

# **MicroStart Midterm Evaluation Côte d'Ivoire Case Study**

**Prepared for the UNCDF Special Unit for Microfinance**

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## I. Summary of Conclusions

This document is a review of the MicroStart Côte d'Ivoire program. A visit took place from October 3<sup>rd</sup> to 9<sup>th</sup>, 1999. UNDP staff from Côte d'Ivoire and from the SUM office in UNDP New York accompanied the evaluator to most meetings with various stakeholders (see Annex 1 for persons interviewed). A representative from Socodevi, the Technical Service Provider, also accompanied the team to meetings with the microfinance institutions participating in the MicroStart initiative.

The visit to Côte d'Ivoire was part of the larger MicroStart midterm evaluation. The purpose of the trip was not to formally evaluate, per se, the performance of the MFIs or the TSP; rather it was to understand the context within which MicroStart is operating in Côte d'Ivoire, as in put into the assessment of the MicroStart global program. For this it was important to listen to the various actors in the MicroStart initiative and gain an appreciation for their perspective on the contribution (or lack thereof) that MicroStart has made towards achieving their goals.

Sincere thanks go to Mme Aissatou YaoYao and her support staff at UNDP Côte d'Ivoire for arranging visits, and for the participation of M. Jules Gonnet from IMEC, Co-Chair of the MicroStart Advisory Board. Mme YaoYao and Kiendel Burritt's (SUM/NY) participation throughout the evaluation was particularly useful.

### A. Key Issues for MicroStart Côte d'Ivoire

Although findings and recommendations are discussed below in more detail, the majority of them revolve around the following fundamental issues and questions:

- ✓ The credit unions that dominate the Côte d'Ivoire microfinance scene do not have experience lending to the poorer, woman entrepreneur. Generally, as an institution begins to lend to this segment of the market, small loans and a solidarity group approach is recommended. Yet this approach is poorly understood in Côte d'Ivoire. Some members of the advisory board are openly skeptical of the efficacy of small loans and solidarity group lending. Are the MicroStart stakeholders (the MFIs, the TSP and the advisory board) ready to learn how other institutions have successfully implemented this approach and give it a fair chance?
- ✓ Can Socodevi deliver adequate technical assistance to develop innovative lending methodologies? Do they need assistance to do so? If so, how can this assistance be managed?
- ✓ What is the fundamental vision of the MicroStart MFIs? Are they committed to becoming a significant provider of lending services among the Côte d'Ivoire institutions? Or are they just "going along" with the MicroStart's aim of feeding breakthroughs?
- ✓ Are the MicroStart institutions strong enough to rise to the institutional challenges inherent in developing their internal management systems, creating an innovative lending methodology for poorer entrepreneurs (especially women) and continue

delivering savings products? Can they achieve a “breakthrough”? How and when should the TSP and the advisory board identify “non-performers” and phase out MicroStart assistance to them?

- ✓ Is Socodevi right about achieving growth by using subsidized grants to cover operational losses or to capitalize loan funds so that credit unions can develop their capital base more aggressively? Or is the conventional wisdom correct in believing that any type of subsidized grant is the death knell for credit unions and growth is achieved only to the extent that member savings grow?

## ***B. Context of Microfinance Industry***

### **Finding**

- ✓ In spite of the designers’ intention to serve a wider audience, MicroStart’s technical assistance strategy for microfinance development appears to be designed with NGO’s in mind.

The most dominant types of institutions involved in credit delivery in Côte d’Ivoire are credit unions<sup>1</sup>. Yet, none of the assessments (initial assessment of Côte d’Ivoire, the TSP’s proposal and work plan) examined the implications of applying an NGO influenced strategy in such a context. As a result, the solidarity group lending methodology most commonly used by NGOs is poorly understood and by extension, ineffectively applied. This has led to ill-conceived delivery systems for small loans among MicroStart participants. Although the MFIs have just begun implementing these systems, signs of difficulties ahead are already evident. Unless SOCODEVI and the MicroStart institutions create innovative methods for the delivery **and** recovery of small loans to poor women, increasing the number of small loan clients will be catastrophic.

## ***C. MFI Performance and TSP Support***

### **Findings**

- ✓ The MicroStart institutions are young and small credit and savings associations. Some of them started out specifically to mobilize savings and moved into providing credit later. Others provide credit first as a way to get to savings. Almost all institutions reported liquidity problems and slow loan repayments as the biggest dangers to their future development, nonetheless members seem strongly motivated to find solutions.
- ✓ Some MFIs, while appearing to have potential at the outset, have not lived up to expectations for their performance for various reasons. It is expensive to continue providing technical assistance to an institution that cannot or will not deliver.

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<sup>1</sup> The terms “credit union” and “savings and loan association” can be used interchangeably. However, in Cote d’Ivoire, the term association tends to be used when referring to very small organizations with limited outreach. Credit unions seem to be used when the institution is larger and has several branches.

Continued attention to them detracts from time available to those who do have the potential to become significant providers of financial services in Côte d'Ivoire.

- ✓ In some cases it was not clear that MFIs were equally committed to facilitating access of poor women to financial services in the form of small loans. The question remains whether this is a real strategy of the institution or one resulting from the desire to get loan capital from MicroStart.
- ✓ Giving out small loans to poorer clients means that institutions are offering a new product to a new client. Institutions have little to no experience with either the product or the client. Women that are interested in smaller loans are a different market than the traditional members of the MicroStart MFI. And smaller loans are a different product than the traditional ones currently offered. While the MFI management seems to sense that they need a different approach, there has not been much (if any) innovation in developing a methodology specially designed for small loans to a new type of client. Some adaptation has been tried, but it is not efficient, and much of it goes against what microfinance institutions elsewhere consider "best practices". This may be contributing to repayment problems. Unless MFIs develop a more efficient lending methodology, their cost of operations will increase as they try to reach more women with small loans.
- ✓ Socodevi offers a package of technical assistance that emphasizes developing accounting systems, financial management capability and institutional development (financial statements, roles and policies of various committees, governance issues). A process exists for assessing where institutions are, revising action plans, and focusing on priority areas for each individual MFI.
- ✓ An area of controversy in the global credit union movement is the provision of grants to capitalize loan funds. Many feel that this is the death knell for a credit union. Socodevi does not share this view. The program director in Toronto, Alain Plouffe feels that the growth and future survival of any financial institution requires that it acquire its own capital. Since an institution can't claim its members' savings as its own capital, the primary way it can develop a capital base is by lending money and charging interest and fees. In this light, a grant from a donor to capitalize lending can allow an institution to build up its capital base more quickly than if it had to rely only on its members' savings.
- ✓ Socodevi's strength lies in building internal systems before turning attention to credit delivery. This is extremely important, and the challenge of achieving solid institutional development should not be underestimated. However, it does not address the need to develop a loan methodology specifically for managing the delivery of small loans to poorer clients. Socodevi as an international organization has had experience developing small loan products in Togo. Yet, the background of the chief of party and the three local staff in Côte d'Ivoire heavily favors the strengthening of internal management and not developing new loan products. The small loan product and its client are not traditional ones for most of the MFIs in

MicroStart. This is a major challenge for Socodevi to overcome if the MFIs are to expand their outreach.

