Microcredit in Sub-Saharan Africa

A Symposium

Terry F. Buss

> The stark reality is that most poor people in the world still lack access to sustainable financial services, whether it is savings, credit, or insurance. The great challenge before us is to address the constraints that exclude people from full participation in the financial sector. The International Year of Microcredit offers a pivotal opportunity for the international community to engage in a shared commitment to meet this challenge. Together, we can and must build inclusive financial sectors that help people improve their lives.
>
> UN Secretary General Kofi Annan,
> Announcing 2005 as the International Year for Microcredit

Microcredit programs in Sub-Saharan Africa, for the most part, face the same set of problems and opportunities—everything from debt repayment to outreach—as do comparable programs in other regions across the globe. There is little that is especially unique, to speak of, in the way programs in Sub-Saharan Africa are developed or implemented or in the clients in need and the services consumed. There are five or six issues, though, that appear to apply more to Africa than might generally be true elsewhere. Why have nongovernmental organizations (NGOs) in Africa lagged behind other regions in transforming from subsidized agents to private, albeit nonprofit, regulated financial institutions? How has microcredit as a development approach been brought to bear on the issue of HIV/AIDs currently plaguing Africa? Is microcredit a viable development strategy in postconflict countries? Why do microcredit programs in Africa differ so widely by region and country? How can formal and informal financial markets be better integrated? Although not unique to Africa, what are the positive and negative impacts of microcredit on entrepreneurs and on their businesses, families, and communities, especially social capital? How can outcome assessments be used to improve microfinance program management? And how might microcredit programs be made more sustainable? Below I raise issues that ought to be high on a research agenda for Sub-Saharan Africa and discuss six papers by prominent microfinance researchers who address some of these areas in this Symposium.

Financial Institutions and Markets

Microcredit organizations in developing countries were launched either as NGOs, components of development projects, government agencies, or savings and credit associations or cooperatives and self-help groups (International Labor Organization, 1996; IFAD, 2001).[1] Expectations, at least among market economists, were that, with the exception of group schemes, these highly subsidized operations would eventually become regulated financial institutions, able to sustain themselves in financial markets in competition with other private sector banks (Robinson, 2001). Since 1992, when the NGO Fundación para la Promoción y el Desarrollo de la Microempresa was transformed into BancoSol in Bolivia (Glosser, 2004), 39 other NGOs have converted. Of the NGO transformations, only one—Kenya's Rural Enterprise Program (K-Rep)—in all of Sub-Saharan Africa has converted (Rosengard, 2000; Fernando, 2004).[2] Why

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have NGOs in Africa lagged behind other regions? Or, stated more positively, why have African NGOs chosen not to transform?

The Asian Development Bank (Charitonenko & Rahman, 2002, pp. x–xi) recently cataloged challenges facing the "commercialization" of NGO microcredit programs, including "widespread negative perceptions of commercialization, weak institutional capacity, lack of vision in the microfinance industry, plethora of poorly-performing government microcredit programs, inadequate secured transactions framework, absence of credit information bureaus, lack of legal and regulatory supportive frameworks and prevalence of grants and soft loan funds (see also, UNCDF, 1999; Campion, 2002)." What remains to be seen across Africa is which of these factors account more or less for the lack of "commercialization" of NGOs and what policy-makers might do about it.

Ernest Aryeetey, in this Symposium, looks at financial markets with an eye toward integrating the informal and formal components into a more efficient and effective financial system that will serve microentrepreneurs and small- to medium-size enterprises (SMEs). He offers a framework for achieving financial market integration.[3]

HIV/AIDs and Microcredit

Sub-Saharan Africa boasts only 10% of the world's population but accounts for 60% of all people living with HIV/AIDS. This translates into an estimated 25.4 million people who are HIV-positive. As many as 3 million new HIV cases are added each year, while about 2 million die annually from the disease (Stanecki, 2004; USAIDS/WHO, 2004; Ntinga, 2004; Dunford, 2001). Effects of the pandemic threaten to stall or even reverse economic progress in the region (Patel & Buss, 2003; Buss & Patel, 2005). Workers are lost and not replaced. Families loose breadwinners. Children are orphaned.

