was established in July 1996, to take over the project from UNDP/ILO. The Board of the NGO is composed of two staff members, two clients and the chairperson who is the technical advisor to the project. Due to administrative constraints, the project is still being managed outside of the new institution.

Managers of the project are envisioning splitting the management of the credit from that of the business counseling activities. The estimated date for this split is in two years. Managers feel that only by this time will they have enough outstanding loans to warrant the establishment of a new specialized arm in EAM.

E. Donor Interventions in Sector

Donor intervention in the field of micro-finance has been significant and is led by the World Bank, the European Union, the French Government and UNCDF.

1. World Bank

The World Bank's intervention has been focused predominantly around a program entitled *Projet d'assistance technique en finance rural (PATFR)*. The pilot program aims to provide a financial support to rural based micro-finance programs. The project was established in 1994 and has a budget of about USD 4 million.

To implement the project the World Bank established the *Association de developpement du mouvement mutualiste d'epargne et de credit (ADMMEC)*. The ADMMEC is in principle supposed to be an institution that groups together all the major players in the credit union movement, including government; thus acting as a coordination agency.

The success of this institution has been put in question by many involved, including the World Bank. The networks of credit unions have failed to feel any sense of real ownership towards ADMMEC. Since its creation it has become a bureaucratic and administrative organisation that is neither purely a government body, nor a representative organisation of the networks.

Notwithstanding this, the ADMMEC has been able to disburse a large part of the funds that are available under the PATFR project. These funds have been used largely to pay for expatriate staff for the DID and WOCCU programs. All rural programs (DID, WOCCU, FERT and CIDR) have benefited from funds to be pay for start-up costs of specific unions within their networks. These costs include salaries of local staff, and the purchase of capital assets. Total funding of international technical assistance to programs corresponds to USD 1.8 million.

Some training and coordination seminars have been organized for all networks addressing issues such as financial management and legal constraints.

The PATFR project ends in December 1997, and has been extended for one year pending the design of a large-scale World Bank intervention in this domain. Details of what is planned for the new intervention are hard to come by, except that the Bank will broaden its support to microfinance in general and beyond the rural savings and credit union networks. Available funding will be in the region of 30-40 million USD. In order to identify needs for the new project the World Bank will field a mission at the end of June 1997.

2. European Union

European Union funding for micro-finance has been focused on the two key European implementing NGOs, notably FERT and CIDR.

The EU has made 14 billion FMG (just under 3 million USD) available to the programs as a soft loan. The loan is to be used as loan capital and is structured at 2% per year for 40 years. To date only 4 billion FMG have been drawn from this fund, largely by FERT.

The EU has also funded FERT and CIDR for operational costs. It was not possible to establish the exact value of this funding.

The EU is also involved in funding an artisan promotion program ADEVA. This program has a credit component of 750,000 ECU. It will not be reviewed here as its specificities are outside of the realm of this report.

The EU's next funding cycle starts at the end of 1997. It is not yet clear what their funding strategy will be except that they will continue to support rural micro-finance programs. Their wish is to diversify their intervention away from FERT and CIDR. They will possibly fund the start of a new program managed by a French NGO IRAM, to be operational in the south and south east of the country. The EU would like to fund the DID network, but due to DID's non-European status, they must create local institutions to house their programs before they can be eligible for funds.

3. Cooperation Francaise and Caisse Francaise de developpement

Both the Cooperation Francaise and Caisse Francaise de developpement are affiliated to the French Government, with the former being the official bi-lateral aid agency of the government. They are both significantly involved in financing the micro-finance sector in Madagascar.

The Cooperation Francaise is the principal funder of ADEFI to the tune of 8.5 million French Francs in addition to the full cost of a French expatriate to manage the program. Of the 8.5 million FF., 3.8 million represent loan capital. The program will end by mid 1999. Planning for subsequent funding, and in particular for loan capital will begin shortly. This funding may come in part from the Cooperation Francaise, but they hope to find partners such as the Caisse Francaise or possibly others.

The Cooperation Francaise also funds part of CIDR's operational funds⁴.

The Caisse Francaise de developpement funds part of CIDR's operations in the South, focusing on operational costs. This funding has four more years to run. The Caisse also funds FERT to the tune of 5 million French Francs. This funding is used to cover operational costs, TA and loan capital in one area of operation, Mouroudav, with emphasis on the development of leasing products. This funding started in 1995 and will end in April 1998.

4. UNCDF

Please see section II, B, 3 for details concerning UNCDF's program in Madagascar.

5. ILO

ILO has previously been involved in funding some of FERT's operating costs, particularly in the early stages of operations from January 1993 and June 1995. The program was funded by ILO to the tune of USD 400,000 during this period. The funds were used to pay for a quarter of the time of the expatriate director along with the costs of opening 24 unions, and training three regional support teams.

