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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.

* * * * *

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

This symposium is a project of the Africa Working Group of the National Academy of Public Administration (Academy) in Washington, DC. The views expressed in the Symposium are those of the authors and do not necessarily reflect those of the Academy as an institution.

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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Informal Finance for Private Sector Development in Sub-Saharan Africa

Ernest Aryeetey

Abstract: What can be done to make informal finance and microfinance suitable for financing growing small to medium size enterprises (SMEs) in Sub-Saharan Africa? First, I present the characteristics of informal finance, focusing on size, structure, and scope of activities. Informal finance has not been very attractive for the private sector. Indeed, the informal sector has considerable experience and knowledge about dealing with small borrowers, but there are significant limitations to what it can lend to growing microbusinesses. Second, I discuss some recent trends in microfinance. While externally driven microfinance projects have surfaced in Africa, their performance relative to small business finance has not been as positive as in Asia and Latin America. Third, I introduce some possible steps toward a new reform agenda that will make informal and microfinance relevant to private sector development, including focusing on links among formal, semi-formal and informal finance and how these links can be developed.

In this section I explore the characteristics of informal finance that make it difficult for it to be accessed by Sub-Saharan African enterprises. "Informal finance" might be defined as embracing all financial transactions taking place beyond various countries' regulations on banking and other financial sectors. This

definition includes a wide range of financial activity whose operational scope differs across countries. Indeed, there is a wide variety of informal savings and lending in the region.

The definition of informal finance includes such schemes as the operations of Savings and Credit Associations (SCA), known all over Africa; professional moneylenders; part-time moneylenders (estate owners, traders, grain millers, smallholder farmers, employers, relations and friends); mobile bankers, known as *susu* or *esusu* collectors in West Africa; credit unions; and cooperative societies. These exist in both urban and rural areas. While savings collectors fall under the first category of deposit mobilizers, moneylenders—including relations and friends—do not generally accept deposits and may be assigned to a second category. SCAs (credit unions and credit cooperatives) take in deposits and also lend in varied forms. Most informal units deal with specific groups of people, ensuring that only those satisfy distinct selection criteria are able to either deposit with them or borrow from them.

Who Can Borrow from Whom?

There is extreme segmentation in Sub-Saharan financial markets, "fragmented" because the various segments serve distinct groups of clients with similar characteristics and needs, and there is hardly any interaction among different institutions. The negative effects of weak linkages among segments far outweigh benefits of any specialization they could make available through the existence of segments. Fragmentation is indicated by wide differences in interest rates, as well as insignificant flows of funds between segments, limiting access to funds by potential clients. Because funds of different lenders can hardly be substituted for one another, fragmented markets have difficulty intermediating between savers and investors. In not being able to allocate financial resources, they cannot always transform and distribute risks and maturities efficiently. As a consequence, deposits mobilized, as well as credit facilities, differ in structure, associating demand and usage with distinct socioeconomic groups.

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Credit from moneylenders is often the most expensive credit available, hence demand comes from persons with no other options. Such credit remains, nevertheless, the only source of informal credit that does not require borrowers to satisfy specific membership obligations. Despite the relatively high probability of loan requests being granted, short maturity periods and high interest rates do not make this credit attractive for those seeking working capital and fixed investment loans. In most of rural West Africa, for instance, clientele is wide ranging—farmers, market women, other traders, nonfarm entrepreneurs, and other self-employed craftsmen. Farmers sometimes borrow money from moneylenders during the planting season to maintain their households until the next harvest. They may also borrow for funerals and other social events. While rural households usually borrow from their own communities, they sometimes travel far to borrow from a moneylender.

SCAs' credit facilities are used mainly for consumption, even though they sometimes provide working capital. In Malawi, however, the use of cooperative loans for financing farm working capital outweighs use for consumption, as these are mainly for fertilizer purchase and payment for farm labor (Chipeta & Mkandawire, 1991). A small loan for a short period has to be used for an activity that has a quick turnover, such as cereal production. Group membership is an essential tool for screening loan applications and for ensuring that contracts can be enforced. For many associations, limitations to growth in size are imposed by expected increased risk and increased probability of losing homogeneity as the group expands. Homogeneity provides them with a sense of familiarity, engendering mutual trust. Some rotating savings and credit associations (ROSCAs) intentionally do not put together people with too different backgrounds and interests. Size limitation restricts capital to those borrowers whose demand for loans is not regular—e.g., those requiring loans to purchase a relatively expensive consumption item.

Savings (*susu*) collectors grant "advances" to some trusted clients. Other loan recipients might be traders at local markets in need of short-term credit. When collectors lend to non-deposit clients, terms

are often different from those of their deposit clients; they tend to behave as moneylenders.

How Does Informal Sector Lending to the Private Sector Work?

A number of recent studies reveal adequately that there has been substantial growth in the activities of the informal financial sector since reforms began in many Sub-Saharan African countries (e.g., Steel, Aryeetey, Hettige, & Nissanke, 1996; World Bank, 1994).[1] Unfortunately, while the informal sector has grown and is willing to increase lending, its products are not necessarily what the growing small private sector demands.

There appears to be greater diversification in activity among some informal institutions in attempts to reach out to more borrowers than is observed among formal institutions even after reforms. Lending by SCAs has become part of a wide and growing range of informal financial activities that are increasing clientele, as well as growth in institutional goals and scope, including a diversification of clientele. Even though SCA activities have broadened, socioeconomic principles underlying their operations have not. Change in the scope of SCA activities, as with other informal financial units, has been induced by changing socioeconomic circumstances of clientele or membership, and also by changes in national economies.

Significant growth in lending by SCAs and rural cooperatives has been observed in a number of countries. But the growth of lending by commercial moneylenders has been slower than that of the SCAs and cooperatives in West Africa. Loan applications to moneylenders in Ghana and Nigeria rose significantly in the 1990s but rural moneylenders received more applications in a year than did urban lenders. They granted loans to over 80% of their loan applicants in the period. Similar experiences have been reported in Malawi.

Urban informal commercial loan sizes in Sub-Saharan Africa generally lie between $50 and $1000, with a median value of about $250, and have only grown marginally in many cases. In general, loans from moneylenders tend to be the largest in the informal sector.

Urban loans are also significantly larger than rural loans. Loan sizes for moneylenders tend to be similar across countries.

Interest rates and maturities of informal lenders often make their loans unattractive for business. Interest rates vary widely, from zero to more than 100% per annum, even though they often have similarly short maturities, seldom going beyond six months. Also, rates do not seem to change significantly with time for a large number of informal lenders. Interest rates of Malawian moneylenders (*Katapila*), for example, appear to be much higher than in most parts of Africa. They sometimes go as high as 100% per month. This rate has been applied for many years in Malawi. In all countries, moneylenders have the highest lending rates.

Interest rates of moneylenders in some countries have come down, since financial sector and economy-wide reforms in the 1990s began in Africa. It is not obvious if this is a result of competition with other existing lenders, leading to declining demand, or of a change in their own supply. This has more to do with general economy-wide alterations in economic structures. Moneylenders are changing the scope of lending in response to the changes in the financing needs of traditional clientele. There is increasing pressure on lenders to provide more credit for working capital for longer periods than they have done in the past. While this change has been observed, moneylenders' rates remain far above other segments.

When other group-based schemes lend to nonmembers, their rates are often comparable to those of moneylenders. This holds for both savings collectors and SCAs in many countries. Their rates remain far less when dealing with their members or traditional clients. In general, loans with the above characteristics are not attractive for growing small borrowers, leading to the development of a gap in the credit market as discussed below.

What Credit Gap Exists in African Financial Markets?

As a result of fragmentation, and because each lending unit cannot alter the structure of its operations and products in the short to medium term without additional flows of resources, there are few lenders in Sub-Saharan Africa that meet the needs of borrowers

interested in credit with the following characteristics: small loan amounts up to $1,000, interest rates far below 30% per annum, and a maturity of up to 18 months. That is what many small businesses, often in countries with inflation rates well over 20%, ask for. The most affected are microenterprises wanting to expand in small towns.

Credit gaps in various countries capture borrowers who cannot access informal lenders, because they do not find the packages or contracts of those lenders attractive for their purposes, and yet cannot gain access to the formal circles, because they are considered ineligible. This does not mean small borrowers who want loans that informal lenders provide are adequately taken care of. But if they have not received credit, it is mainly because the nearest informal lenders—for whom they are eligible—do not have enough resources to provide them with loans. Their inability to obtain credit is seldom because informal lenders do not want to lend to them. For the others, no one can meet their demand cost effectively without significant revision of institutional structures.

How Do Informal Operators Select Clients?

A characteristic of African financial markets is the weakness of modern contract enforcement mechanisms. Lenders lend small amounts and have maturity periods that minimize costs, often in a way that make their loans less attractive to businesses. In the absence of sound formal contract enforcement, both formal and informal lending institutions face the problem of managing risk with loan administration practices that suggest greater emphasis on loan screening than on monitoring the use of loans and contract enforcement. Their approaches might suggest a greater concern, the fear of selecting noncreditworthy clients (adverse selection), even though clients' changing their minds about loan use later (moral hazard) remains a problem in the information asymmetry that lenders confront (Nissanke & Aryeetey, 1996).

Screening in the informal sector relies extensively on personal knowledge about borrowers. The development of personal ties and the use of borrower proximity in decision-making are mechanisms for countering adverse selection and moral hazard. The more rural

the environment, the greater the need to personalize ties in confronting information asymmetry. Familiarity with borrowers often reduces the significance of repeat borrowing. This explains why, in such places as northern Nigeria, agricultural lending among relatives, acquaintances, and neighbors is the norm. *Susu* collectors in Ghana can take a decision on a loan request within one minute simply by looking on the card on which deposits are entered to ensure that borrower is a regular depositor. For a moneylender, new borrowers are often introduced by persons a lender knows quite well and who are prepared to guarantee payment with their word. This confines their locus of operation to small areas.

In SCAs, as in cooperatives, loan screening is done at the time of admission to membership. It assumes that a person requesting to join the group is interested in a loan and will be admitted to the group if he or she has characteristics similar to those of the other members, including occupation and ethnicity in many cases. In screening applicants therefore, emphasis is not necessarily on whether members can pay back loans they have taken, but on the commitment of members to the group's goals. Because group members invariably have similar incomes and similar credit requirements, knowing the individual's character and how reliable they are is important.

The suggestion often made that informal lenders have a better record on repayments than the formal sector mainly because of constant monitoring of the uses to which loans are put does not appear substantiated from a number of African studies (Nissanke & Aryeetey, 1996). The form of monitoring often considered is regular visits to project sites, but there is relatively little monitoring by informal lenders after loans have been given out. Moneylenders and other informal groups seldom visit the project sites of their borrowers. Obviously, when lending is localized, the need for project visits is reduced. For moneylenders who are more likely to have borrowers in other localities, monitoring is minimized because they always know very well the persons who introduced borrowers to them.

Loan repayment rates generally tend to be much higher for informal lenders than they are for formal lenders. Higher repayment rates for informal lenders are not necessarily the result of more

"aggressive" contract enforcement procedures. There is indeed little evidence of litigation in courts. Collateral confiscation, in the absence of proper ownership documentation and malfunctioning legal systems, is very difficult. Informal lenders go to clients' homes to deliver verbal warnings and threats. In membership arrangements, dismissal of borrowers from groups is the most significant sanction.

The higher repayment rates of informal lenders are simply a consequence of more efficient procedures for the retrieval of loans and the borrowers' knowledge that the informal lender has a higher capability of actualizing threats to foreclose on collateral. For example, when farmland is used as collateral, a bank is less likely to foreclose on this without extra costs than a moneylender would. The borrower knows that the moneylender can always find a relation to farm on the land until a loan is repaid in full—an action that a bank cannot take without incurring additional costs. Hence, for borrowers facing the two lenders, collateral has different meanings which condition their attitudes towards repayment. They would not treat the threat of collateral confiscation by an informal lender lightly. This gives reason for risky SMEs to be cautious about dealing with the informal financial sector.

What Are Direct and Indirect Linkages between Formal and Informal Segments?

It is obvious that informal lenders could boost their business considerably if they could expand their lending base with resources from the formal sector, and increasing loan sizes would be attractive for SMEs. Direct or institutional linkages are expected to be shown in actual flows of funds between segments. By indirect or market linkages, it is anticipated that activities in various segments will be affected by activities in other segments through the influence of financial markets. Both links are actually weak in most countries. Thus, there is little evidence of informal lenders obtaining bank loans for their lending businesses (Popiel, 1994; Nissanke & Aryeetey, 1996; Bell, 1990).

With respect to indirect interaction between formal and informal lenders, this remains less important. Expected competition between an

institutional lender and an informal lender presents possibilities for price interaction to occur, but this is based on the assumption of an availability of "low-cost institutional credit" to informal lenders. This seldom holds for Sub-Saharan African financial markets. In view of deep market segmentation, informal lenders are hardly ever persuaded by changes in formal sector loan interest rates to alter their own rates. The fact that many informal rates have not been altered in the face of significant increases in formal interest rates, since financial sector reforms in the 1990s began in many countries, indicates how "unrelated" pricing in the two sectors might be.

Recent Developments with Microfinance in Sub-Saharan Africa

To counter credit market failures that result in the fragmentation and exclusion of many potential borrowers from markets, a variety of credit schemes have been introduced into many Sub-Saharan African countries. But innovative credit schemes and microfinance activities are far better known and more successful in Asia and Latin America than in Sub-Saharan Africa. Apart from fewer programs, their occurrence among countries varies considerably also. There are countries with a good number of microfinance programs, including Mali, Guinea, Burkina Faso, The Gambia, and Guinea Bissau, and others with very few, including Sao Tome, Chad, Mauritania, and Sierra Leone. K-REP in Kenya is probably the best known microfinance scheme in Africa (Rosengard, 2000; SODE-CON, 1990).

Objectives and Strategies of Innovative Schemes

Innovative credit-retailing schemes are usually community-managed credit and savings schemes established to improve members' access to financial services, build a community self-help group, and help members accumulate savings. Microfinance programs, generally derived from innovative schemes, are more likely to be born out of donor projects, and are not necessarily community-based. Indeed, over 80% of enterprise development programs sponsored by donors

have a microfinance component. More than half of such projects focus solely on microcredit. For many innovative schemes, however, credit provision may not be the only operational objective. Even for those that perceive credit provision as the ultimate assignment, the extent to which a direct supply of credit is present in their programs depends on whether they adopt "minimalist" or "integrated" approaches.[2]

Most of the acclaimed innovative schemes have been based on the minimalist procedures. A recent trend emphasizes market principles. Through donor participation, many microfinance arrangements have benefited from the best practices developed in other developing regions. They have drawn some ideas from more successful projects elsewhere, including the following: (1) issuing short-term loans; (2) starting with small initial loans; (3) concentrating on providing small working capital to firms with proven track records; (4) providing specialized services without targeting; (5) simplifying services; (6) providing localized services; (7) shortening turn-around time for loan applications; (8) motivating repayment through group solidarity or joint liability; (9) mobilizing savings from the poor; and (10) charging full-cost interest rates.

Village banks, for example, emphasize making loans to finance income-generating activities and savings. In establishing mechanisms to lend to joint liability groups, these banks expect group members to overcome collateral requirements. They lend on unsecured bases, using five-person group guarantees whereby each individual is responsible for the others and future access to credit is determined by all members repaying loans. This is a principle borrowed from the Grameen Bank.[3] There are a number of microfinance projects in Africa, however, that provide credit to individuals and projects. K-REP has both group lending (through *Watanos*) and individual arrangements with nongovernmental organizations (NGOs) that on-lend K-REP loans. A number of the schemes in Francophone African countries have a mixture of group and individual arrangements.

The loan characteristics of microfinance schemes indicate that their loans are comparable to those of most existing informal arrangements. Loan maturities are generally short. Groups that borrow

on-lending are expected to repay within a year. Members of the small groups must repay their first loans within a few weeks, with assurance that they can take a further loan from the revolving fund established by the group. While interest rates are higher than most formal lending rates in Africa, they tend to be lower than the rates of moneylenders. Rates seem comparable to those of some of the best known schemes in Asia and Latin America. Characteristics of these loans suggest that a large part of Africa's private sector cannot use such facilities to finance investments. They are useful for the very poor microbusinesses, similar to those financed by the informal sector.

Performance of Microfinance Programs

The assessments of the achievements of credit programs are centered on repayment rates, loan sizes, savings levels, program costs, and income from interest. Evaluations of repayment in *Village Banking* programs have been high, averaging 90% in many places (Holt, 1991). Projects with high repayment rates often include the following characteristics:

- training programs for participants
- interest rates not subsidized
- integrated formal written membership requirements and screening measures in their bylaws to ensure discipline among members
- a savings program accompanies lending
- an appropriate sociocultural environment, e.g., population not transient, which helps to reduce default as social sanctions are strongest in a stable population.

A number of recent evaluations of microfinance projects have examined the extent of their outreach activities and their drive towards self-sustainability (Christen, Rhyne, & Vogel, 1994). Financial self-sustainability is achieved when the return on equity, net of any subsidy received, equals or exceeds the opportunity costs. Outreach is measured on the basis of the types of clientele served and the variety of financial services offered, including the value and number of loans extended, value and number of savings accounts, type of financial services offered, number of branches and village

subbranches, percentage of the total rural population served, real annual growth of the institution's assets over recent years, and participation of women as clients. Many such evaluations have questioned the sustainability of projects, as well as their outreach (e.g., Webster & Fidler, 1995; Kiiru, Pederson, & Nzioka, 1995).

It is important not to compare the achievements of African microfinance programs only to those of other regions. It is possible to explain further the backgrounds of these programs and to compare their achievements with other institutional arrangements within the region. Comparing innovative schemes and ascertaining their compatibility with known practices and attitudes in African countries, reflected in informal systems, introduces a better understanding of their difficulties. Various evaluations suggest that while innovative, other microfinance projects are performing in making credit available, local environments often constrain their ability to bring costs down much lower than they presently are. They cannot go where the informal sector can with their present set-up, hence providing a justification for a link between them. Evidently both microfinance and informal finance try to reach the same target group, but with different structures. The African Development Bank (AfDB) has developed a program in microfinance (see Appendix). But it is important that care is taken to ensure a complementarity in the services provided by informal finance with a view to reaching those that are currently not reached by either.