Some microcredit programs in Sub-Saharan Africa are beginning to target those impacted by HIV/AIDS, particularly women clientele, as a way to empower them to participate in economic prosperity where they had been excluded in the past. "Most African microfinance schemes could potentially expand their outreach and become self-sustaining. They are an effective anti-poverty tool—'When the poorest especially women receive credit, they become economic actors with power; power to improve not only their lives but . . . the lives of their families, their communities and communities of nations'" (UNDP, 1999). But HIV/AIDS may unravel women's progress, not to mention the progress of men and families, as they struggle to become economically independent. Microcredit programs are now associated with health care, preventive education, life and disability insurance, orphan care, and other social services not previously associated with microcredit (e.g., Microcredit Summit, 2000). Taking on HIV/AIDS in the context of microentrepreneurship poses special challenges: many traditional African societies ostracize people with AIDS, making it difficult for them to participate in group lending schemes, for example. It is unclear whether the melding of microcredit with HIV/AIDS prevention and mediation will be successful over the longer term as an approach to the economic empowerment of women. But prospects might be promising.

Carolyn Barnes, in this Symposium, seeks to better understand how chronic illness and death, possibly associated with HIV/AIDS, negatively affect households and the impact of microcredit in helping affected households access capital and services from the Zambuko Trust in Zimbabwe. The study looks at the vetting of members by loan guarantee groups and the ways these groups deal with individuals affected by illness and death. Because loan group members serve as gatekeepers for loans, internal dynamics of these groups, as well as the policies and loan terms and conditions, are important to understanding any push factors that might exclude HIV/AIDS infected and affected individuals. Barnes suggests ways that might assist microfinance institutions and their clients to address negative effects of HIV/AIDS.

Microcredit in Postconflict Countries

Civil war and outsider aggression have plagued many countries in Sub-Saharan Africa, with many conflicts attracting global attention—in Liberia, Sierra Leone, Rwanda, and Congo, to name a few. Many wonder whether microcredit programs might help stimulate recovery in these war-torn places (Tucker, Nourse, Gailey, Park, & Bauman, 2004; World Bank, n.d.). The UN Capital Development Fund (UNCDF) is experimenting with such investments. From their website:

> Sierra Leone: Very few in this country have access to microfinance following a decade of conflict. But with the aim of inspiring economic growth and durable reconstruction, UNCDF has mobilized donors to work with the government in a five-year program to build an inclusive national financial sector that fully integrates microfinance—with $3.3 million from Kreditanstalt für Wiederaufbau (KfW, Germany's development bank), $3 million from UNCDF and $2.5 million from UNDP. The goal is a competitive microfinance industry by 2009 that provides sustainable financial services to at least 80,000 active clients. (UNCDF, 2004)

Is microcredit a viable development approach for recovering war-torn countries or regions? More research in Africa is needed to answer this question.

Variability in Microcredit Programs

Microcredit program developers—mostly NGOs, development projects, and APEX[4] organizations—in Sub-Saharan Africa and other regions have been just as entrepreneurial in designing programs as entrepreneurs have been in launching new businesses.[5] A lot of knowledge exists about how to attain different program goals through organizational structure, product design, funding innovation, and service delivery. This being the case, one would expect that there would be wide variability in program offerings across Sub-Saharan Africa. In fact, though, regions and individual countries tend to employ similar programs that vary from other regions (see Aryeetey in this Symposium). Are the needs of microenterprises for capital and services different across regions, necessitating different microcredit programs? Or are there either barriers or opportunities that shape program possibilities? Identifying reasons why programs differ across Africa might be an interesting line of inquiry. The range of programs covered by our six articles in this Symposium provides an overview of the possibilities.

Impact Evaluations

Even though there are now perhaps thousands of microfinance programs serving millions of people, impact evaluations are not as common as they ought to be.[6] As a field, we still lack continuing hard information about what works well and what does not, and what impacts microfinance has on microentrepreneurs in Africa.[7] Gayle Morris and Carolyn Barnes, in this Symposium, report findings from an impact study of three microfinance programs in Uganda—FINCA,[8] FOCCAS, and PRIDE. The study found numerous positive impacts on program clients: the addition of new products and services, an improvement or expansion of enterprise sites and markets, a reduction in the costs of inventory purchases, and an increase in sales volume. Household-level impacts included new enterprises begun, increased amounts spent on durable assets and agricultural inputs, increased amounts of cultivated agricultural land, and increased amounts of household income from crops. Microfinance programs help client households reduce financial vulnerability through the diversification of income sources and the accumulation of assets. Donor organizations should consider investing more resources in evaluation studies of microcredit in developing countries. In addition to producing knowledge, evaluations can be used to financially support universities and think tanks that might receive contracts to conduct the work.

Linking Outcome Research to Management Decision-Making

Commercial financial institutions have always invested heavily in the production of information that can be used by management to improve productivity, and hence profitability. In the world of microfinance, though, much of the knowledge production, especially in the early days of these programs, concerned mostly assessments by donors to see whether their expectations were being fulfilled, and to some extent to identify problems, barriers, and opportunities that might improve the design and operation of programs in the field. As microcredit program managers have become more sophisticated, and as methodologies for producing information have been increasingly refined, information is now being used by program managers to guide operations, just as it is in the commercial world. Practitioner-focused assessment and its cousin, client-focused assessment, are becoming increasingly common, improving the field in the process.