### Recommendations

Socodevi should continue revising technical assistance work plans for all the MFIs to determine where to put emphasis for the next period. For the younger institutions, Socodevi should hold off on developing the small loan products for poorer clients and continue to focus on internal systems until they feel the staff can adequately manage:

- ❖ Accounting, information and loan management systems<sup>2</sup>,
- ❖ Managing both savings and credit products/services
- ❖ Policies and procedures of various committees in the cooperative credit union structure

Managing cash flow, and liquidity, and financial analysis seem particularly important for the more advanced credit unions (Mucrefab, Mucrefbo). Socodevi should focus on helping them to:

- ❖ Analyze their situation and use the financial information they compile to make sound decisions (moving from accounting to financial management).
- ❖ Develop the ability to think through their policy decisions so they thoroughly understand what the ramifications are of the policies before they implement them.

UNDP Côte d'Ivoire, the advisory board and Socodevi should carefully examine their current portfolio of MicroStart participants. They should seriously consider phasing out non-performers, or at least reducing the amount of time spent with them so that more attention is paid to those with true potential. They may also want to consider replacing the non-performers with new institutions who are young but show more promise to become significant providers of financial services to poor entrepreneurs. In making such choices, the advisory board and Socodevi should examine carefully and agree to criteria upon which decisions will be made; especially in the definition of what constitutes a "non-performer". In general, Socodevi's advice should carry the most weight in final choices.

It is dangerous to encourage credit unions to make small loans with an inadequate technology, as failure with such lending can hurt both the credit unions and the future confidence of Ivoirians in microcredit. On the other hand, MicroStart could significantly influence the state of thinking among microfinance practitioners by improving and increasing understanding of credit methodologies for lending to poorer entrepreneurs, especially women. A way to offer technical assistance for a new lending methodology should be explored. Socodevi should renew and accelerate its efforts to this area and draw more from its experience in Togo. Some suggestions for doing so are:

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<sup>2</sup> This refers to the traditional, individual loans that are secured with collateral or through a co-signatory.

- ❖ Study tour for selected institutions' credit agents, Socodevi, Advisory board, UNDP staff to Mali (Kafo Jiginew) or Burkina Faso (Caisses Populaires or FAARF)
- ❖ Subcontract with another person or organization who has solid experience in the type of lending methodology needed for disbursing small loans (solidarity group lending)
- ❖ Assess whether there is expertise among NGOs or credit unions or credit and savings associations who are members of the MFI association (AISFD-CI)

#### ***D. Impact on Government/Policy and Microfinance Environment***

##### **Finding**

- ✓ Advisory Board (Comité de Supervision) The advisory board appears to be dedicated to the spirit of MicroStart and engaged in its implementation. The general consensus is that everyone, from the UNDP staff to the TSP and to the MFIs, has been "learning-by-doing". They feel that they are just now reaching their stride in knowing what decisions to make regarding the performance of the TSP and the MFIs. However, the extent to which they can continue to improve their effectiveness and maintain motivation to become a solid decision-making body is directly related to the level of investment in developing the skills of the board.
- ✓ Striking a balance between the supervisory role and advisory nature of the board has not been easy, especially given that the level of microfinance experience was practically zero at the start. It also affected the nature of the board's relationship to the TSP. Since the TSP possesses more experience in microfinance than the members of the board do, TSP staff has found it necessary sometimes, to explain certain concepts on which MicroStart was founded. However, the board understands its role to be one of supervising the TSP and approving funding based on TSP performance within MicroStart. This paradox of the TSP being teacher and supervised at the same time has led to some awkward situations.
- ✓ When TSP payments are delayed, it has negative affects on the pace of the TSP's technical assistance program. This, in turn, can have serious consequences for the pace of an MFI's institutional development and performance.
- ✓ The national executing agency, IMEC who also has a representative on the advisory board, is a key player in the Côte d'Ivoire microfinance industry. They are responsible for managing and enforcing the process of registering institutions under the PARMEC law.
- ✓ Issues such as who poor clients are, how one defines poor, and whether offering small loans has any kind of impact of poor entrepreneurs is still a subject for debate. This is important in Côte d'Ivoire where microfinance is still a relatively new concept.

If people's doubts are not addressed, this could undermine willingness to invest in microfinance as a legitimate tool for development.

- ✓ MicroStart can provide a forum upon which microfinance issues can be discussed on the basis of accurate information and experiences from countries where studies have provided concrete proof of positive impact.

### **Recommendations**

Although developing an advisory board isn't an explicit aim of MicroStart, looking for capacity building opportunities for board members within the broader network of microfinance development is worthwhile. For example, CGAP hosts workshops within the region; other organizations may have events where board members could benefit; UNDP can locate relevant reports and other information from neighboring countries that would add to the knowledge base of the board. The committee should see themselves as catalysts to mobilize resources to build their capacity.

The performance upon which the TSP is held accountable may need to be reviewed and clarified. The work plan submitted by the TSP, the information it is required to provide and the targets it is supposed to reach must be clearly understood by everyone on the advisory board. This is important so that payments to the TSP are not held up needlessly and the technical assistance program derailed.

## II. MicroStart in Côte d'Ivoire

### A. Main Features of MicroStart

Côte d'Ivoire was the first country in the UNDP Africa region to initiate MicroStart activities. Country office staff maintained the core structure of MicroStart as it was conceived by SUM in New York. The following are some of the features of the Côte d'Ivoire program:

- ❖ Country office staff chose one of the pre-qualified technical service providers (Socodevi) to supply technical and financial assistance to fledgling microfinance institutions.
- ❖ An advisory board was formed and includes representatives from government, the donor community, and private sector, NGOs involved in microcredit programs, and banking professionals.
- ❖ Overall funding is at USD 1.6 million—1 million for the technical service provider and a ceiling of USD 150,000<sup>3</sup> (Micro-Capital grants) for each individual institution supported by MicroStart. The ceiling for the Technical Service Provider contract is \$500,000. The country office was able to provide TRAC money to fund MicroStart activities.
- ❖ Five emerging institutions receive support from MicroStart. The basis for selection is an assessment conducted by Socodevi. Each institution had less than 3,000 clients at the start of their participation in MicroStart. Any institution using the Micro-Capital grants to finance loan capital must be willing to provide loans under \$300 and be committed to increasing the percentage of members who are women.

Initially the idea was for the TSP, Socodevi, to provide periodic, long distance technical assistance to the MicroStart institutions, using locally identified persons to provide more frequent follow up. However, early on in the process, Socodevi decided that a more permanent presence was required if they were to be successful. Côte d'Ivoire is new to the microfinance field, and the majority of institutions chosen for MicroStart are very young and weak. Consequently, the TSP hired one full time expatriate to provide technical assistance to the institutions and to supervise three local experts who also provide technical assistance.

In addition, since the original MicroStart guidelines called for supporting 5 to 10 institutions, UNDP planned on identifying seven. However, the start-up nature of three of the first five institutions has required a much more labor-intensive approach than was previously expected. Therefore, for the time being, Socodevi is working with five institutions.

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<sup>3</sup> When the MicroStart project document was signed, there was a \$150,000 ceiling on each MicroCapital Grant. As of now, exceptions to the \$150,000 Microcapital grant amount can be obtained. The ceiling for TSP contracts rests at \$500,000.