Increased Informal Finance and Microfinance for Private Sector Development

The central problem for financial development in most Sub-Saharan African countries remains how to ensure that institutional development and innovation leads to filling of the "credit gap" facing SMEs. While they lack access to bank credit, their requirements exceed limits of informal agents, as well as of many microfinance programs. There is currently limited scope for enhancing the allocation of credit equitably and efficiently outside of a closer relationship between the formal and informal sectors. As seen earlier, financial system fragmentation can be wasteful. Closer linkages between dif-

ferent segments can improve system efficiency by enabling different agents to specialize for different market niches and by facilitating flow of savings and credit up and down the system. Filling the credit gap may require incentives to the formal financial sector to establish conditions and support for informal and semiformal institutions to move up to this market following an integration of the financial markets. The approach to a greater role for informal finance and microfinance focuses on the achievement of integrated financial markets: how such integration might come about, and operational approaches for bringing microfinance closer to small African entrepreneurs.

The proposal for integrated financial markets is based on a number of recent studies applying concepts from the "new" institutional economics, stressing information asymmetry, transaction costs, and risks. These studies have provided useful analytical tools to understand constraints that explain the persistence of fragmentation in Sub-Saharan African financial markets, even when financially repressive policies have been reformed (Chipeta & Mkandawire, 1996; Nissanke & Aryeetey, 1996; Popiel, 1994). In an integrated financial market, direct and indirect linkages between the formal and informal sectors are evident and significant. The flow of funds among them is dictated by awareness of their respective specializations, allowing each segment to utilize information and the structural advantages of others to enhance their own activities. The flow of information is a major component of market integration.

There is an obvious need for national policy frameworks that have appropriate levels of incentive and regulatory policies as a context for achieving integrated financial development. In addition to using such frameworks to provide a developmental platform for financial institutions by helping them reduce and share risk with an acceptable incentive structure, the framework should draw in broader economic relationships by ensuring that the approach is truly demand-driven by the real sector. Hence, while avoiding a crowding-out of the private sector, maintaining steady growth of the real economy is essential. A strong revival of informal finance in a number of countries after reforms provides a good testimony to the influence of a vibrant real sector on financial sector developments.

Forging Links in Deposit Mobilization

Banks should be encouraged—and given incentives—to enter into closer relationships with such informal agents as SCAs and NGOs. These agents have the potential of becoming effective mechanisms to mobilize deposits from and deliver credit to the household and microbusiness sector. They can bulk up small savings at relatively low cost and can retail more credit to the informal sector if backed up by access to bank credit.

Indeed, taking a cue from what *susu* collectors in Ghana have demanded of Ghanaian banks, banks in Sub-Saharan Africa could be encouraged to offer informal deposit mobilizers preferential deposit rates—higher than the rates of return on their other opportunity sets—that encourage them not only to use the facility more and more in view of financial gain, but also to discern recognition of their role in savings mobilization by banks. In many West African cities where transactions at bank branches take unusually long periods, “special” clerks or tellers could be assigned to such frequent depositors as savings collectors at large branches they patronize in order to reduce the length of time they spend at bank counters. Waivers of charges and fees on demand deposits of informal deposit mobilizers by banks would be seen as encouraging an institutional link between the two.

While direct contact between banks and informal deposit mobilizers will be very useful, semiformal institutions—savings and loan companies—well-functioning finance houses, and credit unions also hold considerable potential as shown by the review of the role of such semiformal institutions. When markets are fragmented, it is best to develop new institutions to integrate markets, and only then to regulate. In a satisfactorily operating market-based economy, the development of such new institutions is likely to take place if demand for additional financial services exists. Governments only need to be supportive.

Forging Links in Credit Allocation

The optimal way for banks and informal lenders to link up for purposes of credit allocation is to develop an agency relationship in which

bank-loanable funds are channeled through semiformal (microfinance) lenders and informal lenders for on-lending to small borrowers. Here also, operations of *susu* collectors[4] in West Africa provide some valuable insight into how such an arrangement could be pursued.

The realization of the full potential of informal finance units lies in the identification of similar strong links between formal and informal units. This relation should be oriented toward a two-way flow of deposits and credits to enhance financial intermediation in the region. While potential is much stronger in some countries than in others, it must be developed wherever possible to ensure that the benefits arising are for mutual growth. In eastern and southern African countries as well as francophone countries—where cooperatives are relatively well-developed—they could be the informal institutions for developing such linkages.

Special incentives could be particularly useful in encouraging banks to develop twinning arrangements with semiformal or nonbank financial institutions, to provide these institutions with management support as well as funds. For example, funds on-lent to microfinance intermediaries could be rediscounted at a concessional rate to increase profitability to banks, or tax incentives could be provided to compensate for the costs and risks of developing small borrower portfolios. This would lead to the layering of credit supply through different intermediary steps that involve a number of "shock absorbers." This is a principle well-known in informal finance in those arrangements involving links with traders.

While the principle of channeling credit through informal sources is acceptable, there is a need for caution with regard to which informal agents can serve as good conduits for such lending. It is important to rely more on well-established agents operating from within recognizable bodies—associations, cooperatives, companies, unions, etc. These have greater credibility than individuals. In a number of countries, also, individual moneylenders with good long-standing relationships with banks could be useful. Channeling formal credit to informal lenders can be defended on the grounds of efficiency and increased financial integration, especially among small farmers. Informal lenders can build a personal relationship with their borrowers

that can ensure an extremely low loan default rate. The encouragement of more subcontracting in the real sector would also generate more financial linkages in parallel. For example, if leasing companies could pass on tax benefits to banks to obtain better credit terms, they could in turn pass on more financial services to their clients.

Government Policies for Enhancing Linkage Development

If banks have not linked up with informal finance and microfinance institutions already, it is because of considerable distrust, inadequate knowledge about the latter, and prejudice in some cases, all of which create a risky environment for banks. Policy should be designed to overcome this. There should be an approach to developing financial systems that focuses on building institutions that serve identified segments. There are two possible ways for policy to be used to enhance the development of linkages between the various segments, including the informal sector and such semiformal lenders as NGOs—that is, the use of the fiscal system and of regulatory and supervisory systems to provide incentives for formal institutions to provide wholesale credit through informal agents.

Tax relief on profits granted to banks that allocate credit through informal and semiformal agents could be recovered by imposing higher taxes on banks that do not channel credit through the informal sector. Some banks—such as merchant banks—will have no need to use informal agents for allocating credit and, therefore, will be the actual financiers of the subsidy. Because the higher tax is on bank profits, it should not be transferred to the users of those banks.

Regulatory and supervisory systems could be of considerable importance in providing incentives to banks. If banks perceived that risk was considerably reduced by dealing with credible semiformal and informal agents, they would be encouraged to use them. Effective regulation and supervision of semiformal and informal institutions might tend to be problematic, in some cases, however. Governments would require a proactive approach. This would embrace a legal, regulatory, and prudential framework that fosters, and when possible, accelerates financial market development. This framework supports the setting up of mechanisms, institutions, and

instruments that promote and facilitate this development as the economy grows and as market functions expand. Regulation should steer away from restrictive laws and focus on removing the obstacles to financial market development. Restrictions on what assets banks may hold could be modified to encourage them to invest in semiformal financial institutions. This requires diversification of formal sector instruments. Commercial bills and bankers' acceptances based on cooperative or "mutualistic" guarantees should be developed to establish a link between semiformal and formal financial institutions.

In sum, the development of a three-tier approach for lending to marginal borrowers, mainly SMEs, would be very useful because it provides an appropriate framework for regulation and supervision. Banks would lend in the first instance to credible semiformal agents[5] who would then link with such informal lenders as *susu* collectors, cooperatives, and SCAs. Rural borrowers would receive loans directly from informal agents. Where banks have good relations with easily identifiable informal agents—e.g., the Association of Susu Collectors in Ghana—there is no reason why the chain cannot be shortened by directly dealing with that informal institution. Semiformal institutions would in general be agencies for regulating smaller informal units as they can identify operators much better than any other external body.

Reducing Lender Risk for Microfinance Projects in Africa

Principles for reducing lender risk in integrated financial systems will necessarily involve restructuring internal management leading to improved appraisal of risk, the development of other tools for containing risk, and some risk-sharing procedures. Formal and informal lenders and deposit-takers will have to learn to share risks with each other while developing better techniques for dealing with borrowers at the margin for whichever market niche they have adopted. Techniques for lending to small borrowers minimize risk, and these have seen significant improvement in the last decade throughout the world. It is possible to reach small borrowers cost-effectively, taking into account existing risk profiles of such borrowers.

At the margin, financial institutions want to know whether it is cost-effective to take deposits from and lend to small businesses. Internally, they will have to adjust the credit-delivery methodology, focusing on the way in which borrowers are identified, approved, and supervised. Financial institutions that have been more successful in extending and recovering credits to small enterprises have often based their lending operations on an in-depth market assessment at the design stage, allowing them to determine actual patterns of demand and to identify and address the relative levels of risk involved.

Financial institutions lending to small borrowers must be profitable. They must earn enough to cover the cost of funds and recurrent operational and administrative costs. This requires the use of interest rates freely to assure profits, considering the negative impact too high rates will have by way of incentive effects and the effects of adverse selection. They must therefore strike a proper balance between risk management and low transaction costs as a percentage of average earning assets.

There are a number of innovative financial institutions that have been successful in maintaining this balance. They have employed a variety of measures to effectively reduce SME lending risk, basing their risk reduction strategies on the fundamental principles of:

- minimizing poor judgments on character and capability, through careful credit analysis
- using intensified follow-up methods to track projects and loan repayments
- applying “get tough” policies on repayment

It is interesting that many institutions are increasingly emphasizing nontangible aspects of creditworthiness—character, repayment history, motivation to succeed—to reduce the likelihood of poor credit judgment and the resulting need for intensive collection efforts. One of the more successful microfinance institutions in Africa has been the Senegalese Private Enterprise Credit Agency (PECA) (USAID, 1989). It addresses the intangibles by carrying out rigorous risk analysis of the potential borrower and business operation,

including on-site observation of the business operation and interviews with employees and key informants in the community about the business operator's character and debt repayment records. Personal knowledge of the borrower or the person introducing the borrower is generally accepted to be a crucial first step.

Indeed the principle of knowing the borrower is highly regarded by the Malian Bank of Africa (BOAM)—an "alternative" commercial bank—which bases risk management largely on "character lending." They require that each borrower be known by and receive the moral guarantee of a member of the loan committee or a shareholder. In Kenya, the project "Promotion of Rural Initiatives and Development Enterprises" (PRIDE) also requires that all potential borrowers be vetted by the executive committee governing their community level market enterprise committee, and their immediate enterprise group must agree to cross-guarantee the loan given. (See also, Morris & Barnes, herein.)

Some institutions approach project-related risk with rigorous analysis of project viability on the business site. If well done, with the appropriate methodology, significant gains in risk reduction could be achieved. PECA has tried this approach quite successfully. PECA field officers develop business plans with enterprise owners and conduct careful analysis of all risk factors—market, market share, cost, and pricing structure—followed by similar independent evaluations of the proposed projects by PECA management.

Also, the principle of lending to borrowers with a record of good payments is generally applied by a number of successful institutions lending to borrowers at the margin. Most of the loans undertaken by PRIDE and PECA are made out to existing businesses with an established business history and reputation. Initial loan sizes are limited and maturities are short-term. These conditions remain until the borrower establishes creditworthiness. PECA negotiates subsequent loans according to business needs. PRIDE provides loans in steps, building up loan size to prepare good repayers to graduate into the banking system. PECA tailors the loan size and repayment schedules to cash flow.

PRIDE uses a computerized accounting system to track savings and loan performance. It has developed a credit reference system for borrowers to be used as a centralized credit reference bureau with banks and NGOs as partners. BOAM has introduced mobile field officers to track SME loans in areas without branches.

In view of the high dependence of a large number of economic activities in Africa on the agricultural sector—itself highly dependent on uncertain weather conditions—it is advisable for entrepreneurs to seek ways of reducing dependence. As entrepreneurs move away from strong dependence on one sector, it becomes important for the financial system to complement that move with its own diversification. Where feasible, financial institutions need to diversify their loan portfolios to reduce their dependence on high-risk activities. While this could be done through loan pricing arrangements, there is often no guarantee that the desired results will be achieved in poorly functioning market systems. PECA has taken direct actions to diversify their portfolios as a risk reduction measure, to avoid sectoral concentration or overemphasis on lending in areas vulnerable to natural calamities or external shocks.

An approach that seems to be catching on with some successful financial institutions and which has been used quite effectively by a few informal lenders when necessary has been the adoption of a tough stance on contract enforcement. It has been shown that while collateral confiscation in the informal sector does not happen everyday, knowledge that the lender could actually do it has often put some fear into borrowers and encouraged them to make repayments on time. Some nonbank financial intermediaries have begun a "get-tough" policy on repayment. PECA ensures that any client not paying within 10 days of the scheduled payment date is visited by a legal officer. If loans are nonperforming for more than 60 days, action is initiated to seize security.

Appendix: African Development Bank Microfinance Initiative for Africa (AMINA): A Case Study

Microfinance institutions, which often represent the only access to some form of financial services for microentrepreneurs and other

disadvantaged groups, often lack professionalism and institution capabilities. In an attempt to encourage and strengthen these institutions, the primary objective of ADB Microfinance Initiative for Africa (AMINA) is to increase the access of the poor to financial services through capacity-building of microfinance institutions. The economic and institutional viability of microfinance institutions is key to their long-term sustainability. By developing permanent institutional capacity to serve microentrepreneurs, both outreach and sustainability are fostered, which is more effective over time than simply giving grants, disbursing loans, or providing one-time training to microentrepreneurs.

The weaknesses of microfinance institutions include the lack of suitably trained and qualified personnel, appropriate operational policies and procedures, and management information systems. AMINA shall focus on long term capacity-building of these microfinance institutions through a coordinated program of technical assistance, creating linkages between microfinance institutions an commercial banks and strengthening information dissemination among microfinance networks.

AMINA will seek to assist microentrepreneurs, women, and other disadvantaged groups in their development of productive activities. The proposed model for the initial implementation of the AMINA program has at its core technical and other assistance designed to increase the professional capacity of microfinance institutions to respond to the financial service needs of the target groups. AMINA will also attempt to establish and enhance linkages between microfinance institutions and formal financial sectors, primarily commercial banks. Finally, AMINA will coordinate its activities closely with existing and programmed ADB activities and with the activities of other donors, especially those that pertain to the financial and private sectors. AMINA will serve as a mechanism to increase horizontal linkages between microfinance practitioners and to engage governments, regulatory agencies, and donors in a policy dialogue on issues of concern to microfinance institutions.

AMINA Program Objectives

The overall objectives of AMINA include:

- Providing technical and other assistance to nontraditional financial intermediaries, such as nongovernment organizations (NGOs) and others who provide financial services to the poorest sections of the population in low-income African countries. This capacity-building sponsored by AMINA will strengthen the ability of microfinance institutions to reach large numbers of the target groups on a sustainable basis.
- Encouraging commercial banks and other formal financial sector actors to play a more active role in providing financial resources for the target populations. AMINA will seek to create linkages and greater intermediation between the formal financial sector as wholesale providers of funds for distribution on a local or retail level by microfinance institutions. It will also encourage microfinance institutions to place savings deposits gathered from the target populations with the formal banking sector. Enhancing these linkages between the formal financial sector and retail microfinance institutions will result in increased monetization and financial deepening of the economy as a whole.
- Facilitating cooperation and coordination among aid donors, private sector actors, and others involved in providing financial services to target groups. AMINA will play an important role in encouraging and facilitating information dissemination among microfinance practitioners themselves. AMINA will also serve to facilitate policy dialogue among donors, relevant government agencies, and other interested parties on subjects relevant to the provision of microfinance services, such as interest rate policies, reserve requirements, and the like.

AMINA-sponsored activities seek to contribute to the economic and social welfare of the program's target populations through improved access to appropriate financial services.

- Microenterprise development: employment opportunities are created and incomes are increased among the rural and urban

poor through improved access to a range of financial services, including the provision of credit and savings mechanisms. This leads to the economic empowerment of the marginalized and disadvantaged members of society.

- Increased economic output, employment, and incomes: The increase of economic opportunities among the poor and other disadvantaged groups such as women yields more balanced economic growth for the economy as a whole, and more equitable distribution of its rewards.
- A growing and dynamic private sector: microfinance expands the ranks of new stakeholders in the economy through the empowerment of previously disadvantaged groups—women, landless rural poor, and urban unemployed—by providing them a means of attaining economic advancement. In addition to jobs and income created, more broadly-based economic empowerment advances the development of a more pluralistic society.
- Transformation of the private sector: as microentrepreneurs are assisted by microfinance institutions and there is an increased level of economic empowerment among previously disenfranchised societal groups, the private sector is transformed from being reactive and poorly organized into a more cohesive and effective force for political stability. A more broadly-based private sector in turn leads to a more accountable and transparent economic, regulatory, and political system.

AMINA Program Components

In order to attain these program goals, objectives, and anticipated outcomes, AMINA will engage in a coordinated range of activities. These include technical assistance for microfinance institutions, the issuance of financial guarantees to commercial banks who establish refinancing facilities for microfinance institutions, and service as a forum for policy dialogue and an information dissemination mechanism. An important undertaking of the AMINA program will be to sensitize ADB professional staff to microfinance issues and techniques through training sessions and participation in technical assistance

activities for microfinance institutions. Their participation will likewise develop a heightened appreciation for the role of the private sector and women in the overall economic development process. AMINA will also support existing and planned ADB activities in countries selected for implementation of the pilot phase of the program. Finally, AMINA will closely coordinate its technical assistance and policy dialogue activities with other donors and initiatives active in the pilot program countries. (Source: African Development Bank, retrieved from http://www.afdb.org/about_adb/AMINA.htm)

Notes

1. See, for example, http://www.microcreditsummit.org/pubs/reports/socr/2004/SOCR04.pdf

2. With the "minimalist approach," the organization concentrates only on lending. All activities that it engages in are designed to facilitate lending. These include the training of staff and also beneficiaries to the extent that they can comprehend how the loan program works. Under the "integrated approach," training and other forms of technical assistance are regarded as integral components of a whole scheme for assistance.

3. See website at http://www.gfusa.org

4. Susu collectors (usually male) visit shops, workplaces, market stalls, and homes at agreed times on each day and collect funds towards a savings plan. Following this plan, a saver agrees to deposit a specific amount determined by himself or herself in consultation with the collector for an agreed period of time—usually a month—after which period, his or her deposits are returned less a day's deposit.

5. These agents would include the numerous modern nonbank financial institutions (savings and loan companies, finance houses, credit unions, etc.) that are currently observed in a number of countries.