With the intention of continuing their involvement in this field ILO fielded an assessment mission to Madagascar. The mission was undertaken at the same time as the mission for the preparation for this project document. The present approach of the ILO involves funding an activity that will benefit all the programs that are at operational in Madagascar.

In view of this, ILO is planning to fund the re-structuring of ADMMEC. Following the World Bank's evaluation of ADMMEC and the identification of ownership problems within ADMMEC, ILO's re-structuring will aim to put in place a more democratic and representative institution. The funding will be to the tune of USD 1.4 million. It is to be used to pay for a full-

⁴ Little information was available concerning this funding as responsibility for rural and urban programs lie with different managers at the Cooperation Francaise.

time re-structuring team composed of one expatriate and support staff. The team will be responsible for the reform of ADMMEC's General assembly, Board and executive staff.

Funding will also be made available to be used through the reformed ADMMEC for issues that concern all credit and savings union networks. Such work could involve the development of accounting systems and the funding of research concerning legal issues and regulation.

The ILO's funding comes from the German government. The ILO is looking to start their new program within the next 3-4 months.

F. Local NGOs Interventions in Sector

Local intervention by NGOs in the field of micro-finance is characterized by dynamism, professionalism and extremely promising growth potential. The professionalism of the leading programs is evidenced by the setting of a near uniform effective interest rate of 36% per year. A rate that is above commercial lending rates particularly as inflation has been falling.

There are at present seven key micro-finance programs in the country. Except for one, these are all established with the financial and technical support of international micro-finance operators. The programs are FERT with the CECAM network, Developpement International Desjardin with the OTIV network, WOCCU with TIAVO, ADEFI, CIDR with Vola Mahasoia and AECA and the APEM/SIPEM partnership. (For details concerning all the aforementioned please refer to Annex VI)

Five of the aforementioned programs are operational in rural areas whilst two are focused on urban areas. This will change as some of the leading rural programs, notably FERT and DID are preparing to expand into urban areas. The geographical location of the rural operations is characterized by a semi-formal territorial divide of the country. This divide was instigated by the Committee de Coordination des Finances Rurales (CCFR) which is part of the Ministry of Agriculture, following advice from ADMMEC and the World Bank. At the on-set this divide only related to funding originating from the World Bank.

Even though the Secretary general of the Ministry of Agriculture has confirmed that the CCFR has only an advisory role with regards to the issue of territorial divide and cannot impose a territorial divide, CCFR has generalized this agreement to include all rural micro-finance activities, with no distinction made over the source of funding. The legal ground for the generalization of this territorial divide by CCFR is being questioned by some programs; notably FERT that has just started operations in an area "designated" for DID.

As previously mentioned, all microfinance programs in Madagascar are at present functioning within temporary undefined legal structures whilst awaiting the finalisation of relevant laws by the government. Five of the leading programs are planning to structure themselves as "Savings and Credit Unions", even though not all will have purely cooperative management methods. Two programs are opting for a public limited company structure.

None of the reviewed programs are women focused, but nonetheless average 40% female clientele. Some programs are planning to develop women focused products.

1. FERT

FERT is a French NGO with predominantly agricultural extension experience. In September 1987 it launched its activities in Madagascar. These activities are centered on a micro-finance program but also include the provision of other services to farmers. The implementation of the different activities at a field level is segregated. FERT has established a network of credit unions composed of CECAMs at a community level and URCECAMs which group together a number of CECAMs. The program targets low income farmers and micro-entrepreneurs in rural Madagascar.

It is the largest micro-finance program in Madagascar. It is composed of 86 CECAM grouped under 6 URCECAM (see annex VI for details). The network has 9,000 members and 5,500 outstanding loans for a value of 4 billion FMG. By the end of 1997 they hope to more than double their outstanding portfolio (their loans are seasonal and depend largely on the production of rice). Sustainability figures are only available for each URCECAM and are not produced for the network as a whole. Only one URCECAM covers its operational costs. Portfolio quality remains good with payments past due more than 30 days representing 6% of outstanding loans and payments past due 90 days representing 4% of outstanding loans. By the year 2001 the program aims to reach 8 URCECAM totaling 200 CECAM and 32,000 members, of which three-quarters will be using the credit services.

The program is operational in the rural areas of Antsirabe, Tsiroanomandidy, Mandritsara. It has focused its attention on the development of a number of credit services for its clients. These include loans for productive purposes, loans for the purchase of equipment and loans as advances for stocks of rice. Even though the program requires savings from its members, it has not restricted access to credit to strict saving requirements, and has drawn heavily on external funds to finance the growth in its credit operations. Three quarters of its outstanding portfolio of 4 billion FMG is derived from external funding notably a line of credit from BTM (UNCDF funds) and a European Union line of credit. The credit and savings methodology has been well systematised and standardised. Adequate implementation systems seem in place at a field level.