### **B. Timeline and Current Status**

MicroStart began with an assessment carried out in June 1997 by an international (Senegalese) consultant, Babacar SAMBE and Mme Louise DJOUSSOU-LORNG, a national consultant. Based on the findings in the assessment, UNDP formed an agreement with IMEC<sup>4</sup> to act as the national executing agency. UNDP

country office then formed an advisory board and began the process of choosing a technical service provider. Two organizations, Socodevi and ACEP, submitted proposals and with the technical advice of SUM in New York, UNDP chose Socodevi.

<b>MicroStart Cote d'Ivoire: Timeline</b>	
<i>Assessment</i>	June 1997
<i>TSP selection</i>	March 1998
<i>Agreement signed</i>	May 1998
<i>Official Launch</i>	July 1998
<i>Preparatory Work</i>	July-Sept. 1998
<i>MFI selection</i>	September 1998 (3 MFIs) February 1999 (2 MFIs)
<i>Advisory Board Training</i>	July 1998

UNDP signed a contract with Socodevi in May 1998. From May to September, Socodevi staff verified the information from the initial feasibility assessment, and conducted preliminary investigations with roughly 45 institutions. Of these, Socodevi performed an in-depth operational diagnostic of seven institutions. The advisory board approved three institutions in September 1998 and two more in February 1999.

## **III. The Côte d'Ivoire Microfinance Scene**

### **A. Microfinance Environment**

Perhaps the most striking feature of the microfinance environment in Côte d'Ivoire is the predominance of credit unions and small, neighborhood savings and credit associations. According to AISFD<sup>5</sup>, the majority of microfinance institutions in Côte d'Ivoire offer generic credit union services, which are managed according to classic credit union practices. Characteristics of these practices are:

- ❖ Based on a cooperative structure where members own the organization and volunteer their time to manage the various committees and supervise paid employees.
- ❖ "Beneficiaries" of an institution's services are members as opposed to clients.
- ❖ Cooperative operations are generally savings as opposed to credit-led. Loans are given out according to level of savings; i.e., a member has the right to take out a loan twice or three times the amount of savings.
- ❖ Loans are secured by savings and by depositing a percentage of the loan as collateral. In some cases, the cooperative will require that the lendee obtain a co-signature from someone who will guarantee the loan.
- ❖ Members pay fees to join the cooperative. Operational costs are covered by interest charged on the loans and membership fees.

<sup>4</sup> Institute pour les Mutelles d'Epargnes et de Credit or the Institute for Savings and Credit Unions.

<sup>5</sup> AISFD stands for Association Interprofessionnelle des Systemes de Financement Décentralisées. Microfinance Institutions are generally referred to as decentralized financial systems or structures.

Apart from the previously state-owned credit union CREP-COOPEC, the majority of microfinance institutions started in the early 90's. According to the information gathered by the consultants during the initial assessment, 95% of the institutions started between 1991 and 1995.

Many of these institutions started in response to the increasing risks of utilizing "mobile saving bankers" who collect clients' savings on a pre-determined schedule, keep them for an agreed period of time and then give back when the agreement ends. Often these agents collect money only to disappear with the savings. The resulting community-owned and operated savings associations added credit services as members demanded loans secured by their savings.

However, many of these institutions serve a population from the upper end of the lower economic strata and on up. Loan sizes are usually above the \$300 loan size that is widely recognized as an indicator that an organization is providing services to a poorer clientele. Interest rates range from 15 to 20%, which is insufficient for microfinance considering that transaction costs and increased risks are higher when delivering many small, unsecured loans to larger numbers of people as opposed to a few large, secured loans to fewer people.

Many donors, NGOs and the government have recently begun promoting financial services for the poorer segment of society as part of poverty alleviation strategies. Some credit unions recognize that poorer entrepreneurs represent an opportunity to expand their client base. In addition, many people in Côte d'Ivoire feel that Ivoirians have become dependent on government financed public and social welfare services. Government can no longer afford to provide such free services to its citizens, and there is a determination to change the prevailing passive and dependent attitude. Since free handouts are no longer possible or even desirable, the development community sees credit projects as a solution. The message is "yes, we can give people money, but now they have to pay it back".

Yet many who have embarked on this road have discovered that the challenge lies in devising effective ways to get the money back once it is loaned out. It does not appear that microfinance institutions in Côte d'Ivoire have an effective approach to providing loans to the poorer segment of society. Solidarity group lending is one of the methodologies that has proven effective around the world in providing credit services to poor clients and at the same time reducing transactions costs and developing efficient ways of managing a large number of loans. But many members of MFIs express considerable discomfort at the group-lending concept. This type of credit system *as it is commonly understood in other countries* is not yet widely practiced in Côte d'Ivoire.

Microfinance represents a new development paradigm in Côte d'Ivoire. The movement does appear to be

- ✓ "How could a business improve on such small loan amounts?"
- ✓ "If there are repayment problems, it is because the business is doing poorly, this can be solved with business training."
- ✓ "How can we ask for weekly repayment when business cycles stretch over several months? The only way is to have monthly repayment schedules."
- ✓ "Solidarity group lending does not work."

founded on the tradition of the “tontine”<sup>6</sup> system, as it is elsewhere in West Africa. Unfortunately, it seems that, so far, Côte d’Ivoire has been left out of the ever-evolving debate in the global community on the role that microfinance plays in the larger context of poverty alleviation. So it is not surprising that participants in the MicroStart initiative do not possess a firm grasp of the nuances of providing financial services to a poorer clientele. During the assessment, the interviewer listened as people expressed doubt about whether small loans could have any impact on poor women entrepreneurs’ businesses; on whether and how loans were targeted to truly poor women; on how to define poor; on how to determine loan terms; on the reasons for late repayments and how to ensure repayment.

Elsewhere in the microfinance world, consideration for many of these issues is reflected implicitly when practitioners develop their credit delivery methods. For example:

- ❖ Small loans are offered precisely because better off entrepreneurs are not attracted to them. Smaller loans are also less likely to overwhelm a microentrepreneur’s management capacity.
- ❖ A weekly repayment schedule allows the lender or a solidarity group to catch potential problems early on when amounts owed are smaller and defaults easier to rectify.
- ❖ Solidarity groups can substitute for loan guarantees since poorer entrepreneurs usually don’t have collateral or someone to co-sign their loan. Group lending can also reduce the higher transaction costs inherent to microfinance programs.

In Côte d’Ivoire, the rationale for providing smaller, rather than larger loans, of affording access to credit via solidarity groups, the role of solidarity groups in securing loan repayments and reducing transactions costs is not well understood. Furthermore, credit unions and savings and loan associations, whose members are not typically from the poorest segment of the economically active, heavily influence the Côte d’Ivoire context. A methodology designed specifically to manage credit disbursement and repayment for small loans to poor entrepreneurs within this context has not yet been developed in Côte d’Ivoire.

### ***B. Need for and Role of MicroStart***

The original objective of MicroStart was very broadly defined in the initial assessment in terms of expanding MFIs’ outreach and enhancing their sustainability. In this context, MicroStart provides the opportunity of institutional development for MFIs that were formed spontaneously—rising up out of the community, as it were, to respond to community demand for financial services. This is in contrast to the usual trend where institutions are created in response to a donor’s direct intervention.