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An Assessment of the Impact of Microfinance

A Case Study from Uganda

Gayle Morris and Carolyn Barnes

Abstract: This paper reports the results of an impact study of three microfinance programs in Uganda—FINCA, FOCCAS, and PRIDE. Program clients and nonclient groups in three places—rural Mbole district, Kampala, and Masaha town—were studied in an initial survey and a follow-up two years later. The study found numerous positive impacts on program clients: addition of new products and services, improved or expanded enterprise sites and markets, reduced costs of inventory purchases, and increases in sales volume. Household-level impacts included new enterprises begun, increased amount spent on durable assets and agricultural inputs, increased amount of cultivated agricultural land, and increased amount of household income from crops. Microfinance programs help client households reduce financial vulnerability through diversification of income sources and accumulation of assets.

This article assesses the impact of microfinance programs in Uganda on clients, their households, and their enterprises.[1] It also examines whether participation in a microfinance program leads to improvements in the economic welfare of households and enterprise growth and stability.[2]

The assessment employs surveys with clients from three U.S. Agency for International Development (USAID)–financed microfinance programs in Uganda: the Foundation for International Community Assistance (FINCA), located in the capital city of Kampala; the Foundation for Credit and Community Assistance (FOCCAS), located in the rural Mbale district; and the Promotion of Rural Initiatives and Development Enterprises (PRIDE), located in the town and surrounding area of Masaka. A central group of nonclients, located in the same geographic area as the programs, were surveyed for comparison. FINCA and FOCCAS loan only to women, and PRIDE loans to both men and women. Interviews were conducted with a randomly selected sample of microfinance program client entrepreneurs and nonclient entrepreneurs. The survey was first conducted in November and December 1997 to obtain baseline information, then repeated in November and December 1999 to assess the impact. The data were recently reanalyzed for this symposium.

Uganda Context

Economy

Uganda is a landlocked country located in the heart of the great African high plateau in the Great Lakes region. From 1997 to 1999—the study period—GDP growth rates were 5% and 8%, respectively. Uganda's estimated per capita income in 1999 was US$320, with a per capita purchasing power parity of US$1,136. Inflation rates were less than 10% during this period (World Bank, 2000).

Agriculture contributed nearly one-half of GDP. Nine of ten Ugandans depend on subsistence and cash crop production and small agro-based industries to survive. The major cash crops are coffee, tea, and tobacco, in addition to a wide variety of food crops. Four fifths of smallholders farm fewer than 5 hectares of land. The average agricultural holding is estimated to be 1.6 hectares.

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Population

Uganda's population is approximately 21.5 million, growing annually at 3%. During the 1990s life expectancy had been declining in Uganda due to the HIV/AIDS pandemic. In 1999 the average life expectancy was 42 years. Household-level impacts of the pandemic include loss of members or loss of income sources, increased financial expenditures on health and funerals, assisting other households in coping with illness and death, and the absorption of children who have lost one or both parents. The Uganda AIDS Commission estimates that the population of orphaned children is approximately 1.5 million. The macro-level impacts include a relatively high death rate among the educated elite, the loss of productive labor activity, a shortage of drugs and hospital beds, and the allocation of scarce government revenue for HIV/AIDS related programs. But the Ugandan government aggressively reduced the prevalence of HIV/AIDS so that it now boasts the lowest rates (5%) of any sub-Saharan African country.

Microentrepreneurs are a vibrant part of the Ugandan economy: about one fifth of all households are engaged in some kind of business activity, and a third of the working-age population are employed in micro and small enterprises (Impact Associates, 1995).

Microfinance Programs Studied

The three microfinance institutions (MFIs) included in this study (FINCA, FOCCAS, PRIDE) differ in ways that may influence the profile of clients who join them (Barnes, Morris, & Gaile, 1998; Barnes, Gaile, & Kibombo, 2001). FINCA operates on a village banking model, lending money to and accepting savings from low-income women organized in groups, each of whom operates a microenterprise. In 1997, FINCA had operations in nine districts servicing 9,000 individual clients; by 1999 it had approximately 20,800 clients. We surveyed FINCA clients from Kampala and Masaka town and its periphery. FOCCAS provides women in income-generating microenterprises with credit and savings services. It also provides education on health, nutrition, family planning, HIV/AIDS prevention, and better business management. We surveyed

only FOCCAS clients from rural Mbale. The FOCCAS program also expanded between 1997 and 1999, from 3,297 to 6,671 clients. PRIDE provides financial services to female and male microentrepreneurs operating businesses in urban areas. PRIDE integrates the individual borrower or saver into the formal financial system by requiring clients to have a savings account with a commercial bank. PRIDE has also increased its base from 3,700 in 1997 to 16,500 by 1999.

Common strategies among MFIs are:

- Formation of credit group consisting of individual members, each of whom owns and operates a business that produces a weekly cash flow.
- Group guarantee of loans to individual members, with the group responsible for repayment if an individual defaults.
- Use of interest rate that supports the administrative MFI costs.
- Mandatory savings requirement.
- Mandatory weekly group meeting for loan repayment.

Methodology

The sampling frame required surveys of clients of FINCA, FOCCAS, and PRIDE and of three comparison groups of nonclients. The frame included three different geographic areas of Uganda (Mbale, Masaka, and Kampala). Sampling methodologies varied by area and client status; however, in all cases a form of random sampling was undertaken. For clients, random samples were taken from client records of the microfinance institutions.

Two selection methods were utilized to identify the nonclient sample. In both Kampala and Masaka, a “random walking method” which utilizes spatial matching with randomized components was used to draw the nonclient sample. In rural Mbale, a clustered, stratified, systematic, unaligned random sample of rural households was utilized. Three key factors were used to ensure similarity between clients and nonclients: sex, ownership of a microenterprise which generates a weekly or biweekly flow of revenue, and an enterprise in operation over the past two months.

Because the assessment utilized a baseline survey in 1997 and a follow-up survey in 1999 of the same microentrepreneurs, it was essential to relocate baseline respondents in 1999. A sample size of 1,332 respondents was interviewed in 1997. A computer list of all the 1997 respondents was generated and divided among the three study sites to relocate the baseline respondents in 1999. Interview field teams utilized identifiable street addresses, local administrators, and other knowledgeable key informants to locate individuals on the list for Mbale and Masaka respondents. Due to increased difficulty of relocating Kampala respondents, the field team tried various other strategies, including visiting FINCA group meetings, examining parish voters' registers, and attempting to identify female respondents by the names of their spouses, children, or other relatives that they had provided on the 1997 questionnaire. All of these relocation strategies resulted in relocating and interviewing 965 of the original 1,332 respondents (72%) from 1997 (see Table 1).

Table 1 provides information by MFI program of the numbers of clients successfully reinterviewed (576 clients or 79% of all 1997 clients), and the reasons why clients and nonclients were not reinterviewed (154 clients or 21%). The majority of respondents not reinterviewed are nonclients (213 nonclients or 35% of all 1997 nonclients), and the most common reason is nonrecognition of their names by community members.[3]

Table 1. Summary of Relocation and Data Collection Efforts (Using 1997 Baseline Study Status)

	Number of clients			Number of nonclients	Total	Percentage
	FINCA	PRIDE	FOCCAS			
Successful interviews	283	143	150	389	965	72
Unsuccessful interviews						
Dead/ seriously ill	17	9	8	21	55	4
Shifted	40	19	9	63	131	10
Unknown	10	3	16	117	146	11
Other reasons	9	6	8	12	35	3
Total	359	180	191	602	1332	100

In some cases a gain score test was performed.[4] This analysis was performed because the respondents had not been randomly assigned to the client and nonclient groups and then sampled. To determine the effect of MFI program participation, the gain score analysis took into account the effect of initial differences between clients and nonclients.

When distinctions between districts were analyzed, a simple one-way analysis of variance (ANOVA) test was used. This ANOVA was the analogy of a t-test when three districts (Kampala, Masaka, and Mbale) versus two client categories (client and nonclient) are used. For categorical (nominal) data, chi-square analyses are used, but disaggregated so that location effects are kept separate from client or nonclient effects.[5] The design of the baseline questionnaire involved a series of steps. First, an initial set of hypotheses, variables, and measures was drawn based on the results of previous assessments of microfinance program impacts (Sebstad & Chen, 1996). Exploratory interviews were then conducted with microentrepreneurs in Masaka, Mbale, and Kampala and with the leaders of two loan groups in Kampala. Key informant discussions were held with microfinance program officers and staff, and program strategies were analyzed. For the 1999 follow-up survey, the original questionnaire was modified by eliminating unreliable questions, rewording questions, and adding questions on household changes and MFI program participation.

Findings

Respondents and Households Characteristics

The 1997 baseline indicates that client respondents were 36 years of age and nonclients were 33 years. Respondents averaged one year of secondary school. Two thirds were married. Client households averaged 6.6 members, 2 of whom were economically active. Nonclient households averaged 5.5 members. Average households had three rooms. Residency arrangements varied by district, with Mbale respondents living on agricultural land, Kampala respondents renting their residences in an urban area, and the majority of Masaka respondents owning their own homes. Because two of the three

MFI programs only lent funds to women, women represent 93% of the sample.

Stability of 1997 Enterprises

Three fourths of microenterprises in 1997 that regularly generated cash were in operation in 1999—417 of 571 client enterprises and

Table 2. Changes in Enterprise One Firms Operational between 1997 and 1999

Changes	Clients	Nonclients	Statistical significance
Added new products or services in last 2 years (N=722)	144 30%	53 21%	p=0.01 between clients and nonclients p=0.03 among districts
Improved or expanded premises (N=717)	114 25%	37 15%	p=0.01 between clients and nonclients p=0.01 among districts
Moved to new premises or sold in new market locations in last 2 years (N=710)	71 16%	24 15%	p=0.03 between clients and nonclients p=0.01 among districts
Reduced costs by buying inputs in greater volume or at wholesale prices (N=718)	166 36%	61 24%	p=0.01 between clients and nonclients p=0.03 among districts
Size of stock larger now than 2 years ago	198 43%	87 34%	p=0.01 between clients and nonclients p=0.03 among districts
Size of stock about the same (N=715)	128 28%	98 39%	
Sales volume larger now than 2 years ago	211 46%	90 36%	p=0.01 between clients and nonclients p=0.01 among districts
Sales volume about the same (N=715)	136 29%	100 40%	

246 of 322 nonclient enterprises. The most common reason for closure was unprofitability (46%), followed by theft (30%). When considering both the 1997 Enterprise One—defined as a household's most important source of cash income—and the substitute Enterprise One, 89% of enterprises were at least two years old.

Changes between 1997 and 1999 reflected the efforts of microentrepreneurs to consolidate, stabilize, or increase their profits. Clients were significantly more likely than nonclients to have (1) added new products or services, (2) moved to new premises or sold in a new market location, (3) reduced costs through buying in bulk, or (4) increased the size of their stock over the last two years (see Table 2).

Geographical location was statistically significant in explaining the changes occurring in Enterprise Ones. The local economy and business environments in Mbale, Masaka, and Kampala affect microentrepreneur options and risk taking. Urban microentrepreneurs in Masaka and Kampala districts were more likely to experience increased competition, pushing them toward changes in their enterprises. In contrast, entrepreneurs in rural Mbale had more limited options and less incentive to change.

Clients were in a better position than nonclients to take advantage of opportunities, because participation in an MFI program empowers clients to make changes in the management of their Enterprise Ones. Ownership of a second enterprise in 1999 was more common among clients (48%) than nonclients (25%). More clients (31%) than nonclients (21%) had started a new enterprise between 1997 and 1999, suggesting that microfinance programs helped clients diversify their economic activities.

Use of Enterprise Revenue

In 1997, 92% of respondents listed Enterprise One as the main recipient of firm revenue. Food for household members was the second largest expenditure for clients (48%) and nonclients (56%). Debt payment was the third for clients (45%). Though firm revenue was most often spent on Enterprise One by two thirds of those surveyed in 1999, 21% reported expenditures on household basic needs (e.g., food, education, medical expenses) as the primary use of rev-

enue from Enterprise One. Clients in 1999 were more likely than nonclients to report paying debts among their top two expenditure categories—22% and 1% respectively. Similarly, clients (10%) were more likely than nonclients (8%) to report savings among their top two expenditure categories.

Microentrepreneur Problems

Respondents were asked to identify the single most important problem they faced in running their Enterprise One. In 1999, clients and nonclients mentioned irregular capital flows (27%) and marketing (24%). Kampala residents were more likely than microentrpeneurs in Masaka and Mbale to mention capital flows as a primary problem. Microentrepreneurs experienced intense competition, which in turn affected the demand for their products or services and the profit margins. As more clients (43%) than nonclients (31%) had increased their profits in their Enterprise One, participation in a microenterprise credit program appeared to have helped clients fend off the pressures toward lower profit levels.

Sources of Household Income

In 1997, respondent households averaged 2.92 sources of income with client households averaging 3.23 sources. Between 1997 and 1999, client and nonclient households tended to have one more additional source of income. Clients were more likely than nonclients to have income from a source other than microenterprises in the 12 months prior to the 1999 interview (71% and 59%, respectively). Crops and livestock were the most common sources of nonenterprise income. Households tended to diversify income sources since 1997. MFI programs provided clients with the opportunity to establish new enterprises, even though program loans used an existing enterprise as collateral.

Loan Funds Usage

Three fourths of clients used at least part of their loan funds on Enterprise One. Additional uses of loan funds included other enterprises, savings, loan repayment, school expenditures, and other ser-

vices. Loan repayment capability was important, since there was no grace period and repayment began the week following receipt of the loan.

The expenditure of loan funds on Enterprise One was usually directed toward building up stock and supplies (see Table 3).[6] Clients were significantly more likely than nonclients to have (1) added new products or services, (2) moved to new premises or sold in a new market location, (3) reduced costs by buying in bulk, or (4) increased the size of their stock over the last two years. Also clients were more likely to have increased sales volume in the past two years. There was a strong association between participation in a MFI program and changes in Enterprise One: clients appeared be more flexible and to make changes within their enterprise with the use of their loan funds or increased sales revenue.[7]

Microentrepreneurs in Masaka were more likely than those in Kampala and Mbale to have added new products or services, moved to new premises or sold in a new market location, reduced costs by buying in bulk, or increased the size of their stock.

Ownership of Durable Assets

Increase in value of durable assets purchased—mattress, radio, stove, beds—was regarded as a strong indicator of MFI impact on their clients, serving as a proxy measure of household wealth. The increase between 1997 and 1999 in the average value of asset purchases by clients was more than twice that of nonclients.[8] The difference between clients and nonclients was most notable in Kampala. Overall in every asset category studied, client households were more likely to have acquired the specific consumer durable good than nonclient households (see Table 4). Overall differences between client and nonclient in each district were not statistically significant. The exception was for Kampala, where a significantly higher percentage of clients than nonclients acquired a television. Participation in the MFI programs was strongly associated with increased expenditures by clients solely or jointly with other household members on durable household assets.

Table 3. Client Expenditure Patterns on Most Recent MFI Loan

MFI Loan Expenditure	Masaka (N=284)		Kampala (N=128)		Mbale (N=141)		Total (N=553)	
	1997	1999	1997	1999	1997	1999	1997	1999
Enterprise One	98%	71%	96%	89%	100%	93%	98%	81%
Other enterprise	10%	32%	5%	20%	15%	44%	10%	33%
Food for household	2%	8%	2%	13%	16%	11%	6%	10%
School expenditures	5%	20%	10%	16%	9%	12%	7%	17%
Medical care	3%	5%	5%	7%	2%	12%	3%	7%
Savings	15%	8%	6%	10%	17%	4%	14%	7%
Debt/loan repayment	8%	11%	9%	13%	11%	10%	9%	11%
Obligations to non-household member	1%	5%	1%	2%	1%	5%	1%	4%
Other (bought land, building, etc.)	6%	21%	6%	5%	12%	8%	8%	14%

Note: Multiple responses possible.

Table 4. Households Acquiring Major Durable Assets, 1997 to 1999

Household assets	Masaka		Kampala		Mbale		Total	
	Clients	Nonclients	Clients	Nonclients	Clients	Nonclients	Clients	Nonclients
Mattress	39%	35%	26%	24%	38%	34%	36%	32%
Radio	26%	20%	17%	21%	24%	21%	24%	21%
TV	6%	12%	*12%	3%	2%	2%	6%	5%
Stove	23%	26%	24%	21%	13%	10%	21%	18%
Refrigerator	7%	3%	10%	7%	7%	10%	5%	3%
Beds	14%	15%	11%	7%	18%	9%	14%	11%

*Indicates a statistically significant difference at the 0.05 level

Agriculture Sector Activities

As previously mentioned, Uganda had an agriculture-based economy. Due to land inheritance patterns and strong extended family ties, persons living in urban areas may also cultivate land. In 1997, clients (54%) in all three districts had a larger proportion of households earning income from crops and livestock than nonclients (40%).

Below we look at changes in land cultivation, income from crops, crop diversification, and respondent spending on agricultural inputs.

Changes in Land Cultivation and Income from Crops. The majority of respondents' households had access to agricultural land either through individual ownership, family ownership, or rental arrangement. In 1997 the amount of land accessible to the household was significantly higher (statistically significant at the 0.05 level) among clients (see Table 5). Client households were more likely than nonclient households to have increased the amount of land they cultivated. The net difference between those who increased and those who decreased the amount of cultivated land was +25% among client households compared with +19% among nonclient households.

The expansion in land cultivated had a direct relationship to an increase in income from crop production. Client households were more likely than nonclients to report an increase in income earned from crops 12 months prior to the 1999 interview, indicating a strong association with participation in MFIs.

Table 5. Change in Amount of Land Cultivated between 1997 and 1999 (Household Data, 1999)

Change in land cultivated over the last two years	Client	Nonclient	Total
Increased	154 32%	56 23%	210 29%
Decreased	34 7%	10 4%	44 6%
Did not change	293 61%	174 73%	467 65%
Total	481 100%	240 100%	721 100%

Note: Statistically significant at the 0.01 level

Table 6. Gain Score in Amount of Money Spent on Agriculture Inputs by Client Status and District
(Uganda shillings, N=887)

District	Clients	Nonclients
Masaka	3578	-1572
Kampala	4667	889
Mbale	-998	-289
Total	2653	-474

Note: Statistically significant at the 0.05 level for clients compared to nonclients overall and in Masaka and Kampala.

Changes in Crop Diversification. In 1997, clients averaged 4.7 crops and nonclients 4.6 crops. By 1999, clients had increased the number of crops grown more than had nonclients.

Investment in Agricultural Inputs. On average clients spent slightly more on agricultural inputs than nonclients in the three months prior to the 1999 interview. Changes in the amount of money spent on inputs in 1999 compared to 1997 were higher for clients than nonclients (see Table 6). Masaka and Kampala clients and nonclients differed as well. Increased expenditure on agricultural inputs, expanded land cultivation, and crop diversification by clients were positively related to MFI program participation. Additionally, MFI program participation suggested clients were empowered to take advantage of new or expanded income-earning activities to increase their income.