There is at present no institutional structure grouping the URCECAMs together. FERT plans to register each URCECAM as one credit union. Unity of operations at a national level is maintained through FERT and through INTERCECAM. The latter is a technical unit established at FERT's local head-quarters. The role of this technical unit is to centralize all technical back-stopping of operations. FERT hopes to create a federation amongst its URCECAMs that could be grouped under the banner of the INTERCECAM.

The strengths of the program lie in its products that are well suited to the needs of the target clientele, and from a strong cooperative structure. Decisions are decentralized, and members at the lowest level are significantly involved in the elections of at both the CECAM and

URCECAM level. This appropriation of the program at the lowest level has allowed strong leaders to rise through the system. The program has benefited from significant grant funding since its inception.

The challenges faced by the FERT program lie predominantly in strengthening of its institutional structure at a national level. Adequately defining and implementing the planned federation is the core challenge being faced. Even though strong leaders have emerged out of the system and solid managers are in place in some URCECAMs, the program is still heavily dependent upon the presence of expatriates and in particular upon the presence of the local Director of FERT. Putting in place a Malagasy national management team with the right mix of leadership and technical skills is a key to the continued long-term success of this network.

In parallel to the above, the program will have to establish federation wide management systems including an adequate loan and savings tracking system and accounting and liquidity management systems. The unavailability of sustainability figures for the network as a whole testifies to the this need.

A typical FERT CECAM

A CECAM is structures around a little room that has been built in the village with the help of the founders of the caisse. The room is no more than six squared meters with at one end a wooden counter behind which sits the cashier. There is a small blue metal safe behind the counter, where all deposits are kept. Three keys are needed to open the safe. Members of the executive comity of the union have two keys and the cashier the third. Next to the safe is kept a simple wooden box that contains all the records of the union. This box is locked and the key is kept with the cashier.

Customers have a table and two chairs were they can sit and prepare their papers. There is a little bench placed against the wall in the event that members have to wait in a queue to be served. The walls are adorned on one side with a large flip-chart that details the latest financial position of the CECAM including deposits, loans and number of members. The flip-chart is prepared with care and pride by the cashier, using colour pens if possible. Other walls are used to display promotional material that explain the services on offer.

If the CECAM offers grain storage loans, a storage room is built next to the CECAM. Access to this room is from the CECAM and requires two keys that are kept with different members of the executive committee.

The union has a trusting and welcoming air.

2. Developpement international Desjardins (DID)

DID is a Canadian NGO that is affiliated to the large Canadian Caisse Desjardin. It began its operations in Madagascar in 1992 in the area of Lac Alaotra north of the capital. The program

has recently spread to the areas of Sambave and Antananarivo. The program is operational through a network of rural credit unions entitled OTIVs. The leading OTIV in each area is designated "Caisse Ecole" or "lead" OTIV.

There are at present 36 OTIVs representing 7,000 clients of which 2,000 have active loans with 3 billion FMG outstanding. No exact sustainability figures were available for the network as a whole. Information is available for some of the areas of operation. Information supplied by the program was for the two oldest areas of operation, where credit disbursements have been most important. It showed that interest revenue covered operational costs excluding all expatriate costs for one area only. It is estimated by DID that the management of one area (headed by one Caisse Ecole) costs 120 million FMG (24,000 USD) a year to run. The total estimated annual cost for the program including all TA and overheads is USD 700,000. To cover these costs at an interest rate of 36% per year, the program will have to have an average outstanding portfolio of two million dollars per year. This corresponds to a 300% increase from present volumes.

The expansion of lending services has greatly benefited from the reduction in activity by BTM and the extensive informal usury network that is operational in the area. Within the next five years the program is planning to expand further north and north-east and into the urban context of the capital. They aim to establish 80 OTIVs representing 60,000 clients of which 50% will have active loans.

The program has placed more emphasis on the collection of savings from union members, then on the delivery of credit. This policy has been facilitated by the nature of DID's area of operation that is characterized by seasonally high income and savings for farmers. Over the past year, the program has broadened its credit services particularly in the Lac Alaotra area. Loans in this area represent over 90% of all outstanding loans for the network. The loans have been financed by the BTM through the UNCDF program and with the assistance of a local private company Madrigal. The funding represents an amount ten times larger than the clients' savings. Good field implementation tools have been developed including operations and procedures' manuals and visual promotional material explaining the operations.

DID is planning to develop new credit products, particularly a micro-loan program targeted exclusively at women. The model that is planned is largely based on the solidarity model. The program would give 80,000 FMG (USD 16) loans in the first cycle that would last 4 months. DID hopes that this product will better meet the needs of rural women and would thus increase the number of women that are presently active within the network. The new credit product would be implemented through the OTIVs and would consequently have a solid savings component.

DID is planning to group its OTIVs together under a Central Support Unit thus formalizing its national network. The creation of the Central Support Unit is still at a planning stage. The CSU will be managed by a national coordinator who will be promoted from within the ranks of the present program. The leading contender for this post is a manager within the program that has a sociology back-ground. He has an extensive experience in the rural community work, and will be trained by DID in financial management and planning. DID benefits from Caisse Desjardin's

experience in Canada and DID's elaborate training courses that are offered out of the Head Office in Quebec Canada. Leading managers of the OTIV network will be sent to Canada for training.