Members of a professional association of microfinance institutions, AISFD, said that their members viewed Socodevi’s choice of MFIs as suspect because two of the five had long-standing relationships with Socodevi. Nevertheless, they were willing to give credence to MicroStart because UNDP had also extended an opportunity for assistance

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<sup>6</sup> Tontines are the West and Central African style of ROSCAs—Rotating Savings and Credit Associations.

to what they considered to be spontaneously formed homegrown institutions; e.g., CEP-CECREV. AISFD characterized such spontaneously formed institutions as:

- ❖ Driven by member demand and not by a donor's agenda
- ❖ Existence and future sustainability is not dependent on donor funds
- ❖ More motivated to re-think conventional ways of credit and savings, especially if new methods benefited members

The opportunities for gaining institutional development are rare for newly created MFIs. Côte d'Ivoire is in the midst of developing its first generation of MFIs and it probably won't be until the second generation that such MFIs will realize anywhere near optimum performance reaching large number of people. However, there has to be a first generation before there can be a second. MicroStart can enable more institutions to join the ranks of those who survive the first generation.

Socodevi also views MicroStart as a way to expand MFI outreach to the larger pool of the poorest entrepreneurs, especially women. The growth of the two oldest institutions it supports, Mucrefab and Mucrefbo, was stagnating because their first pool of clients want to move onto larger loans. So these two institutions were focusing on supplying ever-larger loans to the same clientele and not spending time developing products to add new clients. MicroStart is an avenue to add a product to those currently provided by these institutions. However, this aspect of technical assistance has not received the attention that developing strong committees and financial management has. This is due, in part, to the natural evolution of the MFIs' institutional development. In the evaluator's opinion, it is also due to the fact that Socodevi's strength is in institutional development, not credit delivery and new product innovation. Although Socodevi headquarter staff in Toronto pointed to new product innovation in Togo, the skills and background of the Côte d'Ivoire staff does not reflect this experience. The importance of institutional development should under no circumstances be underestimated; however, in order to introduce innovation, skill and experience in designing new (for Côte d'Ivoire) modes of lending methodology is also necessary.

Another area of controversy in the global credit union movement is the provision of grants to capitalize loan funds. Many feel that this is the death knell for a credit union. Socodevi does not share this view. The program director in Toronto, Alain Plouffe feels that the movement's vulnerability lies in the way it ignores the need to develop credit unions' capital base. Credit unions have traditionally neglected this area in the interests of savings mobilization. Mr. Plouffe feels that the growth and future survival of any financial institution requires that it acquire its own capital. Since an institution can't claim its members' savings as its own capital, the primary way it can develop a capital base is by lending money and charging interest and fees. In this light, a grant from a donor to capitalize lending can allow an institution to build up its capital base more quickly than if it had to rely only on its members' savings.

MicroStart could significantly influence the state of thinking among microfinance practitioners, improving and increasing understanding of credit methodologies for lending to poorer

"We are starting to realize that, in order to reach the poorest clients with financial services, we have to completely re-think the way we are doing it now."

entrepreneurs, especially women. Offering small loans is considered an “innovation” in Côte d’Ivoire and an important contribution to the state of the art would be figuring out how to introduce this innovation where the majority of institutions are offering classic credit union type of products. Many feel that the tradition of tontines (ROSCAs) should be, but has not been, viewed as a strong point to build on and modernize.

There is a growing awareness that to capture the poorer entrepreneur market for financial services, the classic credit union approach to providing credit needs updating. Yet MicroStart is geared towards an NGO audience whose institutional structure is not based on cooperative principles and who typically do not deal with demand deposit savings accounts. This is evident in MicroStart’s provision of grants for loan capital and its focus on very small loans. The initial assessment did not consider the implications of initiating a credit-based methodology favoring NGO-style solidarity group lending in a savings-based, credit union environment. Nonetheless, designers of the MicroStart strategy note that they intended a wider audience pointing out the following program announcement.

“MicroStart will be tailored to each country and market situation depending on which of the following four “markets” show greatest potential for growth:

- ❖ organizations (private and state) which have characteristics deemed appropriate to becoming effective providers of micro-finance services;
- ❖ financial sector institutions (both private for profit and state) wishing to initiate micro-finance services;
- ❖ existing micro-finance institutions;
- ❖ existing and planned enterprise development activities of UN system initiatives containing credit components.”

#### **IV. Selection and Performance of the MFIs**

Socodevi conducted a preliminary assessment of 45 potential institutions. They then pre-selected seven for an in-depth diagnostic of financial service operations (savings and credit) and the status of the institution’s development. Socodevi submitted this list, and the advisory board approved three—Mucrefab, Mucrefbo, and CMEC-Katiola. Criteria for choosing the institutions was:

- ❖ less than 3000 members;
- ❖ commitment to providing small loans of under \$300 to poor women
- ❖ potential for and commitment to financial sustainability (covering costs with internally generated revenue).

There was some controversy over the choice of Mucrefab and Mucrefbo because these two institutions had received previous assistance from Socodevi. And MicroStart is understood by those in Côte d’Ivoire to be for young institutions that have not or would not otherwise receive assistance from a donor. Socodevi pointed out that there were very few organizations in Côte d’Ivoire that had potential to become microfinance institutions with strong financial performance and that also fit the MicroStart criteria. They argued, successfully, that given this reality and the limitations on time (3 years)

and available funding, it was not realistic to expect satisfactory results if Socodevi's portfolio of institutions were exclusively young and weak.

The two institutions approved by the board in February—Cofenci and CEP-CECREV—also generated controversy. The advisory board felt that they were **too** young and weak. However, the extent to which the leadership of these two institutions (especially CEP-CECREV) showed their commitment, openness to learn and determination to succeed went along way in convincing the advisory board to approve their participation in MicroStart.

In the end, a balance was struck and the advisory board chose a diversified set of five institutions at various levels of development. Mucrefab being at the high end of institutional development; Mucrefbo and CMEC-Katiola being in the middle; and Cofenci and CEP-CREV at the low end of the development spectrum.

The performance of the MFIs has been as mixed as their various levels of institutional development. All of them were at various stages of developing credit services. Four started with savings mobilization and then moved to credit in response to membership demand, one started immediately with credit as long as membership fees and collateral were secured. Mucrefab and Mucrefbo started lending operations with more debt than savings mobilized; funding loans from both savings and long term debt (currently at 0% interest) and both are negotiating further loans with the BOAD (West African Development Bank.) Both institutions have been profitable since their second year of operation.

All except one concentrate services in urban or peri-urban areas. Mucrefab and Mucrefbo are credit unions with three to seven branches respectively<sup>7</sup>. CMEC Katiola is a network of village banks. Cofenci (urban) and CEP-CREV (urban and peri-urban) are savings and loan associations. Portfolio quality (PAR>30) ranges from under 1% to 28%<sup>8</sup>. Number of credit clients ranged from 1,494 of Mucrefbo and 1444 for Mucrefab to 15 at Cofenci. Average loan sizes range from \$2,500 at Cofenci to \$280 at CEP-CECREV. Three of the five lend exclusively to women. Some were already looking for ways to add poor women entrepreneurs to their membership base by:

- ❖ Waiving fees.
- ❖ Accepting women as auxiliary members until they had saved enough to pay for full membership.
- ❖ Accepting a group of women who pool their resources to come up with the membership fee.