Coping with Financial Shocks

Nearly 80% of households experienced unanticipated, financially demanding events between 1997 and 1999, the two most common being medical expenses and death of a household member (see Table 7). In 1999 more than 80% reported medical expenses and 40% reported a death, likely associated with HIV/AIDS. The differences between clients and nonclients in 1997 and 1999 were significant.

Table 7. Types of Financial Shocks Affecting Households in 1997 and 1999 (N=714)

Event	1997		1999	
	Clients	Nonclients	Clients	Nonclients
Medical expenses, household members	294	182	337	203
	66%	71%	63%	82%
Deaths, household members	115	76	183	101
	26%	30%	30%	40%
Business losses	87	38	93	43
	19%	15%	20%	17%
Obligations to non–household members	62	25	29	10
	14%	10%	6%	4%
Drought related	42	26	26	12
	9%	10%	6%	5%
Need to repay debts	15	10	36	10
	3%	4%	8%	4%
Loss of a job	21	7	33	11
	5%	3%	7%	4%
New individual joined household	14	4	4	0
	3%	2%	2%	0.0%

Note: Multiple responses possible. The percentages are based on the total number of households in each category reporting at least one financial shock.
Note: The chi-square tests show that the difference between clients and nonclients over both time periods are significant at the 0.05 level.

Microfinance Program Implications

Findings from the analysis have programmatic implications. The reasons for exiting the program given by those who had dropped out of their MFI program tended to emphasize elements associated with the lending strategy. Data suggested that microfinance organizations should consider the feasibility of providing individual loan products to participants who were diligent in repaying their group loans. These individuals want to "graduate" to larger loans than the groups provide, and they had some collateral to secure the loans. This process could prepare them for participation in the parallel commercial banking system in the future.

The 1997 baseline study and the 1999 follow-up study suggested the importance of using a comparative nonclient group to be able to associate changes with program participation. The value of the two-year interval, in spite of difficulties in relocating respondents, was that the 24-month timeframe permitted identification of impacts and trends over this period.

Notes

1. The authors would like to acknowledge the statistical work of Dr. Gary Gaile (consultant to Management Systems International) and the data coordination (including interviews with clients and nonclients) of Richard Kibombo and his colleagues at Makerere Institute for Social Research, Makerere University, Uganda. Mr. Kibombo coordinated and supervised the data entry work and provided data analysis. This article is based on research funded by USAID/Uganda. Both Morris and Barnes worked for Management Systems International, which was contracted by USAID/Uganda through the Assessing the Impact of Microenterprise Services Project. The article is based on the research findings of two earlier reports: (1) Barnes, Morris, & Gaile (1998); and (2) Barnes, Gaile, & Kibombo (2001).

2. While the focus of the research reported in this article is the impact of MFIs, a recent book edited by Manfred Zeller and Richard Meyer additionally examines MFI financial sustainability and outreach as part of the "triangle of microfinance" (Zeller & Meyer, 2002). In the MFI literature impact studies are labeled as investment led. A brief survey of the results of similar investment-led studies in developing countries is found in Sharma and Buchenrieder (2002).

3. Additional information on the sampling plan and the questionnaire is in volume 2 of the baseline report by Barnes, Morris, & Gaile (1998).

4. When a statistical test gives a .05 or below response, it indicates that the observed case is not just a chance coincidence and indicates that the dependent variable (client/nonclient status or district status) is positively correlated with the independent variable (e.g., amount spent on assets). The test means that there is only a 5 in 100 probability that the apparent difference would have occurred due to chance. A result between .06 and .10 indicates that results are marginally significant. Statistically significant results are indicated in the article.

5. Chi-square tests are appropriate for analyzing either a client or nonclient variable or a district variable against another variable for which only a frequency (versus an interval statistic such as a mean) is provided.

6. In 1997 and 1999 less than 5% of respondents reported having bought one or more fixed assets (e.g., buildings or equipment) directly with their loan funds. The low

proportion of clients using their loans to purchase a fixed asset is probably related to the short length of the loan cycle and the relatively small loan amount.

7. MFI loans are typically used by microentrepreneurs to increase the scale of existing activities or to diversify into related fields. Additional research on the use of MFI loans in microenterprise development is summarized in Dawson (1997).

8. The data are distributed with a highly negative skew and with large standard deviations. Therefore they are not analyzed as raw data with tests assuming a normal distribution. They are log-transformed so their distributions are suitable for statistical testing. The actual (nontransformed) gain score differences are available from the authors.

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Microcredit and Households Coping with HIV/AIDS

A Case Study from Zimbabwe

Carolyn Barnes

Abstract: This study seeks to better understand the ways chronic illness and death, possibly associated with HIV/AIDS, negatively affect households and the impact microcredit has had in helping affected households. This is achieved through analyzing data from clients of Zambuko Trust and from nonclient microentrepreneurs, using proxy indicators of HIV/AIDS affected households. It also investigates the vetting of members by loan guarantee groups and the ways these groups deal with individuals affected by illness and death. Since members of loan groups serve as gatekeepers to loans, the internal dynamics of these groups as well as the MFI's policies and loan terms and conditions are important to understanding any push factors that might exclude HIV/AIDS-infected and -affected individuals. Suggestions are provided from clients and other key stakeholders about changes that might assist microfinance institutions and their clients address the negative effects of HIV/AIDS.

In Africa, HIV/AIDS affects millions of households. More than 20 million Africans have died, 12 million have been orphaned, and 29.4 million are living with the virus. The infection and death of a household member creates economic stresses at the household and community levels (UNAIDS/WHO, 2004; Stanecki, 2004; Over, 1998; Dayton & Ainsworth, 2002).

Outside the health sector, the microfinance community has been in the forefront in addressing HIV/AIDS prevention, care, and mitigation (Donahue & Sussman, 1999; Parker, Singh, & Hattel, 2000; McDonagh, 2001). Preventive education for microcredit clients is now common. Furthermore, microcredit has been promoted for its potentially positive impact on those faced with the risk of becoming HIV infected or affected, and those already affected. Solid evidence, based on qualitative methods, has been provided of the ways microcredit clients in Kenya and Uganda cope with the effects of HIV/AIDS (Donahue, Kabbucho, & Osinde, 2001). New financial products—emergency loans and health and life insurance—have emerged (Balasubramanyam, 2001; McDonagh, 2001; McCord, 2000).

Underlying the attention to the potential of microcredit and other financial products to address HIV/AIDS is the premise that microfinance institutions (MFIs) are or can become financially self-sustainable. Nevertheless, HIV/AIDS can have a negative financial impact on MFIs (Manje, 2000; Evans & Radu, 2002).

This study, conducted in Zimbabwe, seeks to better understand the ways that chronic illness and death, possibly associated with HIV/AIDS, negatively affect households and the impact microcredit has had in helping affected households. Special attention is given to the dynamics within loan co-guarantee groups to determine if the groups explicitly exclude individuals infected and affected by HIV/AIDS. Since members of loan groups serve as gatekeepers to loans, the internal dynamics of these groups as well as the MFI's policies and loan terms and conditions are important to understanding any push factors that might exclude HIV/AIDS infected and affected individuals. Recommendations from clients and other key stakeholders are provided on changes that might assist microfinance institutions and their clients in addressing the negative effects of HIV/AIDS.[1]

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Study Methodology

Zambuko Trust's microcredit program was chosen as the focal point for this study because Zambuko has more clients than any other organization in Zimbabwe providing credit to microentrepreneurs. The study involved reanalysis of data from longitudinal surveys of Zambuko clients and nonclient microentrepreneurs conducted in 1997 and 1999,[2] as well as focus group sessions, individual interviews, and a forum with key stakeholders.

Because HIV infection was hidden under a veil of silence in Zimbabwe, proxy indicators were used to identify survey households that were possibly affected by HIV/AIDS. The initial step in reanalysis involved classification of the client and nonclient respondents' households as possibly affected by HIV/AIDS during the 1997–1999 period if they met one of the following criteria: (a) a member was chronically ill and unable to work in the six months prior to the 1999 interview, (b) the household absorbed one or more of the following since the 1997 interview and the person remained for more than six months: a sick person, an adult due to death in a prior household, or a child due to one or both parents having been sick or died, (c) the respondent, spouse, or household member 20 years old or older was seriously ill, which caused a financial crisis since the 1997 interview, or (d) the spouse or household member 20 years old or older died, which caused a financial crisis since the 1997 interview. These households are referred to as possibly HIV-affected households or as affected households.

This classification system facilitated analysis of the effects of chronic illness and death on households and the ways that microcredit impacted affected client households.[3] The survey data were analyzed using an analysis of covariance (ANCOVA) approach that took into account differences between the comparison groups in 1997 on values for specific, moderating variables: poverty level of the household, household economic dependency ratio, whether or not the household was affected by illness or death between 1995 and 1997, and the 1997 value for the variable analyzed. The ANCOVA procedure statistically "matches" individuals in the comparison groups (e.g., affected clients and affected nonclients) on their 1997 measures on the

variable analyzed (e.g., household income level) and on the moderating variables. It then uses the average difference between the matched groups on their 1999 measure of the variable analyzed to estimate impact.

The classification of the survey respondents as clients and nonclients is based on their status in 1997.[4] The reader should note that between the two surveys approximately half of the 1997 clients did not take another loan from Zambuko; hence, in 1999 half of those classified as clients were former clients. The analysis is based on a database of 579 respondents: 338 clients and 241 nonclients from Harare, Chitungwiza, Bulawayo, and Mutare.

To better understand dynamics within loan guarantee groups, in late 2000 and early 2001 focus groups were held in the same geographic areas covered by the survey. A randomly selected sample of current clients and of clients who had already participated in the survey were invited to participate. In total, 140 microentrepreneurs participated in the sessions. Also, 33 loan officers and branch managers from the regions surveyed participated in focus group discussions, and 7 senior managers of Zambuko were interviewed. In addition, 32 persons from microfinance institutions, HIV/AIDS support organizations, and donor agencies participated in a one-day forum in Harare on September 13, 2001. After the study's findings were presented, the participants met in small groups to discussed the implications of the findings in relation to what is currently being done and what else might be done.

Most of the survey respondents were women (85%). In 1997 the respondents averaged 39 years old, with 8 years of education. The majority were married and 10% were widowed. Seventy-five percent of the respondents' households were poor and one third were extremely poor, measured by global standards for determining per capita, per day income and taking into account purchase power parity.[5] Their households averaged five to six members.

By applying the proxy indicators, the findings indicate that 40% of both the clients and the nonclients were from households that were possibly HIV-affected in 1999. Illness of spouse, self, or another household member 20 years old or older was the most common

indicator. Clearly 34% of the affected client households and 24% of the affected nonclient households had experienced the death of an adult member in the past two years. One fifth of the affected households reported a chronically ill member and slightly more than one quarter had absorbed a person into their household that was ill or as a result of illness or death in that person's previous household.[6]

In 1997, 60% of the client respondents were on their first loan. After the completion of their 1997 loan, half of the 1997 clients took an additional loan. The impact analysis below includes both those who took an additional loan and those who left the program. The average sum of all loans taken by HIV-affected clients was Z$5,821 compared to Z$6,435 for the other clients, but the results are not statistically significant.

Country Context

The HIV infection is widespread in Zimbabwe, with an infected population estimated to be between 9 to 11.9 million persons in mid-1999. While life expectancy prior to the AIDS epidemic was 65 years, it was projected to decrease to approximately 39 years by 2005. In 1999 an estimated 25% of the adults aged 15 through 49 were HIV/AIDS infected. Overall, an estimated 1.5 million adults and children were infected by the end of 1999. Deaths due to AIDS were estimated to be 130,000 in 1997 and 160,000 in 1999. Some 624,000 children under age 15 are estimated to have lost their mother or both parents by the end of 1999 (UNAIDS & WHO, 2000). Ten out of every 100 children die before they reach age 5 (Central Statistical Office, 2000).

The high incidence of HIV/AIDS and its negative impact on households has been exacerbated by the negative impact of the political and economic environment. Since the mid-1990s, weak economic policies, governance problems, unsustainable levels of public spending, and high levels of domestic debt have negatively affected the Zimbabwean economy. Examples include government intervention in the conflict in the Democratic Republic of the Congo from August 1998 onwards, political tensions, and disrup-

tions associated with the direction of land reform and resettlement (IMF, 2001).

Inflation has soared. The cost of living, as measured by the Consumer Price Index (CPI), in the 12 months after the launching of the survey in September 1997 increased 32%. From September 1998 through August 1999 the annual increase in the CPI rose to 70% and in the next 12 months the annual increase in the CPI was 62% (Central Statistical Office, 2000; Reserve Bank of Zimbabwe, 2000).

Zambuko Trust

Zambuko Trust, which began operations in 1992, had branch offices in all of the major urban centers and key secondary towns and had five regional offices by late 2000.[7] Initially Zambuko provided loans to individuals backed by a guarantor, but in 1995 it started providing group-guaranteed loans (Figure 1). After participating in a group scheme, a client might be approved for an individual loan. However, resistance to group-guaranteed loans outside of Harare and Chitungwiza led Zambuko to continue to issue loans to individuals who would pledge a nonessential asset and who had a co-guarantor.

Figure 1. Zambuko Loan Products

Group-based Loan. Given to individuals in a self-selected group of 5-10 who co-guarantee the loans to its members. Each member pledges a nonessential movable asset against his or her loan. Prior to formal loan application, individuals must attend a half-day training session that covers basic business management. Loans are usually for 9 to 12 months, repaid on a monthly basis. The groups are not required to hold meetings on a regular basis. Loan officers informally provide business management advice.

Individual Loan. Individuals must have a personal guarantor and pledge a movable asset against the loan. Loans tend to be from 9 to 12 months, with monthly loan installments. Prior to formal loan application, the person is required to attend a half-day training session that covers basic business management. Informal business management advice from loan officers is provided.

Trust Bank Loan. Self-selected groups of 10 or more individuals that co-guarantee loans to its members; these loans are targeted to the poor. A potential borrower must attend a one-hour training session for eight weeks prior to receipt of the loan, and biweekly meetings during the loan cycle. Loan size is smaller than other products, and loans are for six months, with monthly installments.

Both individual and group members are required to attend an initial half-day orientation session prior to receipt of the loan, whereas the Trust Bank program involves more intensive training on good management practices.

In 1997, the average Zambuko loan was Z$2,537 (equivalent to US$213) and carried a 32% per annum interest rate. In 2000, the average loan size was Z$10,162 (equivalent to only US$185, due to a decline in the value of the Zimbabwe dollar). By late 2000, the interest rates had increased to as high as 52%, depending on the loan cycle and repayment record, as an attempt to keep up with the high rate of inflation.

Approximately 45% of Zambuko's clients were traders and 40% were engaged in manufacturing, such as knitting sweaters and sewing. The others were engaged in services, agriculture (livestock rearing and market gardens), and food preparation. Approximately 80% of Zambuko's clients were women.

An effort was made to ascertain the effect of HIV/AIDS on Zambuko's financial performance. At the end of 2000, less than one-half of 1% (0.32%) of Zambuko's outstanding loans were written off because of the death of clients. Beyond these data, the institution does not have a basis for estimating the impact of HIV/AIDS on its program and among its borrowers. Yet responses from clients and loan officers participating in the focus group sessions document that the effect goes beyond the death of clients to difficulties with loan repayment and to leaving the program.

Findings

Economic Effect of HIV/AIDS on Households

HIV-affectedness appears to be negatively associated with the proportion of the household's members who were economically active, the role of enterprise income in the household's economic portfolio, and the ability to seek medical treatment (see Table 1). These results are based on an analysis of changes between 1997 and 1999.

Moreover, when controlled for specific differences between respondents in 1997, the ANCOVA results point to specific, negative

Table 1. Key Differences between HIV-affected Households and Other Households (percentage distribution)

	HIV-affected	Other	Statistical significance
Economic dependency ratio	N=228	N=351	
1997	31	29	
1999	40	32	<.01
Gain score change	8.6	2.8	<.01
Ratio of enterprise income to total household income	N=221	N=282	
1997	75	66	<.01
1999	55	57	
Gain score change	-20	-9	<.01
Did not seek medical treatment when needed in past 6 months due to lack of funds (1999)	N=228	N=351	
Yes, unable to seek treatment	18	9	<.01

economic impacts on households. The monthly household income level for affected households was estimated to be Z$525 less than for other households (<.15). Also, the monthly net revenue for the household's enterprises was Z$521 less a month for the affected households compared to other households (<.05). The findings suggest that illness and death influence the amount of income the household earns from its enterprises, which in turn affects their overall monthly income level.

On a number of other economic indicators, the ANCOVA results suggest that the affected households were similar to other households. For example, no statistically significant differences were found between affected households and other households on the following: per capita monthly income; the frequency of the consumption of specific, nutritious food items; the proportion of the household's girls and boys aged 6 to 16 who were enrolled in school; and the number of person-hours worked in household enterprises.

Impact of Microfinance on Affected Clients

This section presents data on selected changes between 1997 and 1999, as well as the results of the ANCOVA tests that signaled the

impact of microcredit (see Table 2). The average total net revenue from household enterprises declined between 1997 and 1999 for both the affected client and affected nonclient households, when measured by the revenue earned the month prior to the interview and controlling for inflation. In 1997 the household enterprise revenue averaged Z$2,672 for affected clients compared to Z$1,822 for affected nonclients (P<.05). When measured in 1997 constant values, the amount in 1999 was Z$456 less for client households and Z$192 less for nonclient households.[8] Although the drop was greater for the affected clients, they still had a significantly higher average in 1999 than did the affected nonclients (P<.10).

In 1999 the affected clients averaged 37 hours of work in their household enterprises during the week prior to the interview, which was nine hours less than in 1997. In comparison, the affected nonclients averaged 46 hours of work, which was two hours more than in 1997. When controlling for initial differences, the affected client respondents had worked significantly fewer hours in their household

Table 2. Impacts of Microfinance on Affected Clients
Suggested by the ANCOVA Analyses of the Survey Data

Findings (1999 compared to 1997)[1]	Statistical significance
At the household level, HIV-affected clients compared to HIV-affected nonclients had:	
• greater number of household income sources (.23)	<.01
• greater proportion of the household's boys aged 6–16 in school (5%)	<.10
At the enterprise level, HIV-affected clients compared to HIV-affected nonclients had:	
• worked fewer hours the previous week in household enterprises (8 hours)	<.05
• greater proportion that insist on a deposit when extending credit to customers (13%)	<.10
At the individual level, HIV-affected clients compared to HIV-affected nonclients had:	
• saved in more ways (.43)	<.01
• greater proportion with an individual savings account with a formal institution (16%)	<.01

[1] The analysis took into account specific initial differences in 1997, including household poverty level, household economic dependency ratio, and whether the household had a crisis due to illness or death of a member between 1995 and 1997.

enterprises in 1999 than had affected nonclients. Nevertheless, the ANCOVA results did not suggest a negative relationship between microcredit and the total amount of net revenue from microenterprises, and the average net revenue from enterprises in affected client households was significantly higher than the net revenue earned by the comparison group. Because the findings on total hours of work in the enterprises do not suggest substitutes for the labor of the clients, the results imply that the affected client households managed their enterprises more efficiently.