Similarly to FERT, the greatest challenge facing the future growth of the OTIV network is the creation of a cohesive and solid national institution. The network is benefiting greatly from DID's world-wide experience but there remains the need to build solid local management capacity and institutional structures.

3. World Council of Credit Union (WOCCU)⁵

WOCCU's program was established in November 1995 in the rural area surrounding Fianarantsoa in the south of the country. The program is managed by a WOCCU expatriate director, and uses a methodology that is similar to other WOCCU programs in Africa.

The program is predominantly centered on the mobilization of savings through the creation of savings associations and savings and credit unions. It is the only program that has more savings than loans on its books (ten times more). The approach of savings first is complex to implement particularly in the area of Fianarantsoa that is one of the poorest areas in the country. With the aim of better meeting the needs of the clients, WOCCU is looking into the possibility of opening its network up to funding of credit from outside sources.

As of the 28th February 1997, WOCCU had established 14 savings and credit unions and 6 savings associations, representing a total of 1,482 members. Outstanding loans stood at 7.2 million FMG (USD 1,400).

WOCCU is seeking to expand its operations south and south east, but have serious funding constraints. The large majority of funding stems from the World Bank PATFR project that will end by the end of 1998 (including one year extension). The expansion south into even poorer areas where the presence of savings is even more remote, will face difficulties if not preceded by a review of the WOCCU's methodology.

The program does not have the same vision and strength of the other two main credit union programs FERT and DID. This is in part due to the relative youth of the program, and also due to funding uncertainty.

4. ADEFI

ADEFI (Association pour le Developpement et le Financement) was established in 1995. ADEFI forms the largest element of a three part program funded by the Cooperation Francaise. The other two elements are composed of financial training for micro-entrepreneurs through IREDEC and an information sharing network. The program operates in urban areas notably in the city of Antsirabe south of the capital. It expanded its operations to the capital in January 1997. ADEFI

⁵ It was unfortunately not possible to meet with managers of the WOCCU program. This information was collected from a meeting held with a credit agent at the program's head-quarters and from selected literature.

aims to be operational in all major urban centers within the next five years. Their target clientele is on the larger side of the micro-entrepreneur spectrum.

No savings service is offered by ADEFI, which focuses on credit delivery. The program's loan methodology is relatively novel in Madagascar. Loans are granted on an individual basis, with clients minimal assets acting as guarantee (fridge, TV, furniture etc.) Repetitive loans are granted to credit worthy clients.

The program has at present 650 active clients representing one billion FMG (200,000 USD) in outstanding loans. It maintains good portfolio quality with payments past due more than 45 days being 1% of outstanding portfolio, and payments past due one week being 4% of outstanding portfolio. Information supplied by the program shows a 100% cost recovery of operational costs. Costs are maintained low due to the urban context of operations, the competitive salary structure and the lack of presence of highly paid local managers. The latter is made possible due to the pivotal role of the expatriate that is managing the program.

The program is managed by an expatriate who has developed ADEFI's methodology by drawing on Latin American experiences in the field of micro-finance. He is assisted by an independent consultant that has been associated with the program from its inception.

ADEFI is the only program that has installed Computerised MIS systems. They have developed a Computerised loan tracking system locally, and has also got a Computerised accounting package in place.

ADEFI plans on becoming a Credit Union even though it does not have a typical cooperative structure. There are for example no local "caisses" or unions to manage activities and all clients are individually responsible for their loans. The whole institution will form one large "caisse" or union. This contrasts with the structure of cooperative programs such as FERT, DID and WOCCU that are more typically cooperative in their structures (see annex VI for details).

Managers are clear that they are not perfectly happy with the cooperative institutional structure but they feel that it is the most cost-effective structure available to them within the proposed laws governing finance activities. The possibility of becoming a public limited company is considered too expensive given the lack of tax exemptions and the large (and yet undefined) capital requirements.

As with the other programs ADEFI faces two main challenges in the short term. On the one hand, they need to make the cooperative institutional structure work for them, whilst on the other hand they need to put in place adequate local management capacity to take-over management from expatriate staff. Even though the institutional challenge faced by ADEFI is similar to that of other programs such as DID and FERT, the solution to this problem will be noticeably different. This is due to the non cooperative structure of operations.

A typical ADEFI client

On the main street of Antsirabe's popular neighborhood, a woman and her husband have been running a little grocery store for more than five years. The store is no more than three squared meters in size in which all kinds of groceries, and in particular yogurts are sold to passers by and local children. The wife is the main operator within the shop dealing with most of the buying and selling activities.

In an effort to expand their activity, the couple borrowed 6 million FMG from ADEFI. As a guarantee for their loan they used the fridge that is in their store and that is used for their best selling product, the yogurt.