In the last case the group as a whole is enrolled as a single member. This practice has led to some uncertainty as to how many women are benefiting from the organization's services. For example, CEP-CECREV has 276 members, two of which are groups with

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<sup>7</sup> MUCREFAB intends on opening three more branches in the next two years.

<sup>8</sup> Source for this and the following date is from SOCODEVI's quarterly report for the period ending June 30 1999.

26 and 24 members. So, in reality, CEP-CECREV services are reaching 324 individuals<sup>9</sup>.

In discussion with most of the MFIs it was not clear to the evaluator whether adding poor women entrepreneurs and offering small loans was an integral part of the MFI's growth strategy or was accepted so the MFI could get a Micro-capital grant. For

"Why are we trying to attract poorer women to join our credit union? Well, because their savings will improve our liquidity".  
—MUCREFAB Manager

example, Cofenci was started for women entrepreneurs who by no means could be considered poor. They started with giving out huge loans. CEP-CECREV has an average loan size of under \$300, most of the others hover around \$750. Nor did it appear that much thought had gone into how to "package" the new loan products for what is essentially a new market for most of the MFIs. Adaptation tends to occur in how the poorer women become members of the institution, not in how the loans are disbursed or managed.

Potential borrowers seem to be uncomfortable with the group-lending concept. Socodevi and the MicroStart institutions do not seem to believe it works either. As a result, Mucrefab and Mucrefabo have decided to offer poor women direct access to an individual loan of 45,000 CFA (\$75) without paying membership fees or providing collateral. Subsequent loans will be offered provided that the women repay the loan on time and pay the full membership fee. The theory is that they will be motivated to repay and save for the membership fee on the promise of more loans. CEP-CECREV and CMEC-Katiola have significantly different loan methodologies designed specifically for smaller loans to poorer women<sup>10</sup>.

This should be alarming to Socodevi and the advisory board. At the end of June, Cofenci's and Mucrefab's portfolio quality (PAR>30) worsened significantly (from 0 to 28% for Cofenci and from 5 to 21% for Mucrefab<sup>11</sup>). Cofenci attributed the deterioration to non-payment of some old, very large loans and Mucrefab to a tradition of late payments during June to August—ostensibly because many people travel or work in their fields and neglect their business activities. And although the quarterly report for Mucrefabo shows a slight improvement in PAR>30, the women reported recovery problems particularly with the small loans they just started giving out. CEP-CECREV has just started offering loan products, but already 14% of its loans are reported over one day late. CMEC-Katiola has completed one cycle with its new loan product and said they had no problems, but their policy of collecting repayment only at the end of the 4-month cycle is bound to lead to future problems.

It is too soon to tell whether there will be any "breakthrough" MFIs in Côte d'Ivoire. The evaluator also feels that it is unfair to comment definitively on each MFI's performance on the basis of a three or four hour meeting. In all cases the MFI members and

<sup>9</sup> 276 recorded members – 2 groups or 274 individuals. The 2 groups are made up of 26 and 24 individuals respectively, so 274 + 26 + 24 = 324 individuals.

<sup>10</sup> See Annex 2 for profiles on each MFI participating in MicroStart.

<sup>11</sup> However, at the time of the assessment mission in October, Mucrefab's portfolio at risk had decreased to 10% and it seems possible that the 21% figure reported in June was a miscalculation.

employees whom the evaluator interviewed seemed very enthusiastic and dedicated to their institution. To be sure, dedication is a necessary ingredient for success; but it is not enough. A clear vision for achieving growth, a commitment to self-sufficiency and financial viability, leadership and employees with business and financial management skills are perhaps even more critical for success. It is the evaluator's impression that none of the MFIs interviewed thinks of themselves as a "breakthrough" institution serving thousands of clients. Whether the necessary elements for success are truly in place and receiving the attention they deserve was difficult to tell from the brief visits made to the institutions.

However, it seems clear that the current credit delivery systems for all of the MFIs needs some serious rethinking. The majority of MFIs have current practices better suited for clients who are interested in larger loan sizes (over \$500) and who can secure them by providing collateral, leveraging the loans against savings, obtaining co-signatories on the loans or all of the above. Problems seem to occur when MFIs deviate from this formula, particularly when trying to devise ways of giving small loans to women who cannot secure them in the usual ways. Increasing the number of small loan clients using current policies could be catastrophic. Two options are possible: 1) MFIs are left to develop credit systems based on their traditional client base, following the conventional formula that performs well in the classic credit union structure; or 2) Socodevi provides technical assistance to develop innovative methods for lending in this context.

The evaluator strongly encourages Socodevi to become a leader in the Côte d'Ivoire microfinance scene by pursuing the innovation option. Neighboring countries such as Mali and Burkina have made impressive headway into innovations within village banking and credit unions. For example, the Caisses Populaires movement in Burkina Faso; Kafo Jiginew and Caisses Villageoises (CVECA) de Pays Dogon in Mali. The manager for CMEC-Katiola has visited the Réseau des Caisses Populaires movement in Burkina. Although he introduced new ideas from that visit, more support is necessary before sound approaches can evolve.

One approach to address this issue is to organize study tours to Mali or Burkina Faso. Participants in the study tour should include Socodevi staff, representatives from the MFIs, an advisory board member and the UNDP MicroStart country office representative. Attention should focus not only on the methods, but also on the principles underlying them. The tour should concentrate on spending several intensive days at one institution as opposed to spending one superficial day at several.

Another alternative would be for Socodevi to subcontract or hire someone with extensive experience in designing microcredit lending methodologies. This person would be responsible for providing guidance and technical assistance to the MFIs under the supervision of Socodevi. Finally, it would be useful to learn from members of AISFD who made visits to the organizations listed above and have tried to apply innovative practices.

## V. TSP Performance

### A. Socodevi Technical Assistance—Credit Union Style

Socodevi's strength as a technical service provider lies in its firm grasp of cooperative principles of savings and lending associations. An organization that didn't have a solid background in this area would not have much credibility with the government or the financial community. In addition, Côte d'Ivoire has adopted the PARMEC law to enable non-banking institutions to offer financial services. The law is and will continue to play an important role in determining how the microfinance industry develops. The government has given the mandate to the Ministry of Finance to oversee the application of the law. The ministry has in turn created a specialized organization, IMEC, within its Treasury Department to formulate policies, disseminate information and manage the process of enforcing compliance with the law. A representative from IMEC is a member of the MicroStart advisory board.

The influence of the PARMEC law on MicroStart activities is illustrated by advisory board discussions concerning the differences in the procedures and systems recommended in the MicroStart guide and those required by the PARMEC law. The IMEC representative pointed out that promoting the MicroStart manual's procedures<sup>12</sup> would be a disservice to the MFIs because they are different from those required by the PARMEC law. In order to become a bonafide saving and lending institution, an organization is required by law to register under the PARMEC. Fortunately, Socodevi was well informed of the PARMEC law and its requirements, so they were able to respond positively to the IMEC representative's point. If they hadn't been able to respond, it would have caused serious friction within the advisory board and caused problems for UNDP.

Socodevi's basic approach is to set up a comprehensive strategy for establishing efficient operational, accounting and financial management institutional development first. Socodevi looks to consolidate and strengthen each MFI's internal systems and governance policies before moving on to accelerate credit disbursement. This seems to have made significant improvements in most of the MFIs. And all the MFIs expressed appreciation for their participation in MicroStart and praised Socodevi for the clarity the technical assistance has brought to their internal management.