When all sources of household income were considered, the affected clients averaged 2.5 sources in 1997, and this average increased to 2.8 by 1999. In comparison, the affected nonclients averaged 2.1 sources in 1997, and this average rose to 2.3 by 1999. The ANCOVA results suggest that affected client households had more sources of income in 1999 than the affected nonclient households, indicating that microcredit had enabled these client households to follow an income smoothing strategy.

Also, the ANCOVA results point to microcredit having a positive impact on affected client households sending their boys aged 6 to 16 to school, indicating investment in the human resources of its members. The proportion of affected client households with boys aged 6–16 in school had increased from 91% in 1997 to 99% two years later. In contrast, the affected nonclient households had gone from 93% to 95% of their boys in this age range enrolled in school.

Zambuko's program also appears to have had an impact on the way that affected clients manage their finances (see Figure 2). In 1999, 13% more of the affected clients than the affected nonclients insisted on a deposit when they extended credit to their matched enterprise customers. Also, 16% more affected clients than affected nonclients had an individual savings account with a formal institution. In addition, the average number of ways the respondents saved was higher for the affected clients than affected nonclients. These differences imply that Zambuko's microcredit program had a positive impact on the way affected clients manage their money.

Vetting of Members of Loan Guarantee Groups

The focus group discussions indicate that loan groups apply basic criteria in the selection of members: the trustworthiness of the candidate, whether the candidate is hardworking, and whether the candidate is someone whom they know. These criteria are the ones recommended by Zambuko. Participants explained how they define each of the criteria. Trustworthiness means a commitment to meeting obligations. It also implies that the person will be diligent in meeting loan obligations. Hardworking relates to the effort put into the enterprise to generate revenue and savings, which would enable the borrower to repay his or her loan. Knowing the person is also important. To many, this means that the person is a neighbor or works near other members.

Those owning or purchasing their residence tend to be preferred, although some groups accept renters who have resided at the same place for a long time or who have a relative nearby who is known to the group. Renters are considered high risk because they are difficult to track down if they move. The ability to relate to and communicate

Figure 2. Improved Financial Management

In May 1997 when she received her first Zambuko loan, Ms. Mlanga, a 32-year-old divorcee with a 4-year-old son, had few household assets and lived in one room that she rented. In late 1998, Ms. Mlanga took in her chronically ill and widowed sister. The sister's in-laws sent her away when they took over her deceased husband's property and the care of her children. To accommodate the sister, Ms. Mlanga moved into a two-room rental unit without electricity. Ms. Mlanga attributes her ability to manage her meager financial resources to the training she received from Zambuko. Using the budgeting skills she acquired, she is able to pay her rent on time, and she buys groceries in bulk. She says that if it were not for Zambuko, she would not have achieved what she has so far.

Mrs. Chikaro started borrowing from Zambuko in 1994. Prior to becoming a client, she did not have any confidence in her enterprise and herself because her enterprise was struggling to survive. Her husband, the household's main income earner, became ill and then died in early 1997. During his illness, her enterprise activities were disrupted, since she devoted time to caring for him. After her husband died, she continued to borrow from Zambuko. Her savings and loans enabled her to buy a knitting machine and build a rental unit adjacent to her house. She has managed to support herself and her four children. She reports, "someone coming into my house would not know that there is no man," since she is doing well meeting all of the household expenses by herself.

with members was also often mentioned as important. Groups did not want a member who would cause problems.

Other criteria may also be applied. In one instance, the health status of the individual was explicitly stated as a criterion. A member of a Harare loan co-guarantee group, formed in 1999, stated that they look for "one who is not constantly ill because it would give us repayment problems." Later participants were asked: "If Zambuko had a policy of writing off the loans of deceased clients, would your group allow sick persons to join?" The answer was "no," because the sick people would probably be unable to work enough in their enterprises to enable them to meet monthly loan installments. This was considered important because Zambuko requires group loans to be paid in full or else each member is assessed a late fee. The response also indicates a recognition that HIV-infected individuals experience a number of health problems as the infection progresses. The focus group findings mirrored Zambuko's policy against loaning to persons who are ill, because of the risk associated with the ability of the individual to repay their loans.

Nevertheless, there were notable exceptions to exclusion of the chronically ill. An example was given in Mutare of a group with a sick person who had "worked hard to the end and would struggle and still managed to pay her installments." This loan group incorporated the 23-year-old daughter of the deceased member because her mother was such a hardworking and trustworthy person. In another case, a borrower confided to her loan officer that she was HIV-positive. At her request, he talked with her group members and they consented to allow her to remain in the group for the next loan cycle.

Loan Repayments and Illness and Death

Loan co-guarantee groups have responsibilities for the debts of their members. Since mid-2000, Zambuko has enforced the group guarantee loan condition: each group's installment must be paid in full, otherwise each member is charged a late fee. Also, for loans extended prior to January 2001, the loan group was responsible for paying the outstanding loan of deceased members (see Figure 3). Group responsibility meant that if the group did not collect the money from

Figure 3. Examples of Loan Co-Guarantee Groups Dealing with Death of a Member

A Mutare group member had left instructions that her children should pay off her loan using the money generated from renting one of the rooms in her house. She had the written instruction "stamped" (notarized) at the police station. When she died, her instructions were implemented without difficulty. This group makes a practice of discussing with members what should be done to recover the loan money if they die. Instructions are written in their savings passbook, and the members are expected to inform their spouse or another family member about these instructions.

A Highfield group member died only three days after receipt of her loan, so the funds were still in her bank account. Neighbors informed the husband, and upon their advice he withdrew the money and would not honor the wife's debt. In spite of appeals to the husband and mother-in-law, the group members ended up repaying her loan.

Two Trust Bank groups reported paying the loans of deceased members because the deceased had paid their installments on time prior to their death. Another group paid off half of the deceased member's loan and then Zambuko wrote off the remaining balance.

the deceased person's family, group members had to pay. As a participant explained, "Initially Zambuko wrote off loans of people who had died, but they stopped after realizing that some people would go to the officers and lie that some had died when she/he was alive."

Group members normally assist members who have difficulty meeting their loan installments because they are ill or coping with illness or the death of a family member. The group, however, normally expects to be reimbursed. Some groups have established special group savings accounts to enable them to provide short-term assistance. Group members may also lend support to members in other ways, although this does not appear to be a normal practice. It depends on the situation, personal ties, and the ability of the members to assist.

Clients in the focus groups reported that loans help microentrepreneurs to improve their ability to cope with future illness and death. However, borrowers with individual loans and many group members consider loans a burden if serious illness or death occur when the microentrepreneur has a loan outstanding. Their view is also held by Zambuko officers. Both Zambuko officers and clients tend to agree that loans should be for the economically active.

Illness and Death Affecting Continuation in the Program

Focus group findings indicate that the loan product influenced the way groups treat members who are ill or have experienced difficulties due to illness or death in their household or among extended family members. For the non–Trust Bank groups, as long as the individual had been a good member and met loan installments in a timely manner before experiencing problems due to illness or death, the person is normally allowed to remain in the group during the next loan cycle. As the Chitungwiza participants remarked, "We must do this because it might be one of us the next time." A woman from Bulawayo who had told about her group helping a member whose husband was ill and then died explained that "the group said that she should feel free to continue as a group member since her repayment problems were not of her own making."

The amount of the subsequent loan, however, might be more modest. The Mbare participants advise members who have had repayment difficulties due to illness or death to take a smaller-sized loan, but they do not drop them. In another session, a group member recounted how one of their members wanted a larger loan but the others appealed to the loan officer to recommend a smaller amount, because the individual was likely to die. The loan officer agreed. The group members were correct and the member died that year.

The Trust Bank participants expressed a different approach, possibly because they have shorter loan cycles and the burden falls on a larger number of people due to the larger sized co-guarantee groups. Trust Bank groups gave examples of advising members who had experienced difficulties making repayments to "rest" from the program during the next loan cycle. One Trust Bank group, however, had problems because a member insisted on getting another loan after failing to repay the previous loan. The loan officer was unaware of the problems the woman had caused the group, because there was no record of them having paid for her. In this case, the participant telling the story dropped out of the loan group because she did not want to be in a group with such a person.

Figure 4. Leaving the Program to Care for the Sick

An elderly former Bulawayo client made dresses and knitted sweaters. She traveled to rural areas where she sold them for cash or bartered for maize that she would then bring into town to sell. Then her unmarried son fell ill with tuberculosis (probably associated with HIV infection), and she had to relocate to the rural areas to take care of him. Then her son-in law also fell ill with tuberculosis. When her son died, she moved to Masvingo to assist her daughter in caring for the son-in-law (who also had signs of being HIV infected). This meant that her business activities were disrupted because she had to spend a lot of time caring for the sick, so she was unable to continue in Zambuko's program. She intends to borrow again once her caretaking responsibilities are completed.

Some persons self-select to rest between loans or drop out of the program. For instance, two of a group's five members did not want to take another loan due to illness in their households, so the other members decided to stop borrowing until they were all ready to seek another loan. The remaining members made this decision rather than to add new members to their group that they did not trust as much to repay their loans on time.

Program departure in 1999, voluntarily or involuntarily, was associated with having a chronically ill household member or recent widowhood. Thirteen percent of departing clients compared to 5% of continuing clients had a chronically ill household member ($P<.05$) at the time of the 1999 interview (see Figure 4). These data mirror focus group findings that clients and loan officers have found that loans are burdens on those in the midst of a crisis. Also, among those who had become widowed after 1997 and had not remarried, the continuation rate was only 38%, compared to 49% of those who were not widowed in 1997 nor in 1999. These findings suggest that certain types of affectedness influence program departure.

The focus group sessions also revealed instances in which members of the group left the program because of the burden of paying for other members. The Trust Bank participants in particular talked about the burden and problems associated with the group co-guarantee. They felt that smaller, more cohesive groups would be better than what they have (10 to 28 members in their loan co-guarantee groups).

Knowledge of HIV/AIDS Support Organizations

Focus group participants were asked if they knew of any organizations that assist people caring for those affected by AIDS. In the Highfield's session, 9 out of the 10 participants stated that they were looking after orphans whose parents, they believe, died as a result of AIDS. One woman reported that she used to go to the Highfields (a section of Harare) social welfare office but it no longer assists them. Another said that her church tries to help such individuals. One person explained that her brother died of AIDS and left orphans, but to get help is difficult because on the death certificates they write reasons other than AIDS. Other participants in the Highfield session did not know of any organization.

In the sessions in Bulawayo, most participants did not know of any HIV/AIDS support organizations. A few had heard about the New Start Center on the radio and on television, and one person had heard of the Matebeleland AIDS Council; however, none of the Mutare participants knew of any HIV/AIDS support organizations. One participant remarked that during the year 2000 people came and asked them to register children that had lost both parents. Those who registered had to pay a Z$20 registration fee. "Up to now we have not heard anything from these people and nothing has happened."

Recommendations

Suggestions by Microentrepreneurs

The last part of each focus group session elicited participants' suggestions on services aimed at helping those who take care of or support people with long-term illnesses and those who lost members of their family. The suggestions given all focus on Zambuko. Although the participants were encouraged to think beyond Zambuko, they gave suggestions focused on the organization that they know and in which they have confidence.

The provision of a grace period and deferring a loan installment payment were mentioned in most groups as ways to help those affected by HIV/AIDS. The responses were associated with suggestions that Zambuko accept partial payment of group loan installments, especially

if only one person had not paid. Participants in nearly all sessions also suggested that Zambuko institute an insurance policy that would write off the loans of deceased clients.[9] They thought that Zambuko should ask for proof of death, such as a death certificate. Only the Highfield participants did not like the idea of paying another fee, even if it were to pay off the loan of a deceased client.

Participants in Bulawayo expressed interest in workshops on how to care for HIV-infected people because they are afraid that if they have physical contact with an infected person they will get the disease. Also, Bulawayo participants suggested it would be good if informational workshops were held for Zambuko clients so they would know where to go for assistance related to HIV/AIDS. Their request mirrors the type of sessions Zambuko's Trust Bank officers had organized for members who meet on a scheduled basis to learn about HIV/AIDS prevention from a Ministry of Health HIV/AIDS specialist.

A couple of sessions in Harare and Chitungwiza with group members ended with participants stating that they had learned a lot from the experiences shared by others. They felt that it would be good for group members to come together more often to share their experiences in dealing with difficult situations.

An interesting observation from the focus groups with clients was that the Mbare female and male participants were more businesslike in their attitudes, approaches, and opinions than those in the other groups. Mbare clients work in one of the most vibrant microenterprise market areas in Zimbabwe. Mbare participants seemed to regard Zambuko as a banking, not a social, institution and weighed suggestions against this standard (see Figure 5). The reason is probably associated with their having no other options for credit.

Figure 5. Zambuko Viewed as a Financial Institution

A suggestion in Mbare that Zambuko assist if a member dies, such as buying a coffin, was met with an immediate "no" from the others. "I think you are asking for the impossible. Let us say that you have an account with Standard Bank, would you ever go to Standard Bank to say bury me?" The participants indicated that it would be bringing shame to them if they expect Zambuko to carry their personal problems as if "it is a crime to make us their members."

Suggestions by Other Stakeholders

The above findings stimulated discussion and elicited suggestions by key stakeholders participating in a forum in Harare. No attempt was made to reach a consensus or to prioritize the suggestions. Nevertheless, microfinance participants tended to regard these as good suggestions. Overwhelmingly the participants felt that there was greater need for communication and networking between the microfinance institutions. Those institutions already doing something related to HIV/AIDS should be given a platform to share their experiences so that the sector can advance on the learning curve. Also MFIs should develop a common policy and an appropriate culture and be proactive in establishing ways of addressing the impact of HIV/AIDS on their programs and clients.

These participants also suggested that MFI managers discuss HIV/AIDS as both a client issue and a management issue. More attention should be focused on delinquency management and how to manage risks. For example, managers should consider the household, not just individual microentrepreneurs, when giving loans. They should permit one loan to fund start-up activities and different economic activities by household members. Upon the death of a client, another person from the household should be eligible to fill that person's place in a loan group or with the loan institution, although the person should receive the loan amount for first-time borrowers. Microfinance institutions might consider providing loans to households rather than individuals.

Another suggestion was that microfinance boards of directors and donors should reconsider their policy on the time frame for financial sustainability, profitability, and productivity. They need to be realistic about the impact of HIVs on microentrepreneurs and in turn upon their microcredit programs. Tools are needed to enable them to track the changing impact of HIV/AIDS on clients and their institutions. Client-focused tools would permit MFIs to better understand their outreach and impact on those most vulnerable to HIV infection and those already affected by the virus.

Loan officers often encounter situations related to HIV/AIDS. They ought to be trained on how to communicate in these situations

and on the importance of verbal and nonverbal behaviors. They might also be provided with basic counseling skills and be updated on a regular basis on HIV/AIDS-related services so that they may inform their clients and others in need.[10]

The forum participants agreed with the following suggestion made by Zambuko loan officers: MFIs should encourage borrowers to train one of their teenage children to operate the enterprise. The objective would be twofold. First, if successful it would provide a fallback position if the client has to take time away from the business due to illness or death. Second, it would help to teach business knowledge and skills that could assist the child in future years, especially if economic hardships befall the household due to the death of the adult income earners.

Participants felt that under certain conditions, there may be scope for a special loan product for microentrepreneurs who are caring for orphans and helping those affected by HIV/AIDS. For example, loans might be extended to persons who are committed to caring for the abandoned terminally ill in their rural community. (However, in an unstable economic environment, this type of loan ought to be for enterprises that involve products or services that have a relatively stable market.)

Conclusions

Findings based on proxy indicators of HIV/AIDS reveal that between 1997 and 1999, 40% of the survey client and nonclient households were possibly affected by HIV/AIDS. These households appear to be in a worse economic situation than those not affected. They had a higher economic dependency ratio and were less likely to seek medical treatment when needed due to a lack of funds.

When controlling for selected initial differences, the study found that microcredit from Zambuko enabled affected client households to smooth their income flows through the diversification of their income sources and to invest in the education of their boys aged 6 to 16. Moreover, it had an impact on the way affected clients manage their finances. There also appears to be a relationship between participation in Zambuko's credit program and a decrease

in the number of hours worked in household enterprises, but not a negative impact on the net revenue from these enterprises.

Loan groups normally assist members having difficulty making their loan installment, but they expect to be repaid. Persons who had difficulties making their loan payments due to illness or death in the household are normally permitted to remain in the group for the next loan cycle, although Trust Bank members may be asked to wait a while. Until recently, the groups have borne the responsibility of paying the outstanding loans of deceased members. Both loan officers and most clients tend to believe that a loan is a burden when the clients are in the midst of a crisis.

A number of modifications to existing credit products and procedures were suggested that are worthy of exploration to determine their financial viability. For example, there appears to be merit in testing a new approach to loaning for microenterprise activities. Currently organizations tend to loan to an individual for a specific, existing enterprise rather than for a set of household enterprises. MFIs might pilot test loans that would cover existing and new enterprises and assess applicants on the ability of the household to repay the loan, possibly with the contract cosigned by two adult household members. This approach could be combined with encouraging young adults in the household to learn skills in managing and operating an enterprise.

Zambuko reaches poor households and households that are or become affected by HIV/AIDS. However, just because a program operates in a country with a high HIV prevalence rate does not automatically mean that the program reaches and benefits HIV/AIDS-affected households. The loan products, terms, and selection criteria are likely to influence the extent to which microentrepreneurs from these households participate in a microcredit program. The case study from Zimbabwe indicates that credit products and terms could be modified to be more appropriate to the constraints faced by microentrepreneurs in countries with high HIV prevalence rates.

By joining associations or formal networks, institutions providing microcredit can work together to advance their understanding of appropriate terms and conditions for microcredit products in countries where HIV is widespread. These industry-wide groups might

also work to curb approaches and activities that would undermine their microcredit programs. A potential threat comes from programs providing grants to HIV/AIDS affected individuals, when these programs call them loans. The microcredit industry in Africa has made great strides in establishing a culture of discipline in the repayment of debts. Greater attention needs to be given to demarcate the appropriate role of grants and credit in efforts to mitigate the negative impacts of HIV/AIDS on individuals and households.