The ADEFI loan was used to build a little extension to their store onto the street. The extension is about one and a half square meters in size and is built out of old wood and corrugated iron. This small but adequate space is used to prepare hot snacks such as fried bread and sweets, that are sold to passers-by. This extension has not only allowed the couple to diversify their products, it has also attracted more people to their store, thus being a good investment all around.

Once the loan has been repaid, they plan to take another loan to be used for the wholesale purchase of rice, that would then be sold in retail. This will generate an important additional revenue to the family.

5. CIDR Vola Mahasoa

This program was established by French NGO CIDR in 1990. It is operational in one of the country's poorest areas, notably the rural area of Toliara in the south west.

The program has achieved solid results in one of the country's most difficult areas. With its 2,000 active loans, it has shattered any possible myth that sustainable micro-finance services are not needed and implementable in all parts of the Island. The program plans to reach operational sustainability within 5-7 years with about 7,000 active loans.

The program only offers a credit service to its clients. Savings were not deemed a particularly demanded service in the area. This was confirmed by a field visit to clients. They ranked savings amongst the last required services in their community. This could in part be explained by the low income of the clients and is also partially due to the local traditions. Farmers residing predominantly on the low-lands, have a tradition to place any excess capital in the purchase of cattle. Upon the death of a farmer, the success of his life is judged by the number of cattle that are slaughtered at the funeral.

Vola Mahasoa offers loans on a family basis, and obliges husbands and wives to come to loan meetings. Loans are disbursed following a solidarity group model, whereby between 7 and 12 families from the same village take a loan at the same time and are responsible for each other's loan. Before the disbursement of the first loan clients are obliged to attend six month's of family budgeting training.

CIDR has identified the recruitment of good managers as the main obstacle to the exponential growth of the program. They insist that managers should be from the area and should be promoted from within the organisation. This policy is proving slow, and in particular for the recruitment of senior managers.

As with the other programs operational in Madagascar Vola Mahosoa is in a transitory institutional phase. Contrary to the FERT, DID, WOCCU and ADEFI, the program is not adamant about becoming a savings and credit union. It is felt that this structure does not fit the philosophy of the program, and thus may not be adequate. CIDR is looking into the possibility of institutionalizing Vola Mahosoa as a Public Limited Company. The share holders of the company will in the first instance be CIDR and a local NGO APEM. It may ultimately be the clients of the institution. CIDR is not concerned by the fact that this structure will be more expensive to manage than that of a credit union. The PLC will not benefit from the same tax exemptions as a savings and credit union (interest on loans has to carry value added tax), and the PLC will require an important (and yet undefined) capital base.

The program is fully funded for the next number of years, and managers report no unmet needs. This situation may change when laws governing financially oriented PLCs are finalized, and project managers are better aware of institutional and reporting requirements.

6. CIDR, Associations d' Epargne et de Crédit Autogérées (AECAS)

CIDR's program in the north Associations d' Epargne et de Crédit Autogérées (AECAS) was established in 1990 with KFW funding. It is operational in the north-west of the country in the Marovoay area⁶. CIDR's strategy is to establish a network of savings and credit unions (AECAS) in the area. Groups of AECAS form a "Union".

AECAS are each composed of an average of fifty members, often from the same family. Emphasis is placed on group dynamics and significant investment is made to strengthen these AECAS. The collection of savings plays an important role in the development of AECAS.

As of the 31st December 1996, thirty-eight AECAS had been created, under two Unions. These AECAS represented 1,845 members of which 38% were female. Since the program's inception a cumulative 3,238 loans have been disbursed totaling 419 million FMG (80,000 USD). Repayment is reported at 95% without clarification as to the definition of this number. No sustainability figures were supplied. The program has borrowed funds from the UNCDF/BTM program for on-lending to members. The total amount borrowed corresponds to 200 million FMG (40,000 USD).

The program's institutional structure is limited for the time being to the creation of two "Unions" of AECAS. The Unions act as the representative body for the AECAS. CIDR plans to develop a "Central Unit" that will be responsible for coordinating technical assistance between

⁶ This program was not visited due to its geographical location. Information presented here is derived from information supplied by CIDR to UNCDF.

the Unions, and for all negotiations with potential partners. Funding of the Central Unit will come from the “Unions” who will pay for services from interest revenue generated.

The program is facing expansion problems within its area of operation and is considering possible expansion into neighboring areas. This expansion may possibly be undertaken within UNCDF’s program in the area of Ambato Boeni.

The specific needs of the program were not identifiable from the information supplied by the program.

7. SIPEM

SIPEM is the other main urban program along with ADEFI. It distinguishes itself from all the above programs by being fully “home grown”. SIPEM is quite exceptional in its structure. It is at present a public limited company (PLC) that was set-up primarily by APEM, a local NGO. APEM was itself established by the “Groupement des Entreprises a Madagascar (GEM) which is comprised of some of the leading businesses in the country. (See annex VI for details.) SIPEM benefits from funding from SIDI (French NGO).