Training and technical assistance has been directed to two levels of the MFIs structure; a) members controlling and guiding the overall development of the institution and b) employees charged with carrying out and managing day to day operations of the institution. The following is an illustrative list<sup>13</sup> of training and technical assistance activities:

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<sup>12</sup> SUM staff has pointed out that the MicroStart Guide 1.0 guidelines were never meant to be mandatory for MicroStart participants, rather the Guide was intended for new institutions anywhere in the world that were seeking basic concepts for starting up a program.

<sup>13</sup> This list is not exhaustive, it is meant to illustrate Socodevi's general technical assistance strategy.

**For members (level a):**

- ✓ Explaining legal aspects controlling the operations of credit and savings associations
- ✓ Developing by-laws and policies for board of directors
- ✓ Organization and planning for Board of Directors
- ✓ Forming control and loan approval committees and developing policies for their duties
- ✓ Assistance in developing human resource management policies

**For employees (level b):**

- ✓ Accounting systems: balance sheet and income statement; tracking product income and costs
- ✓ End of year account closing procedures
- ✓ Cashier and credit agent training
- ✓ Creating and tracking budgets
- ✓ Computer use

Most of the institutions are grappling now with controlling their delinquency rates, managing liquidity and correctly following accounting procedures. For Mucrefab and Mucrefbo, the next area of technical assistance will be using the financial information they track to make decisions; in other words learning the difference between accounting and financial management. CMEC-Katiola, Cofenci and CEP-CECREV are still working on strengthening their internal systems and policies.

Thus far, judging an MFI's performance seems to be based more on timely submission of balance sheets, income statements and number of clients. Socodevi, not the MFIs, calculates the performance ratios recommended by MicroStart (especially PAR>30 and operational sustainability) since they are not required by the PARMEC law and are seen as meeting the donor's needs—not the institutions' needs.

However, these are the proxy indicators that most accurately pinpoint where an institution needs to place attention. Growth in client numbers that is signaled by a rising percentage of the overall portfolio at risk of defaulting is not sound growth. The PARMEC law requires a PAR>90 figure; but if a microfinance institution waits that long before discovering just how serious their delinquency problems are, it may be too late to recover. Similarly, consistently low ratios of operational sustainability indicate out of control costs or an unhealthy dependence on donor funds. Socodevi should be encouraged to use these performance indicators to determine how well an MFI is doing and also to teach MFIs what they mean and how to use them.

## **VI. MicroStart Partnerships**

### **A. The Role of the Advisory Board**

The advisory board has representatives from government (IMEC and Ministry of Planning); from private sector banking (BIAO and BCEAO); from the donor community (CIDA and the World Bank) and from UNDP.

The advisory board has met several times and appears committed to making sound decisions. They take their responsibilities seriously, although the board did postpone a meeting where Socodevi's next tranche of funding was to be approved. This delayed the administrative process and slowed down Socodevi's pace of technical assistance support. This should be avoided in future as it sets back progress and can negatively affect the development of the institutions participating in MicroStart.

The advisory board started with very little experience in and knowledge of microfinance. The initial training conducted by SUM/NY staff was crucial to setting the stage for the advisory board's conduct. Socodevi, as the entity with the most experience in microfinance has often had to explain some of the concepts upon which MicroStart was built. However, as the board's knowledge grows, so has their confidence level. As confidence grows, the board is taking increasingly harder looks into the business of MicroStart. UNDP has played an enormously important role of coordinating communication and ensuring that good relations exist among the members and between the board and Socodevi.

The advisory board has the potential for becoming an influential forum for discussions and debate on how the microfinance industry will develop in Côte d'Ivoire. However, the members need more exposure to practices outside of their own country. The breadth of experience in Côte d'Ivoire is very narrow and innovation is more likely if information can be absorbed from outside. There is rich experience in several neighboring countries; it would be a shame not to take advantage of this.

Although providing training opportunities to the advisory board is not the thrust of MicroStart, it is in the best interest of UNDP to do what it can to find those opportunities. UNDP is in a unique position to influence the direction of the industry's evolution; it should not miss this chance.

### **B. Working with IMEC**

IMEC is an institution within the Treasury Department of the Ministry of Finance. It was formed during a project undertaken by Développement International Desjardins (DID) in collaboration with the West African Monetary Union (UMOA) to formulate legislation (the PARMEC law) regulating savings and credit operations of non-banking institutions. IMEC is charged with disseminating information about the law. Most importantly, IMEC manages the process of ensuring that organizations handling savings and disbursing credit comply with PARMEC and eventually become registered under it.

The PARMEC law has generated endless debate throughout the West Africa Monetary Union. It will have significant impact on how the microfinance industry develops in West Africa. As such it is important for a representative to be on the advisory board and for UNDP to maintain good relations with IMEC. Thus far, UNDP enjoys an excellent rapport with IMEC and the representative is an important leader within the board. IMEC's influence in the board is considerable. Proof of this is evidenced by the board's stipulation that all MFIs participating in MicroStart must be registered or in the process of registering under the PARMEC law.

### **C. SUM and UNDP**

According to Mme Yao Yao, the programme officer responsible for overseeing UNDP MicroStart in Côte d'Ivoire, SUM/NY has provided excellent support. Mme Yao Yao feels that the unit is responsive to the needs expressed by UNDP Côte d'Ivoire. The advice on which TSP to choose and feedback on the quarterly reports was very much appreciated. In addition, the advisory board training conducted by SUM/NY was very favorably viewed.

Another important role SUM/NY has played is in linking UNDP Côte d'Ivoire to a network of information on microfinance that was previously unavailable. Mme Yao Yao benefited tremendously from her participation at the Boulder, Colorado microfinance course. The course enabled further networking and enhanced the resources available to Mme Yao Yao as she monitors the implementation of MicroStart.

However, the UNDP country office had hoped that its participation in MicroStart might contribute towards developing a cohesive vision regarding poverty and the role of credit in alleviating it. It is the opinion of UNDP staff that the way in which the Ivorian government has traditionally managed its social fund programs has led to a grant mentality. Citizens have gotten accustomed to government handouts and seem unwilling to participate in their own development. This attitude seriously undermines sustainable development, especially since government can no longer afford to continue giving grants.

Although there is a time and a place for grants, the UNDP country office wonders whether integrating credit schemes in its programs isn't a better approach. And if UNDP maintains grants to some programs and credit to others, how does it reconcile the two approaches? What does UNDP staff say when asked, "What is your policy on credit projects?"

For example, the fight against poverty figures prominently in the Côte d'Ivoire country strategy note. Improving the economic and social status of women, reinforcing the development of a civil society, promoting income generation and savings mobilization, and protecting the environment through economic incentives are important objectives towards this goal. Credit components have been injected into a UNIFEM program supporting women's cooperatives and in the HIV/AIDS program. UNDP would like to integrate credit into a new environmental protection initiative, Africa 2000 and in its

program to support decentralized management of urban communes. However, the uneven performance of the UNIFEM and HIV/AIDS projects has caused UNDP to hesitate as it searches for a more effective way to introduce credit to the new initiatives.

Again, it is not a major aim of MicroStart to provide advice on credit policy to UNDP programs in general. However, UNDP has to provide satisfactory answers to its various constituencies who are concerned with poverty alleviation and who see credit as a tool that can cut across many different program areas. SUM/NY could play an important role in helping country offices in this area.