Notes

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1. Suggested new products are found in Barnes (2002).

2. See Barnes (2001) for the results of the longitudinal assessment carried out for USAID's Assessing the Impact of Microenterprise Services (AIMS) Project.

3. The analysis also included the other clients and other nonclients, but only the results for the two affected groups are discussed.

4. The nonclients were randomly selected from those who met Zambuko's basic loan criteria, had not received credit from a formal institution for their enterprise, and were matched by gender and enterprise sector with a client in their community. Nonclients who had become Zambuko clients since the 1997 interview were excluded from the database.

5. In 1997 two thirds of the client households were below the $2 a day per person poverty line, and one third of the client respondents were from extremely poor households (below the $1 a day per person poverty line).

6. The cases of chronically ill persons are also captured in the more general question on serious illnesses. These cases suggest an advanced stage of HIV infection.

7. Registered under Zimbabwe's Money Lenders Act, Zambuko is not permitted to accept voluntary deposits.

8. One U.S. dollar was equal to Z$11.9 in September 1997 and to Z$38.1 in September 1999.

9. Since Zambuko had just initiated its loan insurance scheme on new loans, the

participants were unaware of the most recent policy change.

10. See Dunford (2001) for a discussion of options for educating clients on HIV/AIDS.

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Outcomes of an Ethiopian Microfinance Program and Management Actions to Improve Services

Shannon Doocy, Dan Norell, Shimeles Teffera, and Gilbert Burnham

Abstract: Management decision making in MFIs is becoming increasingly tied to collecting information about social performance. This paper examines the impact of participation in an Ethiopian microfinance program on indicators of socioeconomic status including wealth, income, and home or land ownership. A survey assessing these outcomes was conducted in May 2003 in two predominantly rural sites in Southern Ethiopia and included 819 households. The article discusses management decisions made as the result of survey findings about socioeconomic status and food security to increase retention rates and to facilitate client savings. Additionally, the management was prompted to increase the number of female clients and raise the proportion of female loan officers. This paper illustrates how data from routine monitoring and evaluation can be linked to MFI management decision making, which ultimately results in providing better microfinance services.

Microfinance programs focus on expanding local economic activities and improving the standard of living of their clients by providing financial services needed to establish small businesses. Microfinance can be defined as "the provision of banking services such as savings, credit and money transfer to poorer

people who cannot access ordinary mainstream banking services" (Wilson, 2003). While the primary goal of most microfinance institutions (MFIs) is improving the economic status of poorer segments of the population, most service providers aim for a broader impact of enhanced well-being. Because households function as social and economic units, microenterprise programs have a unique opportunity to impact the economic, social, and general well-being of households.

Microfinance is typically viewed as an economic development strategy, and it is a particularly relevant approach in countries where disadvantaged groups tend not to benefit from involvement in the formal economy. In most developing nations, the majority subsists on income from microenterprise activities; the microenterprise sector is estimated to account for 20% to 70% of all employment in many developing countries, illustrating the importance of the informal economy in the subsistence of impoverished populations throughout the world (Wilson, 2001; Waters, 2001). Microfinance is a logical approach to development because it functions at the grassroots level, can be sustainable, is capable of involving large segments of the population, and builds both human and productive capacity.

This paper assesses the outcomes of an Ethiopian microfinance program in terms of household income, wealth, and food security. If microfinance programs operating in Ethiopia and similar contexts are successful at increasing household wealth and incomes, then it is likely that the livelihoods of poor populations can gradually be improved in many locations. Additionally, the paper explores data from an impact evaluation and discusses management actions taken by the MFI in light of the evaluation results.

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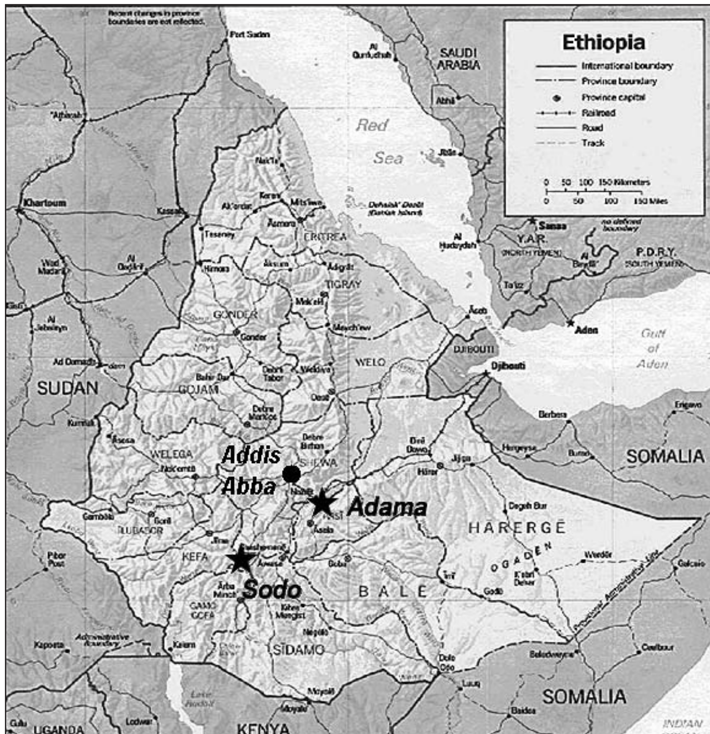
WISDOM Microfinance Institution and Survey Sites

The World Vision microfinance affiliate in Ethiopia, known as WISDOM, was established in 1999. The institution is headquartered in Addis Ababa and currently operates 15 branch offices throughout the country. In the 2003 fiscal year, WISDOM had US$2,055,873 in disbursed loans and 12,157 active clients; 25% (N=2999) of clients were women. The average outstanding loan size during the period was US$141. In May, 2003, an assessment of the WISDOM lending program was conducted to examine its impact on clients in the context of prolonged drought and food insecurity. The Adama and Sodo branches of WISDOM were selected to participate in the assessment because (1) they serve regions that are among the most drought-affected in Ethiopia, and (2) the branches were relatively

Figure 1: Map of Ethiopia & Survey Sites



mature, having been operational for more than four years, which allowed for the inclusion of clients that have been borrowing from the institution for longer periods of time (Figure 1).

The Sodo branch is located in Wolayita, in the State of Southern Nations, Nationalities, and Peoples Region. The Sodo branch had 2,517 clients when the survey was implemented; as a result of differences in branch size, three quarters of the sample (N=614) was concentrated in the Sodo survey site. The remaining sample (N=205) was drawn from the areas served by the WISDOM branch in Adama. The Adama branch of WISDOM is located in the East Shewa Zone of the Oromiya Regional State, approximately 100km southeast of Addis Abba. At the time of the assessment, the Adama branch had 745 active clients. The branch serves the Districts of Adama and Boset and the city of Nazreth.

Methods

A survey of 819 households was conducted in May 2003 in two predominantly rural sites in Ethiopia. The survey was primarily intended as an assessment of microfinance program outcomes and coping capacity, primarily in terms of measures of socioeconomic status. This study compared two groups of clients that received loans (incoming clients who had completed one loan cycle or less and had been participating in the program for no more than ten months, and established clients who had completed two or more loan cycles) and one group of community controls who were eligible to participate in the WISDOM lending program but had not received a loan within the past year and were not seeking a loan.

A total of 408 established clients, 205 incoming clients, and 206 community controls participated in the survey. The sample was stratified by survey site and client sex, and participants were systematically selected from client lists of the microfinance institution. Neighborhood residents were used as community controls; they were matched by sex and selected by proximity of residence to established clients participating in the study. Indicators of socioeconomic status included monthly household income, per capita monthly household income, household asset and livestock value, and

household asset and livestock index score. In addition, food security was assessed by a variety of indicators including household diet, child nutrition status, and food aid receipt.

Wealth was estimated based on currently owned household and productive assets. Nineteen types of assets were included in the index. Items were those commonly included in asset indices used to estimate wealth in rural Africa and were established based on previous studies (Morris, Carletto, Hoddinott, & Christiaensen, 2000; Schellenberg, Victora, Mushi, Savigny, Schellenberg, Mshinda, et al., 2003) and preparatory work in the survey region that identified locally important assets. Two measures of household wealth based on assets were developed using a methodology developed by Morris (2000) that combined asset ownership and data from market surveys. Asset-based indicators of wealth included the total value of household assets and livestock and a household asset and livestock index. The asset and livestock index was derived based on the assumption that households with greater resources will purchase and own a greater volume of durable goods; thus asset ownership and household wealth should be related.

Income was assessed using two indicators, monthly household income and per capita monthly household income. Monthly household income was estimated by asking the respondent about all of the economically active members of their household and the money or product generating activities they are engaged in. The monetary value of products produced for barter was used when goods produced were traded and not sold. In the case of agricultural households where income is largely seasonal, the total harvest income was divided by twelve to obtain an estimate of average monthly income from seasonal sources. Per capita monthly household income was also calculated as a measure of socioeconomic status because it incorporates household size, which is often related to socioeconomic status.

The survey used questionnaire-based interviews. The questionnaire was developed in English and was approved by WISDOM and World Vision. The questionnaire was piloted by WISDOM staff in the Adama branch to ensure it was culturally and linguistically appropriate before it was finalized. The survey was translated into

Amharic by a translation agency in Addis Abba that was selected by WISDOM. Back translation was performed by the WISDOM staff. Trained local interviewers were used to ensure knowledge of languages spoken in rural areas.

Data analysis was performed using SPSS version 10.0 and STATA version 8.0. Income and asset values were originally reported in Ethiopian Birr and later converted to the US dollar at a rate of 8.60 birr per US dollar (Universal Currency Converter, 2004). Regression models were employed to determine if outcomes were a result of differences in characteristics of the comparison groups or were attributable to program participation. All significant differences between comparison groups and location of residence (by district or survey site) were considered in linear regression models along with other potentially significant predictors. Variables with a p-value less than 0.05 in univariate regression were considered for best-fit multivariate models using stepwise methods. The "best-fit" model that was selected included predictors with p-values less than 0.05, minimized the residual sum of squares, and maximized the F-statistic.

The study was approved by Johns Hopkins Bloomberg School of Public Health Committee of Human Research and by local authorities in Ethiopia.

Results

Wealth

Household asset and livestock value and index scores were used to estimate wealth. Mean asset and livestock values were US$635 (95 CI: 579–692) in Adama and US$646 (95 CI: 615–677) in Sodo. Incoming clients had the greatest mean asset and livestock value (US$711), followed by established clients (US$642) and community controls (US$588). Mean asset and livestock values among the three comparison groups were significantly different in Sodo (p=.024) and similar in Adama. No significant differences were observed in the mean asset and livestock index score for the three groups in Adama or Sodo.

Change in asset value over time was compared among WISDOM clients using current asset value and asset value at entry to the lending

program. Unfortunately, similar data were not available for community controls. Of established and incoming clients, 69.9% reported a positive change in asset value since enrolling in the WISDOM lending program, 23.3% reported no change in asset value, and 6.8% reported a decrease in asset value. No significant difference in asset change was observed between incoming and established clients. No significant differences in frequency of productive asset sales were found between the three participant groups in Adama or in Sodo, with less than 2.0% of households reporting the sale of productive assets (as a coping mechanism) in the past year. These results suggest that negative change in asset value is likely to be similar among community controls and program participants.

Change in asset value over time was assessed to determine if program participation resulted in a continued increase in household wealth. Length of participation in the lending program and number of loan cycles completed was compared with two measures of change in asset value: (1) the change in estimated asset value since enrolling in the lending program, and (2) the proportional change in asset value since enrolling in the lending program (current assets/entry assets). No significant correlations were observed between length of program participation (time in months or loan cycles) and either measure of change in asset value suggesting that participation in the lending program is not associated with an increase in client wealth.

Income

No significant difference in average monthly household income was observed between the three participant groups in Adama or Sodo; mean monthly household income was US$32 (95 CI: 28–37) and US$39 (95 CI: 36–42) in the two sites, respectively. Per capita household income was also similar among the three groups in both survey sites, with a mean value of US$9 (95 CI: 8–10). When the established client sample was assessed, a small but statistically significant negative correlation between income and length of participation were observed when comparing monthly household income to length of participation in months and the number of loan cycles completed. This is likely a result of declining income trends among

the population as a whole during the prolonged drought and is probably not attributable to participation in the WISDOM program.

Established clients had significantly more income sources than incoming clients and community controls. On average, established clients had 1.4 income sources as compared to 1.2 income sources for incoming clients and community controls ($p<.001$ by ANOVA). After adjusting for the number of economically active individuals in a household, client households still had significantly higher numbers of income sources. These results suggest that extended participation in the WISDOM lending program results in diversification of income, which is most likely due to the establishment of new enterprises that are facilitated by program participation and the resultant access to loans. Household income increased 1.23 times or 23% for each additional source of household income, indicating that diversification of income sources has a positive affect on household income. These findings suggest that participation in the WISDOM microfinance program gave people the funds to expand existing businesses or start other microenterprises, resulting in the diversification of income sources and the spread of the risk of financial difficulty over an increased number of microenterprises.

When other variables were held constant, literate respondents had household incomes that were, on average, 1.15 times or 15% greater than that of illiterate respondents. Household income increased 1.03 times or was 3% greater for each additional year of formal education attained by the household head. Landowners had lower average incomes than nonlandowners, at 0.88 times or 12% less than nonlandowners, when adjustments were made for other covariates. Households with primarily nonagricultural incomes had, on average, incomes that were 1.39 times or 39% greater than households with agricultural incomes. Residents of rural districts had smaller incomes than those of urban districts: rural district incomes were, on average, 0.85 times or 15% less than incomes in urban districts.

Home and Land Ownership

The study found significant differences in land and home ownership patterns among the three participant groups. Established client

households reported the greatest levels of home ownership, at 84.5%, as compared to 77.2% of incoming clients and 74.6% of community controls (p<.001 by ANOVA). Land ownership was reported by 45.6% of established clients as compared to 30.5% of incoming clients and 41.6% of community controls (p=.002 by ANOVA). The observed relationship among the three comparison groups—where established clients were most likely to own a home, community controls were least likely to own homes or land and incoming clients were intermediate—suggests that the likelihood of home or land ownership increases with participation in the lending program. Definitive conclusions, however, cannot be made because of the cross-sectional survey design. Client loan use patterns may provide some insight into the interpretation of home ownership information, where a large portion of loan funds were reportedly used toward purchasing or leasing land and homes. Comparison of home and land ownership rates in clients and incoming clients suggest that home and land ownership may be facilitated through the WISDOM lending program.

Discussion

While the majority of WISDOM clients reported an increase in asset value since enrolling in the lending program, differences in household asset data between clients and community controls were statistically insignificant. Findings from this study indicate that participation in the WISDOM microfinance program did not result in increased household wealth. Comparison of household asset value in Adama revealed an interesting (though statistically insignificant) pattern between participant groups where clients were the wealthiest, incoming clients were intermediate, and community controls were the least wealthy. In Sodo, this trend was not observed: incoming clients were the wealthiest, followed by established clients and community controls. Significant correlations between measures of asset change and program participation were not observed, further indicating that participation in the lending program was not related to greater accumulation of assets or an increase in wealth.

Efforts to increase the proportion of female clients resulted in targeting women (mostly from urban areas). Because wealth and incomes in urban areas were greater than in rural areas, the gradual shift to a more urban clientele in later years resulted in increased wealth among new clients at enrollment. Consequently, comparison of wealth between the different groups is not possible, because of the lack of baseline data, and only limited conclusions about changes in wealth and microfinance participation can be made. Ideally, the correlation between income and the length of participation could be examined based on multiple observations of each client over an extended period; however, a longitudinal study design was not pursued because of time and resource limitations. As a result of the cross-sectional study design, the comparison relies largely on reported monthly incomes of clients that enrolled at different points in time. Because of the trends in the characteristics of clients that enrolled at different periods of time, the results of this comparison should be interpreted with caution.

While some correlations between the measures of income and the length of participation were statistically significant, the coefficients were small ($r<.40$), indicating that strong conclusions cannot be drawn. Coefficients were negative for the comparison of income and the length of participation in the program (by both month and loan cycles), indicating that income may have decreased slightly per each additional month of participation in the lending program. One potential explanation for the weak correlation coefficients is the ongoing drought that is thought to have resulted in a gradual decline in household incomes over several years.

Client status was not a significant predictor of income in the model presented, indicating that participation in the program did not have measurable impact on monthly household income. Significant predictors of household income in multivariate models that are of particular interest include those that may have been influenced by development programs. While the district of residence or agricultural versus nonagricultural income category are client characteristics that are unlikely to be changed, other traits such as literacy, the education level of the household head, and the number of sources

of household income are potential areas, which if targeted by development programs, could result in increases in household income.

The number of household income sources was a significant predictor of household income, indicating that having a greater number of income sources was associated with higher levels of monthly income. Significant differences in the number of income sources for each client group suggest that participation in lending programs may result in the diversification of household income. The observed relationship between enrollment and income sources, where established clients have the greatest diversity in income, followed by incoming clients, with community controls having the least diversity of income sources, suggests that extended participation in the lending program leads to diversification of income. The relationship between the number of household income sources and monthly household income indicates that diversification of income via lending programs may be an effective strategy to increase household incomes.

Study Limitations

The inability to randomly assign participants to experimental and control groups is a problem common to all microfinance evaluations, and thus it cannot be viewed as a primary limitation of the study; nearly all microfinance research is based on quasi-experimental designs. The principal limitation of this study is the cross-sectional design. An important drawback of cross-sectional studies is the inability to control for trends or directional changes in the characteristics of the population over long periods of time. Because WISDOM clients enrolled in the organization over an extended period of time and no baseline data is available, it is difficult to establish whether clients enrolling during different periods are similar; consequently, the comparability of incoming and established client groups is drawn into question. Study findings suggest that changes in enrollment practices meant that incoming clients had higher socioeconomic status than established clients. In the context of the Ethiopian drought, declines in the income of agricultural populations are probable; the cross-sectional study design is also unable to account for these trends. Consequently, it is not possible to determine whether

declines in income over time are attributable to the prolonged drought or how participation in the WISDOM lending program may have modified household income.

The cross-sectional design clearly limited the ability of the study to adequately measure changes in income, wealth, and the relationship between asset accumulation and program participation. The inclusion of wealth and income indicators in program monitoring or in cross-sectional surveys that are administered at multiple points in time is a better approach for MFIs to measure client wealth and determine if changes in wealth and income are in fact a result of participation in a lending program.