Due to present legal constraints affecting the disbursement of loans from a PLC, all SIPEM loans are disbursed by APEM. This will change when the new decrees finalizing the banking law (95/030) are issued.

SIPEM is implementing a credit program in urban Antananarivo, targeting the upper echelons of the micro-finance sectors. They at present have 160 active loans for a value of 860 million FMG (about USD 160,000). No sustainability and recovery figures were available. The interest on loans is at present subsidized (central bank base rate plus 4%) but SIPEM is planning to significantly increase this rate.

The loan methodology being implemented by SIPEM is similar to ADEFI’s. They offer individual loans with minimal collateral and no saving services. This methodology was developed in house by SIPEM, with no external technical assistance, and was based largely on trial and error.

SIPEM is structured as a PLC because members of the board of its founding institution APEM felt it to be the most appropriate structure. This choice was largely driven by the board members’ business back-ground, and their lack of exposure to other institutional models. SIPEM is looking to formalize its status in view of the new banking legislation. APEM has committed itself to increasing SIPEM’s capital to comply with whatever minimum capital requirement is established in upcoming government legislation.

SIPEM is in need of technical support for the fine-tuning of its methodology, the training of its staff and the development of adequate internal systems. Their present status as a PLC and their lack of affiliation to international micro-finance organizations have limited the expansion of their institution. This has been compounded by differences in vision with the institution’s only donor

SIDI. SIPEM sees its target clientele as larger sized micro-enterprises and possibly moving to the smallest of micro-enterprises. SIDI would like SIPEM to focus on larger loans corresponding to the needs of small business.

8. Other programs

A part from the above programs no significant micro-finance activities are at present operational. A variety of small NGOs are preparing themselves to launch credit programs. The large majority of these do not have either the right institutional vision or commitment to become serious micro-finance service providers in the future. They are on the whole religious based institutions that are relief oriented. They are usually simultaneously implementing a number of activities ranging from health services, education and agricultural extension services.

Notwithstanding this, some new small local institutions are starting to develop micro-finance programs. One such institution is AINA. It is an NGO established by volunteer Malagashies from Antananarivo, that all have some previous or present links with the leading programs in the country. AINA plans to establish savings and credit unions in poor neighborhoods of the capital. It operates with exceptionally minimal funds, and all staff are volunteers. AINA has set the building blocks of its first savings and credit union and plans to establish further unions within a year.

Such institutions do not have the technical sophistication of the larger programs, and are seriously constrained by the lack of funds. Their strong grass-root structure and dedication to the savings and credit union movement are their biggest assets in achieving sustainable micro-finance service delivery.

Two new significant programs are in the pipeline with the assistance of international organizations. The first is program to be possibly implemented with EU funding by IRAM, a French consultancy firm, in the south of the country. The second is a program in the region of Ambato Boeni in the North to be implemented with the financial assistance of UNCDF. Nothing concrete has yet been established concerning the aforementioned programs.

G. Demand for Microfinance

The predominance of micro-entrepreneurs in Madagascar is striking to the casual observer traveling across the country. On every street corner in urban areas, one sees numerous street vendors selling anything from newspapers, and groceries to fruit and vegetables. In rural areas, the presence of micro-entrepreneurs is most striking on market days. On such days, all micro-entrepreneurs from as far away as 40 km congregate at the local market. The size of markets as compared to the size of the village is testimony to the large number of micro-entrepreneurs. Many of these are selling little more than one or two chickens or ducks, or maybe a dozen or so strands of rope made out of a local cactus.

All this off course is only anecdotal in nature and does not in itself point to the immense presence of micro-entrepreneurs in Madagascar. Recent studies have attempted to evaluate the number of micro-enterprises in the country. These include a study by UNDP/ILO (1994) that estimates that there are 2,480,000 “informal” businesses in the country. A study by ADEFI in the urban region of Antsirabe estimates that there are 15,000 micro-enterprises in the area. These numbers are only a bench-mark, but give a good idea of the extent of micro-enterprise in the country.

Like any business, a micro-business requires capital to function and to expand. By definition, some-one who is poor is someone with limited personal resources. It is therefore evident that micro-entrepreneurs require some form of external financing for their activities. In rural areas this financing has for the lucky few come in the form of a BTM loan, whilst for the large majority, it has come from well-established middle-men. The regional specialization in crop production has allowed wholesale buyers of agricultural produce to develop large scale usurious practices.

A typical scenario for such usury activities would be the following⁷. Having invested heavily in the planting of the land, rice farmers often face cash-flow problems during the period before the harvest of the crops. Unable to access a loan through conventional channels, they turn to the local middle-man who purchases the harvest in advance at a reduced price. The money they receive is used for the harvest, which is then sold by the middle-man in the urban market at large mark-ups. Having sold all or most of their harvest, farmers often find themselves short of rice during the low season, thus having to borrow funds again from the middle-man. Such lack of liquidity in the farmer’s business and the resulting cash-flow problems place farmers at the mercy of the middle-man. It is estimated that the latter charge an effective annual interest rate that can be as high as 1100%⁸.