Another area of concern for the Côte d'Ivoire country office is impact evaluation. In countries where microfinance is a relatively new phenomenon, it is important to show that it has a positive impact on improving the lot of poor people. In the words of the Resident Representative, "I think we should know what our investment of \$1.5 million is getting us." A well-designed impact evaluation can be a marketing tool in such cases. SUM/NY can respond to this area by facilitating access to information from AIMS research and other impact studies and investigating how Côte d'Ivoire might approach conducting an evaluation. UNDP may be able to leverage funds from other donors, for example, to finance an eventual impact evaluation

On the other hand, before embarking on a full-fledged evaluation, the evaluator strongly recommends that MicroStart Côte d'Ivoire resolve the methodology issues of lending and recovering small loans to poor women that have been raised throughout this report. As it stands it is very unclear what product would be evaluated. Under the current situation, an impact study would have to focus on savings and/or membership in a credit union.

## **Annex 1. Persons Interviewed**

### **Joceline Bazile-Finley**

Resident Rep UNDP Côte d'Ivoire

### **Aurélien A. Agbenonci**

Deputy Resident Rep UNDP Côte d'Ivoire

### **Aissatou YaoYao**

UNDP Côte d'Ivoire Programme Officer  
And MicroStart Contact person

### **Francine Lafontaine**

Socodevi team leader

### **Jules Gonnet**

IMEC Rep and advisory board member

### **M. Mamby Koulibaly**

BIAO, advisory board member

### **Anne Edwards**

ACDI, advisory board member

### **Alimata DAO**

Ministry of Plan, advisory board member

### **M. Nicaise Ehoue**

World Bank, advisory board member

### **AISFD/CI**

Members of Professional Microfinance  
Association

### **Cofenci**

Accounts manager, Board of Directors and  
members of the credit committee

### **Mucrefab**

Accountant, manager, Board of Directors  
and members of the control committee

### **CEP-CECREV**

General manager, Board of Directors and  
members of the credit and control  
committees

### **Mucrefbo**

General manager, branch employees,  
board of Directors and members of the  
local, credit and control committees

### **CMEC-Katiola**

General manager, accounts manager,  
Board of Directors and presidents of 3  
village bank associations

## Annex 2. Profiles of Microfinance Institutions

**Mucrefab (Mutelle pour le Crédit et l'Épargne pour les Femmes d'Aboisso, Bonoua, Bassam)** Socodevi started this organization in 1987 with financing from CIDA. In 1994, Mucrefab was registered as an official credit union. As of June 30, 1999, Mucrefab had 1,444 outstanding loans and 2,940 saving members. Mucrefab provides services exclusively to women in urban areas of Aboisso, Bonoua and Bassam. Mucrefab is owned and operated by its members and employs a general manager, accountants, and 17 credit agents. There is a board of directors headed by a very dynamic president, a credit committee, and a control committee. There are also 10 'local' committees at the community level that provide a link between the board of directors, the credit and control committees and the membership. MUCREFAB's future goals include adding another three branches, attracting over 6,000 members and 4,000 credit clients.

Women must be members in order to save and have access to credit from Mucrefab. Fees are 15,000 CFA or roughly \$25. Several savings products are offered, at 4% to 5% per annum depending on the product. The loan ceiling is about \$5,000. Methodology is based on individual loans where amounts over \$300 must be secured by a deposit of 20% of the total. For loans over \$1,600, 20% and a co-signatory are required.

More recently, Mucrefab's growth stagnated, as its initial members demanded ever-increasing loan amounts. More time was spent on meeting this demand than on attracting new members. As a result, Mucrefab has begun accepting "honorary" members who cannot afford the 15,000 CFA in fees. A poor women entrepreneur pays 5,000 CFA or roughly \$8 and gain access to a loan under \$300. Interest rates are set at 19% flat, per year. A 1% penalty is levied daily against any overdue loan. A loan is overdue after 2 or 3 days. Mucrefab is able to cover its operational costs with revenue from interest rates and fees.

The process for loan application starts with paying the membership fees. The woman then fills out the information in a form and the 'local committee' of Mucrefab members operating in her neighborhood verify the applicant's information, her good standing in the community and the economic activity in which she is engaged. The application goes to the credit committee and then to the board of directors for final approval. Every loan agreement, no matter what the amount, stipulates that the loan is to be repaid within a year. A woman is free to repay her loan more quickly and many do. However, this practice makes it difficult to manage liquidity and plan for the volume of loan demand.

Members must repay at the branch location. In the event of a late payment, the credit agents go to each individual to find out what has happened. If the member does not respond, the local committee applies pressure on the woman. Checking up on each individual creates a significant workload for the credit agents. Mucrefab is currently struggling with 21% of its portfolio over 30 days past due. The women present at the interview claimed that June to September are traditionally slow months for repayment

because most people are travelling or working in their fields. Mucrefab's experience illustrates the problem that credit unions can have with their lending technology. The institution is too busy making loans and raising money from other sources rather than mobilizing more savings. The situation is not yet out of hand, but could drift that way easily.

In fact, loan demand far outpaces the level of savings that Mucrefab has been able to secure. It obtained a loan from Socodevi to capitalize its lending operations. Mucrefab has since repaid the loan and Socodevi is helping the institution negotiate a loan from BOAD (West African Development Bank) at 4% per year. They plan on using the original loan amount to guarantee the BOAD loan.

**Mucrefbo (Mutelle de Crédit et d'Épargne pour les Femmes de Bouaflé)** Mucrefbo started in 1994, also with Socodevi's assistance. It was officially launched in 1996 and registered as a credit union under the PARMEC law in 1998. The first years concentrated heavily on consolidating and reinforcing internal management (especially the accounting systems). As of June 30, 1999 Mucrefbo had 1,494 active loans and 3,362 saving members. There are currently seven branches that offer savings and loan services exclusively to women not only in urban areas, but also in the surrounding villages. Their future plans include reaching over 7,000 members over the next three years.

Mucrefbo is owned and operated by its members and employs a general manager, accountants, and credit agents. There is a board of directors headed by a dynamic president, a credit committee, and a control or monitoring committee. There are also 'local' committees at the community level. They provide a link between the board of directors, the credit and control committees and the membership.

Mucrefbo's products are similar to Mucrefab's. Savings earn 4 to 5% per year depending on how long they are left with the credit union. Loan ceilings are around \$5,000, loan duration is from 4 to 6 months and the interest rate is 20%. Revenues (interest rates and fees) cover operational costs. Also, as with Mucrefab's, their growth stagnated, as its initial members demanded ever-increasing loan amounts. More time was spent on meeting this demand than on attracting new members.

Ordinarily, women must be members (paying \$25 in fees) and provide 30% of the loan amount as collateral to gain access to loans. However, in order to attract poorer women entrepreneurs to Mucrefab, membership fees and the 30% collateral can be waived and a loan of under \$75 approved. (The usual procedures for loan approval are not, however, waived.) The woman must then save on a regular basis until she can pay the \$25 to become a member. At this point she can get a second loan under \$300, providing she can secure it with 30% of the amount requested. Although Mucrefab had high hope for the ability of this loan product to attract more women, members have had particular difficulty getting the women to repay. They do not have the same problems with the larger loans. Mucrefbo's PAR>30 was 4.08% in June.