MFI Management Actions

WISDOM and World Vision undertook the study with the aims of (1) understanding the impact of WISDOM microfinance services on the well-being of their clients, and (2) improving the financial products and services that WISDOM offers its clients. This impact survey and the desire on the part of WISDOM management to use the impact assessment data to improve their services is part of a growing trend in the microfinance industry. As one author maintains, "there is a growing movement towards practitioner-focused impact assessment and client assessment. This takes as its starting point management's need for information to improve practice. Practitioner

Figure 2: Socioeconomic and Food Security Indicators by Clients' Status and Sex

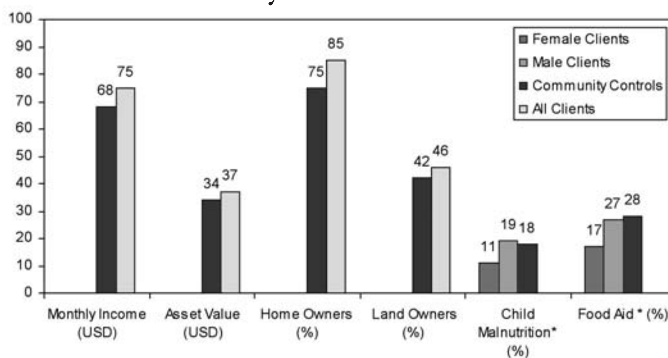


Table 1: Summary of Evaluation Findings and Corresponding Management Implications

Findings	Management Implication
Increased income reported by clients	Increase outreach to allow for more beneficiaries
Greater rates of home and land ownership among clients as compared to community members	Improve the client retention rate and promote savings as a means of facilitating the purchase of homes and land
Lower prevalence of malnutrition among children of female clients (as compared with children of male clients)	Increase the number and proportion of female clients and loan officers
Lower rates of food aid receipt among female clients as compared to male clients	Increase the number and proportion of female clients and loan officers
High proportion of clients that report a decreasing quality of diet	Facilitate savings for all clients

impact assessments aim to gather information about clients which is credible enough to allow for good decisions to be made" (Simanowitz, 2004). WISDOM management took a number of actions based on the findings of the survey. The WISDOM Market Research and Product Development Officer met with the WISDOM General Manager and senior staff regarding the evaluation. Table 1 outlines key survey outcomes and resulting management actions that were intended to improve WISDOM's products and services.

With the increase of income reported by clients (though not confirmed by the study results), WISDOM management remained committed to increasing outreach to more clients. WISDOM had fallen short of its annual outreach targets but committed to increase outreach to exceed the goal of 18,000 clients by the end of December 2004. As of September 30, 2004, WISDOM had 17,782 active clients and was well on its way to meeting its target. With the finding that 85% of clients own houses, WISDOM management worked to improve retention rates. Management's rationale was that if WISDOM can retain clients, then clients will slowly be able to build more assets, including houses, a key asset for wealth creation. WISDOM's retention rate as of September 30, 2004, was 77%.

In the primary survey site Sodo, female clients and their families reported better food security and nutritional status according to a variety of measures.[1] The prevalence of global acute malnutrition was 18% among children of male clients as compared to 10% among female clients. Female client households were also significantly less likely to have received food aid during the past year: 16.5% of female clients reported receipt of food aid as compared to 26.9% of male clients. As compared to female clients, male clients were 2.0 times as likely to have received food aid in the past year, and the children of male clients were 1.9 times as likely to be malnourished as the children of female clients. The lower rates of child malnutrition and food aid receipt among female clients convinced management that it needed to increase its efforts to improve the percentage of female borrowers. As of September 30, 2004, only 41% of active borrowers were female, as compared to a business plan target of 50% and the World Vision Microfinance Operating Standard of 60%. While the actual percentage of female borrowers fell below targets, it is a substantial improvement from the quarter prior to the survey (second quarter of 2003) when females accounted for only 27% of all clients.

Two additional changes were made by WISDOM management in response to survey findings. Survey findings indicated poor food security in a large portion of households surveyed: 26% of households reported a decrease in dietary quality during the past year. WISDOM management responded with a plan to increase savings services for clients. The management's rationale was that with greater savings, household diets and food security would improve. The final change initiated by WISDOM management was to increase the number of female loan officers as a means of better reaching out to female clients.

Changes initiated by WISDOM management as a result of the evaluation fit into a broader effort within microfinance. For microfinance practitioners, monitoring and evaluation is increasingly tied to the management decision making of the MFI. The SEEP (Small Enterprise, Education, and Promotion) Network Client Assessment Working Group is developing a Social Performance Management

System that aims to tie monitoring and evaluation findings to management actions in an effort to strengthen MFIs. Social Performance Management is a framework to assess social performance and use assessment findings to make decisions regarding both financial and social performance of MFIs (Imp-Act, 2004).

Conclusion

Household asset data indicates that participation in the WISDOM microfinance program did not result in increased household wealth. Significant differences in household income were not observed between participant groups in either survey site and client status was not a significant predictor of income in univariate or multivariate regression models. Significant differences in the diversification of income (according to multiple measures) were observed between participant groups, where established clients had the most income sources, followed by incoming clients and community controls, respectively. Diversification of income (i.e., the number of income sources) was significantly associated with monthly income in multivariate regression models. These findings suggest that participation in the lending program leads to diversification of income.

WISDOM management utilized research findings to make management decisions to improve the financial services that WISDOM offers to its clients. WISDOM management made efforts to increase the percentage of female clients, expand savings services, improve the retention rate, and increase outreach. Tying management decision making to the collection of social performance information is clearly a trend in microfinance. Through this linking of data and MFI management decision making, microfinance clients can be better served.

Notes

1. For a detailed report of nutrition findings, see Doocy, Teffera, Norell, & Burnham (2005) and Doocy, Norell, & Burnham (2004).

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Pro-poor Microcredit in South Africa

Cost-efficiency and Productivity of South African Pro-poor Microfinance Institutions

Ted Baumann

Abstract: This article compares the performance of selected South African microcredit nongovernmental organizations (NGOs) that have a poverty-alleviation focus against various benchmarks drawn from the MicroBanking Bulletin. Donors, governments, and many analysts regard sustainability as the benchmark of microfinance institutions' (MFIs) performance. However, the most relevant question is whether microcredit NGOs are doing as well as they can in their context. Of particular contextual importance is income inequality in a society. South Africa has the world's second worst income inequality, after neighbouring Botswana. This creates a situation in which microcredit NGOs must recover "First World" costs, particularly salaries, from revenues based on clients who can only afford loans on a par with Third World countries. Compounding this situation are structural obstacles to microenterprise in South Africa, as well as obstacles to productivity in microcredit NGOs. Taken together, this creates a "salary burden" for South African microcredit NGOs, which is the highest in the world according to relevant benchmarks. South African MFI managers face significant obstacles to improving productivity to compensate for the divergence between staff and client living levels. These include an inadequate skills base, the small scale of the market, rapid labor turnover, and limited resources for capacity development. South African MFIs face the options of moving upmarket (which many have done),

adopting methodological innovation or new product development, or closing. Of these, there is a strong argument to be made for supported savings and credit approaches as an alternative to NGO-based microcredit. Such an approach has the advantages of greater voluntary input and social capital formation.

The question of sustainability in microcredit is a subject of ongoing debate. The dominant view is what some call the "Ohio State" school of thought, which is advocated at the university of the same name in the United States. Broadly, this view espouses a market-led, full cost-recovery approach to microcredit, with no subsidies. It holds that sustainability is essential for two reasons. First, the goal of microcredit practice should be to extend the reach of commercial financial markets to the poor and excluded. This requires that microfinance institutions (MFIs) perform well enough to be able to access commercial wholesale finance, preferably sooner rather than later. Second, sustainability is necessary to prevent MFIs from concealing bad practice with ongoing subsidies. (For the purposes of this article, sustainability is defined as: Coverage of administrative cost + Loan loss + Cost of funds + Inflation + Capitalization for growth from operating income.)

It is certainly reasonable to ask that the social cost-benefit ratio of resources directed to microcredit interventions should be at least as good as if those resources were applied differently, or even given away (Schriener & Yaron, 2001). There is little point in subsidizing MFIs if the returns for doing so are not at least the same as for alternative uses—over an appropriate period and including "externalities," i.e., nonfinancial impacts on clients and their communities.

For such calculations, absolute sustainability can be established empirically and easily—an MFI either is or is not sustainable. In most cases, however, the question is relative: How sustainable is an MFI compared with other MFIs? Is it headed towards or away from sustainability, and why? Most importantly, for our purposes, is the MFI doing as well as can be expected given the circumstances?

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This last question is rarely raised. In particular, discussions about MFI sustainability performance often ignore national-level specifics. Donors, governments, and analysts routinely compare MFIs in different countries to each other, telling MFI managers what norms they "should" be able to achieve. Yet, as not all variables affecting sustainability are under the control of MFI managers, we should be prepared to ask whether an MFI is doing the best it can *in its context.*

Such a perspective is needed because any microcredit model involves a number of variables, both internal and external. For example, an MFI might vary with the size of a loan group, interest rates, or its incentive policy (internal variables). Or, it may be constrained by national laws, economic and labor market conditions, or political instability (external variables). Some aspects of comparative performance against international benchmarks are under an MFI's control; others may be determined by external factors that are not. There is also interplay between the two. MFI managers' decisions about things they can control may be shaped decisively by contextual factors they cannot control.

In assessing MFI performance towards sustainability, it is particularly important to take into account the level of income inequality in a society. In some contexts, it might be difficult or impossible to deliver poverty-oriented microcredit services, because the socially determined costs—principally personnel costs—of running a competent MFI are excessive relative to the income levels of client microenterprises and therefore their borrowing capacity.

Purpose of the Article

With this in mind, the article addresses the matter of context in South Africa. It investigates three issues:

- First, it compares the efficiency indicators of four South African microcredit nongovernmental organizations (NGOs), all of which target poor and very poor households with solidarity group-lending methodologies, with relevant international benchmarks drawn from the *MicroBanking Bulletin* (MBB).

(“Poor” households are defined as those living at or below the unofficial but most commonly used South African poverty line, which was about US$67 per person per month at the time of the research in 2002. “Very poor” households are those that have access to half or less than this.)

- Second, it identifies contextual factors that undermine the ability of South African MFIs to match such benchmarks.
- Third, it considers implications for South African MFIs, the government, and donors.

Methodology

The *MicroBanking Bulletin* has provided useful benchmarking tables on the global microcredit industry for some years now and is updated biannually. The definitions underlying the MBB data have been used to gather comparable data on South African MFIs. The main point of comparison is with other African MFIs, particularly those that are small scale and serve a low-income target market. Comparisons are also made with MFIs elsewhere by size (medium to small), methodology (solidarity group), and target market (low income).

The South African Microcredit Context

One of the most important external variables confronting South African MFIs is the country’s extreme income inequality. Although South Africa’s per capita gross national income (GNI) of US$2,820 [1] puts the country in the middle-income band globally, this conceals enormous variation in income distribution. The Gini coefficient is currently about 0.65, which makes South Africa one of the most unequal societies on the planet. The figure improved somewhat after the first democratic elections of 1994. Its relapse since then, however, is linked to a steep rise in unemployment and poorly paid employment. This has been driven by industrial and trade policies designed to improve global competitiveness and a macroeconomic policy emphasizing low inflation and a small government deficit in order to attract foreign capital.

South Africa's Dualistic Economy

The chief cause and manifestation of South Africa's radical income inequality is the dualism of the economy. An economically "advanced" and globally integrated minority, black and white, coexists with a dependent and marginalized majority, almost entirely black. In South Africa, these are known as the "first" and "second" economies. While the former enjoys a human development index comparable to that in southern Europe, the second economy lives at a level comparable to that in South Asia.

The material basis of this dualism is both historical and structural. Unlike peasantries elsewhere in Africa, South Africa's rural poor lack access to basic means of production, such as land, because of unresolved issues of comprehensive settler dispossession. They live in crowded rural villages squeezed between commercial farmland (no longer exclusively white) and tourist-oriented game reserves. In the urban areas, opportunities for self-employment are severely constrained by South Africa's manufacturing and retail sectors, the most advanced in Africa, which relegate small-scale trading and manufacturing to the margins.

Because of their lack of access to productive resources, South Africa's poor are almost totally dependent for their survival on the output of the formal economy. The things that sustain and enhance life are only available as *commodities*. The poor, however, are structurally excluded from access to the cash necessary to obtain these. One outcome of this situation is poor households' dependence on state transfer payments, such as pensions, disability and childcare grants, and inter- and intra-household transfers. This is especially marked in rural areas. Another result is a high incidence of predatory economic crime.

Microenterprise in South Africa

For most of South Africa's "second economy" poor, microenterprise means small-scale trading/hawking, personal services, and production of specialty items. However, South Africa's efficient formal manufacturing and retail sectors severely constrain opportunities to add

value and accumulate capital in such informal activities. Small-scale traders capture only the tiny sliver of value arising from transport cost differentials and convenience purchasing, because most low-income households' requirements can be obtained from formal shops.

Informal clothing manufacturers add value by producing items required in small quantities, which are thus unattractive to formal manufacturers, such as school uniforms. Some informal manufacturers in the ex-Bantustan areas take advantage of value versus volume transportation issues to produce bulky or heavy but low-value building materials, such as window and doorframes, or furniture, but rapid improvement in transport infrastructure is undermining this opportunity. Amongst the most rewarding (legal) informal occupations in South Africa are brewing traditional beer, best produced in small batches and consumed fresh; tavern keeping; and hairdressing.

South Africa's informal traders, service providers, and manufacturers are also constrained by the lack of cash in their communities. Most customers and clients of South African informal microenterprises are dependent on state transfer payments, inter-household transfers, and informal microenterprise for their cash incomes. Cash cycles tend to be monthly, with a fresh influx at pension/child care grant payout time. Formally employed persons in poor communities may spend some of their income on goods or services at microenterprises, but for everything above the most convenient or specialized purchases, there are formal supermarkets and shops reasonably close by.

This inauspicious context is illustrated by the fact that while nearly 40% of employment in the South African retail trade sector is in microenterprises,[2] the contribution of microenterprises to national retail trade output is only 2.3% (SAIRR, 2001). Some 53% of South African personal services employment is in microenterprises, but these contribute less than 10% of the sector's output. Only about 8% of microenterprises are involved in manufacturing. Overall, microenterprises provide nearly 20% of South Africa's "jobs" but contribute only 5% to the gross domestic product (GDP). The national microenterprise income share is divided amongst nearly 8 million South Africans, which is 17% of the population.

These economic factors lead to very low incomes in the microenterprise sector (SARB, n.d.; SSA, n.d.). The average annual income in this sector is a little over US$1,000, which is about 46% of the most commonly used South African poverty datum line (at US$1 = R8). Annual per capita income for persons in households whose income derives mainly from microenterprise is about US$250. This is well below the annual per capita poverty line of US$400, not to mention the ubiquitous "a-dollar-a-day" regarded by some as the benchmark of absolute poverty. This is not to imply that microenterprise is the only source of income in such households. Many South African households dependent on microenterprise income also receive some form of state grant via a resident pensioner or the childcare grant system.

MFIs in South Africa

South African MFIs straddle the country's first and second economies. Although their clients are drawn from the poor communities and microenterprises described above, their staffs are solidly emplaced in a middle-class material environment little different from developed countries. This applies to all MFI staff, regardless of race. South African racial issues do have an effect on MFIs, however. In a peculiar but understandable paradox, South Africa's push for affirmative action and rapid black advancement means that skilled black MFI personnel are highly marketable, particularly in the state and private sectors, putting upward pressure on their salaries and leading to fairly rapid turnover. Yet, for reasons of equity and historical redress, donors and the government often disfavor available white personnel.

South African pro-poor MFIs are mainly rural, but because South Africa has very few small-scale cash farmers, their clients are not agricultural microenterprises. They are mainly petty traders, dressmakers, traditional brewers, etc. in rural villages. Life and work in remote rural areas, with client groups at great distances from one another, means an additional premium for MFI managers wanting to attract and retain good staff.

South Africa's educational system at all levels is poorly prepared to produce the kind of skills and aptitudes needed by MFIs. Of the country's 30-plus technical colleges and universities, only two provide any microcredit-related training and both programs are relatively new. Development courses at South African universities tend to be theoretical, general, and geared to urban issues such as trade unionism. Because there are so few MFIs, there is no microfinance-specific labor "market" and, consequently, most training takes place on the job. An ever-present problem is poaching of staff by other MFIs, NGOs, private firms, and the state.

Overall, the distance between South African MFI staff and their clients, both economic and social, is greater than in many countries, particularly in Asia. In India and Bangladesh, for example, it is not uncommon to find MFI clients with a fair amount of education and self-confidence. South Africa's low-income communities contain few people with ready-made skills to help manage microcredit solidarity groups. This places a greater burden on the MFIs to provide training and support for their clients.

The South African MFIs

Table 1 lists four South African NGOs that extend microcredit to poor and very poor households for microenterprise purposes. All these institutions use a group-lending methodology, although there are significant differences between them in this regard. All claim to be trying to reach very poor households, although only one employs a targeting methodology.

From Table 1 it can be seen that:

- The average age of the South African group is 6 years, compared with 5.6 for all MFIs, but 8 years for African MFIs.
- The average client base of 10,096 is comparable to the global average of 11,698, but it is significantly lower than the African average of 18,640.
- The average South African portfolio is US$867,348, compared with a global MFI average of US$3,859,273 and an African average of US$3,168,759. This puts the South African group

Table 1: Selected South African MFIs, 2003

Name	Age	Offices	Staff	Active borrowers	Women borrowers	Average first loan	Average loan balance	Average balance/GNI per capita
Beehive	8	3	54	5,892	75%	$125	$111	3.93
FINCA	3	1	50	1,386	96%	$125	$151	5.34
Marang	2	19	145	15,836	95%	$120	$76	2.69
SEF	11	11	100	17,242	98%	$67	$82	2.89

on the boundary between the MBB's definitions of "small" and "medium" in the African context.

- The average balance outstanding of US$105 per client is considerably lower than the global average of US$453, but closer to the African average of US$181. The more relevant comparison, however, is to the MBB's "Africa small/low" peer group, with an average of US$54.
- The average loan balance as a percentage of GNI per capita is 3.7%, compared with 15.3% for the Africa small/low group. However, this is not so much indicative of outreach performance as of South Africa's high per capita GNI. Thus, a small—even exceptionally small—microloan in the South African context is double the size, in absolute terms, of those given by the Africa small/low peer group.

South African MFI Benchmark Performance

The MBB's benchmarks include: outreach, profitability and sustainability, income, expense, portfolio quality and efficiency, and productivity measures. In this article, we are interested in outreach, expense, efficiency, and productivity. Tables 2 to 6 compare the results for the South African MFI group against five categories of MFIs:

1. **Africa all:** All African MFIs, regardless of size, target market, methodology, region, etc.
2. **Africa small/low:** African MFIs with a loan portfolio of US$800,000 or less and with an average loan balance of US$150 or less

3. **World all:** All MFIs, regardless of size, target market, methodology, region, etc.
4. **World solidarity:** All MFIs using solidarity group-lending methodologies.
5. **World low end:** All MFIs with an average loan balance of US$150 per client.