Doocy, Norell, Teffera, and Burnham conducted an outcome assessment of microfinance programs in southern Ethiopia, looking at the impact of program participation on socioeconomic status and food security. They show how management used study findings to improve client retention, increase client savings, and expand participation for women.

Microcredit Program Sustainability

Program sustainability is a huge issue in the microcredit field. It means something different in the context of program type—self-help groups, NGOs, government-sponsored programs, or commercial ventures (Buss, 1999). Organizations depending on donor agency subsidies are not (but could be) commercially viable, but depend on their ability to meet donor expectations while behaving effectively and efficiently within this context. Government-sponsored programs tend to function similarly to NGOs. Commercial programs are sustainable to the extent that they survive and thrive in the competitive market, while meeting the needs of investors or owners. Of course, self-help groups are sustainable to the extent that they serve the credit needs of members and continue to replenish capital. Regardless of microcredit organizational type, sustainability probably is achievable for all at least in part if the following principles are adhered to: understanding the market for microcredit, adhering to proven best practices in the field, decentralizing decision-making, building and maintaining capacity, focusing on the mission, being accountable and transparent, and striving for efficiency and effectiveness.

Baumann, in this Symposium, looks at the sustainability of NGO-managed microfinance institutions in South Africa where the society has extreme income disparities. NGOs must recover operating costs—especially salaries—equivalent to those in First World countries. Yet microfinance institution clients in South Africa are among the poorest in their ability to repay loans, as is common in Third World countries. Therefore, Baumann argues for alternatives to the NGO-based microcredit model.

Microcredit and Social Capital Formation

Social capital refers to the notion that networks of people working together produce benefits for themselves and the community to a much greater extent than does isolated, individual action (de Souza Briggs, 1997). Poor people who are not connected are disadvantaged in any effort to reduce their poverty. Social capital formation has come to undergird many poverty reduction strategies: the World Bank and the United Nations Development Program both heavily promote this approach, as do other donor countries and international organizations. Microcredit programs are in themselves one form of social capital in that they bring together lenders and borrowers for the purpose of starting and developing microenterprises and, in many cases, consuming social services. This connectivity benefits business, community, and individuals as they attempt to fight their way out of poverty.

Kah, Olds, and Kah look at the role of microcredit in social capital formation in Senegal from both a rational choice and a Marxist perspective. The study goes beyond an assessment of the impact of programs on participants to an assessment of the impact on communities.

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The Symposium (contained in this issue of the *Journal of Microfinance*) begins with Aryeetey's paper laying out microcredit in Sub-Saharan Africa, followed by a discussion of formal and informal financial market integration. Next, Morris and Barnes report results from their impact assessment of microfinance in Uganda. Barnes reports on her work in Zimbabwe in the context of HIV/AIDs. Doocy, Norell, Teffera, and Burnham show how program outcome assessments can be linked to program management decision-making in Ethiopia. Baumann tackles microcredit program sustainability in South Africa. And, finally, Kah, Olds, and Kah show how microcredit programs engender social capital formation in Senegal.

Notes

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1. There are, of course, examples of commercial lenders with programs serving poor people. The Century Rural Development Bank of Uganda is one example (Seibel, 2002).

2. K-Rep, founded in 1984, transformed into K-Rep Bank Ltd., a commercial bank, in September 1999. K-Rep originally was a financial intermediary providing capital to NGOs and to work on the U.S. Agency for International Development's Private Enterprise Development Project. See http://www.k-rep.co.ke

3. See also, Aryeetey (2001).

4. APEX organizations are intermediaries between funders and microcredit programs. Their track record has been called into question (see, for example, Pennell, 1999).

5. See, for example, Chao-Beroff (2000).

6. The Africa Microfinance Network, for example, includes 365 member institutions, serving 2 million poor people in 13 African countries. The Micro-Credit Summit hopes to serve 54 million clients by end of 2005. See http://www.microcreditsummit.org

7. Some illustrative examples from the field include: MkNelly and Lippold (2001), Brown (2002), Freedom From Hunger (1998), Rosenberg (1998), Hospies, Musinga and Ong'ayo (2002), Lafontaine (2001), and Afrane (2002). The best catalogs of studies, including evaluations and impact assessments, are found at: Microfinance Gateway (http://www.microfinancegateway.org), UNCDF (http://www.uncdf.org), Consultative Group to Assist the Poorest (http://cgap.org), and Global Development Research Center (http://www.gdrc.org).

8. See FINCA website at http://www.villagebanking.org/

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