Even if farmers are not in need of cash before harvest, the costs associated with harvesting the rice will ultimately leave the farmer with no choice but to sell his produce right after harvest time. Due to large scale supply at this time, the price of rice is often the lowest of the whole

⁷ Drawn from Madagascar Evaluation de le pauvreté, World Bank June 1996

⁸ Micro-Finance a Madagascar, Jupiter Ndjéungo for World Bank march 1996

year. The farmer is thus forced to accept the lowest return on his investment. The supply of affordable credit at harvest time allows the farmer to stock his produce until a time when supply has fallen and the price has increased, thus allowing maximum return on investment.

Similar financial constraints face the micro-entrepreneur in urban areas. In such areas micro-entrepreneurs, which are often involved in trading activities, have no access to affordable funds for the purchase of goods. The only available source of funding is either the trader or in some cases family sources. Financing from the trader creates a dependency of the entrepreneur on a single trader, thus limiting choice and allowing for the possibility of usury practices. Due to wide-spread poverty in the country, family sources of financing tend to be limited, and if existent carry with them important costs, associated with family obligations.

Given the above, it is therefore clear that micro-entrepreneurs in Madagascar require nationwide sustainable sources of delivery for micro-finance services. The present development of micro-finance programs has built the founding stone for the delivery of such a service. The present achievements of these programs are impressive, but much remains to be done. The aggregate number of clients of all the programs is in the region of 22,000. This pales in comparison to the estimated number of micro-enterprises which is well over one hundred times this number.

The continued expansion of the micro-finance sector in Madagascar is constrained by two key factors. The lack of capitalization of some programs, and the need for state of the art technical expertise.

Access to funding for loan capital is on the whole readily available for micro-finance institutions in Madagascar, and in particular for well-established programs. This capital is usually in the form of loans. The growth of many of the smaller programs is seriously constraint by lack of access to capital. Moreover, some of the larger programs require grant capital to enable them to capitalize their programs and thus facilitate future access to loan capital.

Micro-finance programs in Madagascar have grown considerably over the past years, with many reaching not hundreds but thousands of clients. Many are now reaching a consolidation phase, particularly in view of the impending institutionalization of their programs, and the introduction of new government regulations. This has created a growing need for state of the art technical assistance for these programs. Some programs are also facing growing demands for new financial products. The development of such products will require new skills.

The micro-finance environment in Madagascar is marked by three specificities.

1/ Madagascar has over the last few years seen the development of various micro-finance methodologies. Many of these methodologies are in keeping with micro-finance best practices which promote:⁹

- client responsiveness,

⁹ See annex II for details

- mutual accountability between staff and client,
- the achievement of operational efficiency, with low costs and high productivity, and
- the ultimate achievement of financial self sufficiency, with all costs, including the imputed cost of capital and loan loss reserves, being covered by revenue.

These differing methodologies often meet the needs of differing clients, and must be promoted in parallel. This is particularly important in an environment such as Madagascar where on the one hand programs are still experimenting with new methodologies, and on the other hand the needs of micro-entrepreneurs are different across the country.

2/ Institutions are at different levels of their development, with new institutions working side by side with established institutions that have achieved extensive results. A number of programs have built a solid experience in the field of micro-finance, and have a good understanding of their needs. In parallel, a strong and healthy competitive atmosphere prevails amongst programs.

3/ Substantial funding is available from varying sources. Access to funds by programs is therefore an issue of limited importance, especially for established programs. Having said that, the majority of this funding has tended to be constrained in its use, thus leaving for each institution its own well-defined unmet needs.

The technical assistance needs of the majority of existing programs is characterized by a cross-cutting theme, representing institutional development. This comprises board development, design of institutional structures, strengthening of local staff capacity, preparation of business plans, system design and financial management.

The growth of the client base of many programs has not been matched by a growth in institutional vision and set-up. This, combined with the imminent arrival of government regulations and supervision render this technical assistance of core importance to the microfinance sector in Madagascar.

Due to the highly competitive nature of the micro-finance environment in Madagascar sub-contracting technical assistance provision to local institutions will be difficult. To date limited cross program training has occurred and has tended to be restricted to low-tech cross program visits between programs with differing methodologies. For example, FERT and Vola Mahasoa have sent staff to visit each other's programs. Beyond this experiment, no program has voiced its interest in receiving assistance from another program present in Madagascar.