Mucrefbo's loan approval process is much the same as MUCREFAB's. Women fill out the information in a form and the 'local committee' members operating in her neighborhood verify that she has provided accurate information, that she has good standing in her community and that she is engaged in an economic activity. The application goes to the credit committee and then to the board of directors for final approval.

Members must repay at the branch location. In the event of a late payment, the credit agents go to each individual to find out what has happened. If the member does not respond, the local committee applies pressure on the woman. Checking up on each individual creates a significant workload for the credit agents.

Members reported late repayments and inadequate loan capital to satisfy members' demand for loans. They are afraid that if they continue disappointing those who have paid their membership fees, they will lose them to the three other major institutions currently operating in their area.

**Cofenci (Coopérative des Femmes Entrepreneurs de Côte d'Ivoire)** Cofenci began as a program allied with the ILO, as a savings and loan association for women engaged in the construction industry. After the project was over, Cofenci was officially 'born' in May 1998. Their first loans were disbursed in October 1998. At first, Cofenci provided bulk purchasing of supplies and business management training services for members who paid fees of roughly \$160. This practice seems to have been discontinued. In addition, the association is open to women entrepreneurs in all types of businesses.

Cofenci had 15 active loans and 348 saving members as of June 1998. They project growth of 70 members per month. Members of Cofenci must save for six months before being eligible for loans.

Cofenci's loan application procedures are similar to Mucrefab and Mucrefbo, (i.e., member pays the \$25 membership fee, the individual loan application goes to the credit committee, is analyzed and goes to the board of directors for final approval). The only difference is that members must save for six months before they are eligible for loans. Loans must be repaid within one year and a 19% interest rate is charged. Cofenci just raised its rate from 15%.

In an effort to attract more members, Cofenci promised that women would be eligible for loans three times the size of their savings. Unfortunately, they haven't been able to deliver on this promise and the result is that members are seriously annoyed with Cofenci. Liquidity problems are also due to the fact that several very large loans were disbursed to just a few members, leaving nothing for the rest. This, claims Cofenci, also raised the average level of loan size to \$2,600. In reality, the average amounts are more along the lines of \$200 to \$500. It is unclear whether serving poorer women entrepreneurs with smaller loan sizes is truly one of their aims, or whether members just said that in order to get into the MicroStart program.

Cofenci is still very new and needs much attention to developing its internal management. It also needs help in reviewing its loan policies. It is much too soon to say whether Cofenci will overcome its challenges and realize its projected growth of 70 members per month. However, Socodevi has expressed frustration at the slow response of Cofenci to the suggestions it has made during technical assistance visits. How long should Cofenci be given before it takes action and shows that it is a serious organization dedicated to providing financial services?

**CMEC-Katiola (Caisses Mutelles d'Epargnes et de Crédit à Katiola)** CMEC-Katiola is a network of 13 small savings and loan 'caisses' or banks serving both men and women (mostly men) in urban and rural areas. Each caisse is independently managed as an association and is monitored by a central office that plays the role of a federation. The central office facilitates communication between the caisses, provides control and management assistance and transfers funds (i.e. deposits savings) between the individual caisses and commercial banks. As of June 30<sup>th</sup> 1999, CMEC had 490 active loans and 3,686 saving members. CMEC has an interesting history, the ministry of agriculture was and is a moving force behind the institution. The general manager is, in fact, an employee of the government.

CMEC is a saving led institution and members pay a \$10 fee to open an account. However, CMEC decided that it wasn't good to "let their savings sleep" and began offering credit and charging interest. Savings deposits provide the capital for loans but each caisse must reach a pre-determined level of savings before it can begin lending operations.

Lending methodology is, by and large based on classic credit union practices. Loans are mostly individual, and collateral is required. Loan terms range from 3 to 12 months depending on the type of business the loan is for. The credit committee of the caisse approves loans after reviewing a member's application and analyzing their business activity.

The general manager of the central CMEC office visited the Caisses Populaire movement in Burkina in 1998 and brought back new ideas for increasing the number of women members. CMEC developed a new product designed to attract a poorer women client. Since many women cannot afford the \$10 membership fee, CMEC decided that a group of 3 to 7 women that pooled \$10 could join and open a CMEC savings account. CMEC would treat the group as an individual. Loans are disbursed in three four-month cycles. The first level starts with \$8 to \$25, the second \$42 and the third \$83. Collateral is not required for the first level loans, but if the group successfully pays back their first loan, they must have 10% of a new loan amount already deposited before they can move on. Loans are repaid in a lump sum at the end of the four-month cycle. CMEC has completed the first cycle at one caisse and had no problems with repayments.

Given the experimental nature of this new loan product, Socodevi recommended that CMEC try it at only three of their caisses. This is a wise because experience with this type of lending methodology (i.e., waiting for four months before asking for repayments) elsewhere in the microfinance world has not been encouraging. Even though CMEC

has had no problems with this first experiment, it is almost sure to have major difficulties with this system.

CMEC's other challenges revolve around consolidating their internal systems, especially financial management. It wasn't until Socodevi provided technical assistance to set up a proper accounting system that they realized what was happening with their liquidity. Several owners of very large businesses deposit huge sums of money for short periods of time and then withdraw at a moment's notice. This prevents CMEC from being able to add this money to their loan capital. More worrying perhaps, is the role of the government in CMEC. Generally, such marriages between microfinance and direct government involvement do not have good track records. Where do the loyalties of the general manager lie? Just how much does the government get involved in CMEC's policy formulations? These are important questions that will greatly influence CMEC's evolution.

**CEP/CECREV (Compte d'Epargne et de Pret Rural, Compte d'Epargne et de Credit Urbain)** CEP-CECREV began as an association promoting savings mobilization around 1995. According to Socodevi's January 1999 diagnostic report, CEP-CECREV's initial experience was not a happy one. It appears that at some point there was serious fraud and one of the administrators ran off with members' savings. As a result, over a third of the original members left. As of June 30<sup>th</sup> 1999, there were 32 active loans and 217 saving members.

CEP-CECREV has only recently begun lending out to its members, most of whom are men. Although their primary goal is to encourage a savings habit among their urban and rural membership, they decided to get into lending in response to demand. At first lending policies and management were haphazard, but with the advent of MicroStart and Socodevi technical assistance, they have tightened up their system. They have also vastly improved their accounting, committee policies, and general internal operations. CEP-CECREV has a board of directors, local committees, credit and control committees.

Loans are approved only after the member pays the \$12 membership fee and has saved at least \$17 over 3 months. Loan applications go through the credit committee who reviews the application, analyzes the lende's business and then goes to the board of director for final approval. The member must deposit 30% of the loan amount as collateral. Loans must be repaid within a year.

CEP-CECREV has decided that, in order to attract more women, they will offer loans to a group of women in the same type of business. For example, they recently disbursed roughly \$660 to a group of women involved in the palm oil business. The women will use the loan to buy palm kernels and a palm oil presser. The women will then sell the oil and pay back the loan within eight months. CEP-CECREV identified resource people to provide literacy and palm nut processing training to the women. They plan on disbursing similar loans to women involved in cassava processing (attieke) also. CEP-CECREV should carefully re-consider whether this approach is a wise one since this type of group lending has not had a good track record in the microfinance world.