H. Liste des contacts

Date	Institution	Titre	Nom	Tel.	Adresse	
10/6/97	PNUD Briefing	ARR	Lalao Ramanarivo	234 90	BP 1348 Tananarive	
		Dep RR	D'Almeida			
	FENU	CTP	Michel Berlo	626 33		Espace Dera Tananarive
			J Rakotoniaina			
11/6/97	PNUD	Consultant	A Hidoussi			
		Consultant	Ch Ranaivoson			
	FENU	CTP	Michel Berlo			
		EN	J Rakotoniaina			
	PNUD	RR	P Metcalf			
		Dep RR	D'Almeida			
		ARR	Lalao Ramanarivo			
	PNUD Debriefing Lutte contre la Pauvreté	RR	P Metcalf			
		Dep RR	D'Almeida			
		ARR	Lalao Ramanarivo			
	Consultant	A Hidoussi				
	Consultant	Ch Ranaivoson				
12/6/97	FENU	CTP	Michel Berlo			
		EN	J Rakotoniaina			
	ADMMEC	PCA	Nere Andrianarisoa	830 58	BP 59 Tsiroanomandidy	
	FERT	directeur	JH Frasin	480 91	BP 372 Antsirabe	
	APEM	Administrateur	Céline Rabekoriana	627 75	rue Rajakoba Ankadivato	
12/6/97	EAM	directeur	D Ranarisoa	250 07	rue Andriba Mahamasina	
		CTP	J L Aldorf			
	SIPEM	directeur	M Andrianasolo	300 98	rue Rajakoba Ankadivato	
	BTM	directeur	J H Rasamison	202 51	place de l'indépendance Tananarive	
	ADMMEC	directeur	Clet Ravohitrarivo	795 65	rue rabary Ankadivato	

Date	Institution	Titre Représentant	Nom	Tel.	Adresse
	IFP		Panoël Rakotovao	450 68	BP 160 Ivato Aéroport
13/6/97	URCECAM Vakinankaratra	PCA	J P Rakotondranaivo	480 91	BP 372 Antsirabe
	CECAM Ampamelomana	CA			
	ADEFI	épicerie	cliente 1		
		agent de crédit		489 63	BP 340 Antsirabe
		décortiqueuse	cliente 2		
	URCECAM Vakinankaratra	directeur	Brillant Rakotoarison	480 91	lot 22 A 35 Tsarasaotra Antsirabe 110
14/6/97	SLO FIMAMA	membre	Randriantsara G E		
	SLO FAFAFI	directeur	A Rasamimanana		
	WOCCU	promoteur	Vony	509 13	BP 217 Fianarantsoa
16/6/97	Volamahasoa	Directeur	Charlot Razakarivony Couteau Philippe	415 27	BP 67 Tuléar
	Caisse 1	CDA Animateur	Hamed Theuriet		
17/6/97	Caisse 2	CDA Animateur	Hamed Adoré		
	Volamahasoa	CTP	Couteau Philippe		
	BIT	Expert	H M Rauch	0837 2126	88 179 Oberreute Lenzhalde 18 RFA
		Expert	Tineke Rizema	+41 22 799 73 95	4 route des Morillons ch 1211 Geneva 22
18/6/97	FERT	directeur	J H Fraslin	480 91	BP 372 Antsirabe
	BNI	DGA	Rapanoel Théodor	216 82	
19/6/97	USAID	Ch de prog	Agnès	348 08	
	BCRM	dir étude	Cl Ramiandrisoa	234 65	

Date	Institution	Titre	Nom	Tel.	Adresse
	Banque mondiale	Expert	Wong	275 49	Ambatomena
	DID	directeur	Serge Gosselin	448 51	BP 7706 Tananarive
	ADEFI	directeur	T Perreau	489 63	BP 340 Antsirabe
20/6/97	CFD	vsn	Mask	200 46	23, rue Razanakombana
		vsn	Kervinio		
	CSBF	directeur	Emma Randrianasolo	347 76	Immeuble Fiaro Ampefiloha
		service contrôle	Ramanitrera Tiana Roger		
21/6/97	DID	directeur	Serge Gosselin		
	ONG AINA MEC Soaniarivo	dirigeants dirigeants	Ramahatra R Andriantsoa V	218 26 240 03	3 lalana Rainibetsimisaraka , Soarano
23/6/97	Présentation Micro Start		voir liste		
	Union Européenne	conseiller	M B Siméon	242 16	BP 746 Tana
	FAFIAM	Représentant	S Razanamparany		
24/6/97	SIPEM	directeur gestionnaire	M Andrianasolo Rasolofo Jocelyn	300 98	rue Rajakoba
		restaurateur garagiste tourneur épicié	client 1 client 2 client 3 client 4		
	CCFR	SG	Randriarimanana Harison	247 10	MINAGRI
25/6/97	AFOA	repr	Rasoavolonjanahary		
27/6/97	PNUD Présentation du document de projet FENU	ARR CTP EN	Lalao Ramanarivo Michel Berlo J Rakotoniaina		

Date	Institution	Titre	Nom	Tel.	Adresse
30/6/97	PNUD Debriefing	CN pauvreté RR Dep RR ARR	Ch Ranaivoson P Metcalf D'Almeida Lalao Ramanarivo		