The following is clear from Table 2:

- South African MFIs are at the bottom of the scale in terms of average number of clients and the number of offices serving them. However, in both respects they are closer to the global average and to their African peer group.
- The South African group operates from a much lower asset base than all other categories, except their African peer group.
- The South African group carries a staff complement on par with the global average, but nearly double that of their African peer group.
- The South African group carries a much lower absolute loan portfolio on average than all categories of MFIs, except their African peer group, which is a little over half the size of the South African group.

Table 3 shows that:

- The average loan balance per client for the South African MFI group is on the low end of the scale, even in African terms, except for their direct peer group of small African MFIs targeting the very poor.
- As noted above, there is enormous disparity in terms of average balance per client as a percentage of per capita GNI. The South African MFIs are the lowest of any category—the only group in single figures—and only one quarter of the level of their African peer group.
- The South African group has the highest percentage of women clients.

Table 2: Scale of South African MFIs

Item	SA	Africa all	Africa small/low	World all	World solidarity	World low end
Age in years (average)	6	7	6	8	8	8
Offices	8.5	82	11	15	41	110
Active clients	10,096	18,640	11,678	11,698	47,884	42,520
Staff	90	120	47	101	278	222
Total assets	$1,259,494	$5,147,848	$804,756	$5,735,499	$12,267,063	$5,369,487
Outstanding principal balance	$867,348	$3,168,759	$488,053	$3,859,273	$9,131,991	$3,725,355

Table 3: Outreach of South African MFIs

Item	SA	Africa all	Africa small/low	World all	World solidarity	World low end
Average outstanding balance per client	$105	$181	$54	$453	$371	$135
Percentage of women clients	91	77	86	61	73	86
Average balance as a percentage of GNI per capita	3.7	55.3	15.3	45.3	46.0	16.0

Table 4: Expense

Item	SA	Africa all	Africa small/low	World all	World solidarity	World low end
Total expense/ total assets	101%	39%	50%	30%	31%	39%
Operating expense/ total assets	84%	31%	37%	19%	22%	28%
Financial expense/ total assets	11.7%	2.6%	2.5%	4.5%	3.0%	4.9%
Loan loss provision/ total assets	4.8%	2.5%	3.6%	2.2%	2.3%	2.8%
Personnel expense/ total assets	52%	15%	19%	11%	13%	15%
Nonstaff admin. expense/total assets	32%	16%	19%	9%	9%	14%

In Table 4 we see the following:

- In every expense category, the South African MFI group is significantly out of line with other categories of MFI. Total expenses, operating expenses, and nonstaff administrative expenses as a percentage of total assets are roughly double those of the African small/low peer group.
- Financial expense as a percentage of total assets is also significantly higher than other MFI groupings, reflecting South Africa's high real interest rates.
- Personnel expense as a percentage of total assets is the most seriously inflated ratio in the case of South Africa, being 5 times the world average, 3.4 times the African average, and nearly 3 times that of the African peer group.

From Table 5 the following can be seen:

- Unsurprisingly, given their relatively small scale, their inflated staffing and expense ratios, and the low average loan balances in proportion to per capita GNI, operating expense ratios in the South African MFI group are radically out of line with all other categories of MFI.

Table 5: Financial Efficiency

Item	SA	Africa all	Africa small/low	World all	World solidarity	World low end
Operating expense/ loan portfolio	142%	56%	72%	27%	37%	50%
Operating expense per client	$161	$58	$35	$89	$93	$56
Personnel expense/ loan portfolio	91%	27%	35%	15%	22%	26%
Average personnel expense as a multiple of per capita GNI	2.3	11.6	7.4	5.5	7.0	5.1

- The category most divergent from global and African norms is personnel expense as a percentage of the loan portfolio. The South African figure is 6 times the global average, 3.5 times the African figure, and 2.5 times the norm of their African peer group.
- What is striking, however, given its personnel expense ratios, is that the South African group performs better than any other category of MFI in terms of average personnel expense as a multiple of per capita GNI. The South African group is less than half the global average, 20% of the African average, and one third of the African peer group average. Compared with other MFIs, South African MFIs pay relatively low salaries in terms of the local economy. Again, this is due largely to the country's high average GNI per capita.

Table 6: Productivity

Item	SA	Africa all	Africa small/low	World all	World solidarity	World low end
Borrowers per staff member	101	198	247	128	155	227
Borrowers per loan officer	150	413	462	308	356	682
Loan officers as a percentage of personnel	69	42	41	45	49	49

Table 6 illustrates the following points:

- The South African MFI group performs poorly against other groups in terms of borrowers per staff member and performs particularly poorly against its African peer group. This is driven by especially poor performance in terms of borrowers per loan officer—half the global average and only one third of the level of the African peer group.
- Offsetting this somewhat, the South African MFIs are less top heavy than most other MFIs when considering the ratio of loan officers to total personnel.

The "Salary Burden"

One of the challenges of performing a benchmarking analysis using performance ratios is to disentangle the relationships between various numerators and denominators. For example, the relationship between South African MFIs' expenses and their loan portfolios is poor compared with other MFI groups. Is this situation due to inefficiency, a high-cost environment, a high degree of societal income inequality, or all three?

In the South African case, three things stand out:

- The extremely low average loan balance relative to per capita GNI
- A low average personnel expense as a multiple of per capita GNI
- The poor productivity of loan officers, which leads to inferior overall physical productivity per staff member

Christen (2000) employs a useful measure that encapsulates all three factors. This is the "salary burden," computed as follows:

$$\frac{\text{Average staff salary as a multiple of GNI per capita}}{\text{Average number of clients/staff member} \times \text{Average outstanding balance per client/GNI per capita}}$$

This measure exposes the proportion of the MFI's portfolio that each employee "represents" in terms of the national economy. The higher the figure, the higher the proportion of an MFI's portfolio and operating revenue that is consumed by its personnel costs. The

qualification "in terms of the local economy" is critical. While it is useful to know the absolute level of average salaries and loan balances, what is really important is the relationship between the two in any given context. By comparing the two controlled for per capita GNI, "salary burden" is a way to see the effects of societal income inequality and poor productivity.

Compared with salaries at other MFIs, average South African MFI salaries in terms of per capita GNI (i.e., the local economy) are low (Table 7). Yet, average South African loan balances per client in terms of per capita GNI are exceptionally low. Combined with poor physical productivity, this produces a situation in which, even though South African MFI staff are paid relatively poorly in local income terms, a low relative portfolio income base still makes it difficult to cover personnel costs.

Table 7: The Salary Burden

Item	SA	Africa all	Africa small/low	World all	World solidarity	World low end
Average salary as a multiple of GNI per capita	2.3	11.6	7.4	5.5	7.0	5.1
Average loan balance per client/ GNI per capita	3.7%	55.3%	15.3%	45.3%	46.0%	16.0%
Average clients/ staff member	101	198	247	128	155	227
Salary burden	61%	11%	20%	9%	10%	14%

Table 8: Salary Burden Scenarios

Item	SA Actual	SA with adjusted loan size	SA with adjusted productivity	Africa small/low	World low end
Average salary as a multiple of GNI per capita	2.3	2.3	2.3	7.4	5.1
Average balance per client/ GNI per capita	3.7%	15.3%	3.7%	15.3%	16.0%
Average clients/ staff member	101	101	247	247	227
Salary burden	61%	15%	25%	20%	14%

In considering the salary burden, which is more important in the South African MFI context—a low average loan balance or poor physical productivity? Table 8 considers two hypothetical scenarios. In one, the average loan balance per client in relation to per capita GNI is adjusted upwards to the Africa small/low peer group level. This produces a salary burden of 15%. The second holds loan balances constant while varying productivity upwards to match the African small/low peer group. This produces a salary burden of 25%. This suggests that the contribution of South Africa's small average loan balance per client contributes more to the salary burden, but only marginally; and the two are more or less equally problematic.

An average South African MFI salary burden of 15 to 25% cent would still be high in global terms, but much closer to the African peer group and to the global low-end microcredit sector than at present.

Obstacles to Productivity in the South African Context

The MFIs surveyed are all committed to reaching the very poor in the South African context. Therefore, we can assume they would resist increasing their average per client loan balances and would rather concentrate on improving productivity. What are the obstacles to improved productivity in the South African context?

- *Distances and mobility:* Most South African pro-poor MFIs operate in rural areas, with client groups separated by large tracts of commercial farmland and game reserves. This is very different from the situation in densely populated parts of Asia, particularly Bangladesh, whose MFI sector skews global benchmarks through sheer size. The South African scenario is not so different from other African countries, but many African MFIs are urban-based and this means the African benchmark figures show higher physical productivity than South Africa. One important factor is the lack of independent transportation for many South African MFI loan officers, who generally rely on an inadequate public transportation system, taxis, and their feet to reach their clients.

- *Penetration levels:* In a situation of relative remoteness, it would be logical for South African MFIs to try to develop as many clients in each village as possible. However, this is difficult because of both the dearth of opportunities for microenterprise in South Africa, as explained in the first section, and the similarity of opportunities that do exist. One MFI that has considered this issue carefully concludes that it can sustainably reach no more than one in five households in very poor communities. Thus, in a (large) village of a thousand households, even if a single loan officer reached every possible household (200), he or she would still be below relevant global and African measures of loan officer productivity (350 to 450 households).
- *Need for greater client training input:* A factor rooted in South Africa's apartheid past is the low level of literacy, business skills, and general self-confidence in the rural communities. Women are particularly disempowered, given traditional patriarchal social structures, and small enterprise is not as much a tradition for them as in other parts of Africa. This means that MFI loan officers spend a significant amount of their time assisting very poor women to develop the basic self-confidence and skills to run their businesses—not necessarily through training but through general encouragement and social empowerment.
- *Skill levels and attitudes to work:* South African MFI loan officers are typically right out of high school or have a few years of post-secondary education. Many are drawn from the ranks of unemployed teachers. They tend to be young, and many lack life skills and a mature work ethic; they consider their MFI jobs neither as a career nor as particularly "developmental." The hard work involved in rural microcredit and the attractions of city life lead many to jump at the first opportunity for alternative employment.
- *Labor relations:* South Africa has a generally combative labor relations environment. Trade unions helped overthrow the apartheid regime and some MFIs are unionized. Even those that are not

must comply with restrictive employment legislation that makes it difficult to fire underperforming staff. There have been a number of strikes at South African MFIs.

- *Management inexperience:* South African MFI loan officers share responsibility for their productivity with management, who decide operational, human resource, and strategic planning issues. Given the country's small MFI sector, there is a very small pool of experienced top-level MFI managers and many mid-level managers are still learning the ropes. Management turnover is particularly damaging in such a context, because most replacements must learn by doing rather than bring pro-poor microcredit skills with them to the post.
- *Undermanagement:* While South African MFIs have a significantly higher ratio of loan officers to management and administration staff than do other MFIs, this may contribute to low productivity because of insufficient supervision of loan officers. Low productivity might tempt MFI managers to employ more loan officers to increase their portfolios, thus reinforcing the undermanagement problem.
- *Relative salary levels:* Are South African MFIs compensating for poor productivity and relatively high non–loan officer salaries by keeping loan officer salaries low in comparison to the salaries of management and administration staff? There is some evidence that this is so—but this is ultimately self-defeating, as income inequality within an MFI would tend to undermine loan officer morale.
- *Lack of appropriate support:* At present, South Africa lacks a coordinated source of capacity-building resources for the NGO microcredit sector. The state has yet to grasp the nettle of capacity development as a precondition for the emergence of a successful pro-poor microcredit sector, and microcredit NGOs are left largely to their own devices.

Analysis and Implications

What Is the Significance of Income Inequality?

Some might question whether loan size as a percentage of per capita GNI is a meaningful measure in the South African context. It is self-evident that this figure will be low compared with that of most developing countries. Because South African MFIs are not lending to the middle class, it might seem more useful to compare loan balances to average incomes in the communities where their clients live rather than an average for the entire society.

This objection is only relevant, however, if we are interested in assessing poverty outreach, by comparing clients of South African MFIs with clients of MFIs elsewhere, which is not the purpose of this study. Here, we wish to understand how income differentials between South African MFI staff and clients affect MFIs' ability to attain sustainability.

All other things being equal (including average salaries and interest rates), the smaller the average loan, the more clients are required per MFI employee to cover personnel costs. As other things are almost never equal, per capita GNI is useful to compare such relationships across different economies. South African MFI salary levels are contextually low compared with the selected benchmarks, but average client loans are, again contextually speaking, extraordinarily small. This leads to a very high salary burden. To be very poor in South Africa means to have an absolute income similar to—even below—that of very poor people in other developing countries, while South African MFI staff members are drawn or pushed towards relatively higher income requirements than their foreign colleagues. The average South African MFI loan size as a percentage of per capita GNI is indispensable to assess the client side of this equation.

Salaries and Productivity

South African MFI managers, wanting to reach the very poor but under pressure to achieve break-even, are in an unhappy situation. They could compensate for the salary burden by offering compara-

tively low salaries (as some do), but this would tend to reinforce poor productivity, poor labor relations, and high turnover. They could try to increase productivity—specifically the number of clients per staff member—to exceptional levels, with salaries to match. However, it is unlikely that this can be accomplished in South Africa's young microfinance sector, with inexperienced staff, a limited market for replacements, and strong competition for suitable staff from other MFIs, the government, NGOs, and the private sector. In such a situation, highly productive staff would tend to have their salaries bid up beyond what the client end of the market could afford to support through interest payments. Put a different way, MFI salary levels are an exogenous variable, beyond the control of MFI managers.

In the private sector, the options in such a situation are quite straightforward: innovate new production techniques, find new products to produce and sell, or close down. South Africa is an unlikely source of methodological microcredit innovation for the very poor. Indeed, aside from a few trailblazers (most notably the SEF of Limpopo Province), it has demonstrated remarkable slowness in experimenting with existing methodologies. Even fairly obvious adjustments (e.g., independent transport for loan officers) are adopted slowly and cautiously. Far more common than methodological innovation has been "mission drift" towards better-off clients.

Is Microcredit Appropriate for Poverty Eradication in South Africa?

What about new products—ones that rearrange the cost-revenue relationship? If salary levels are exogenous and the South African pro-poor microcredit NGO sector is unlikely to innovate new microlending techniques, this is the only other option besides closure.

There are three broad forms of microfinance intervention available to South African NGOs with a poverty-alleviation focus: individual microcredit, group microcredit, and supported Accumulating Savings and Credit Associations (ASCAs). By contrast, deposit taking is illegal for non-bank institutions in South Africa. Individual microcredit is demonstrably too expensive for very poor

households, and there are no examples of successful South African MFIs reaching the very poor this way.

South Africa has thousands of ASCAs and several initiatives that link them into larger networks, but to date there has been little serious work on their microfinance potential. The NGOs active in this area concentrate on savings and credit as a vehicle for social mobilization rather than access to savings and credit services per se. As a result, their performance in providing access to small-scale credit for business, emergencies, and consumption, based on intermediated group savings, is poor. Their main effectiveness as poverty alleviation strategies lies in the development of social capital in savings and credit groups and in their larger networks. In this respect, some South African savings and credit networks have been remarkably successful.

Nevertheless, it is notable that elsewhere in the southern African region, some NGOs have been successful in encouraging the formation and functioning of ASCA networks providing meaningful local-level financial services that directly improve the poverty situations of their members. The cost of supporting these groups is a tiny fraction of the cost of microcredit programs, with comparative per-client cost ratios of 1:100 common. In other parts of the world (notably South and Southeast Asia), NGOs and parastatals have successfully provided external credit lines to functioning ASCA networks, enabling them to have a significant impact on poverty without using NGO-to-client microcredit.

There is another reason to consider ASCAs in the South African context. The opening section outlined the challenges facing microenterprise in South Africa due to the presence of a highly efficient formal sector alongside extreme poverty. This prevents microenterprises from adding value sustainably in productive enterprise as well as many retail activities. In this context, the best use of microfinance may be to assist households to reduce their vulnerability by smoothing incomes through locally-based savings and credit, rather than microcredit for microenterprise.

As ASCAs have the potential to not only deliver microfinance services, but also create social capital amongst target communities—

thus creating the possibility of a more radical approach to poverty that goes beyond reliance on market solutions—it may be time for South African NGOs to consider this approach more seriously.

Summary and Conclusions

Because of the country's extreme income inequality, to be very poor in the South African context means to have a real income, and thus capacity for borrowing, more or less on par with MFI clients elsewhere on the African continent. But to be a South African MFI staff member means to have socially determined expenses and thus income expectations on par with the developed world, or at least much higher than elsewhere in Africa and Asia.

The income and social inequality thus makes operating a microcredit business in South Africa unusually expensive relative to other developing countries, and there is little that South African MFIs can do about it. This is so even though MFIs are paying their loan officers much less, relative to the local economy, than most MFIs globally and in Africa. However, it is clear that South African MFIs could go much further to improve their physical productivity. Until this is attempted, it is impossible for them to say with certainty what special consideration they might need or deserve.

This problem raises the question of whether microcredit is an appropriate solution to poverty in South Africa. Substituting the voluntary input of savings and credit group members for the paid exertions of professional fieldworkers has the potential not only to improve microfinance performance, but also to create social capital that can be used to address poverty in a variety of ways.

Notes

1. At current prices, in mid-2003. Following MicroBanking Bulletin practice, this and other figures in this document have not been adjusted for purchasing power parity. For full details of the MicroBanking Bulletin approach to benchmarking, see http://www.mixmbb.org. (US$1 = R8 in 2002, when this study was undertaken.)

2. Because they are based on the number of employees rather than turnover, official South African microenterprise figures include small but high-value first economy firms as well as second economy microenterprises.

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Microcredit, Social Capital, and Politics

The Case of a Small Rural Town—Gossas, Senegal

Jainaba M. L. Kah, Dana L. Olds, and Muhammadou M. O. Kah

Through an exploratory approach, we studied the evolution, sustainability, and management of ten microcredit institutions located in *Gossas,* a small town in Senegal, Sub-Saharan Africa. Prevailing ideas about social capital, in the form of social relationships within and between microcredit institutions and financing NGOs, donors, and governments, are examined using both rational choice and Marxist social capital theories to highlight the social struggles in social capital. This study goes beyond a microcredit impact analysis by including an exploratory institutional study to examine broader social and economic changes, including the new institutional changes brought about by neoliberal reforms, the emerging roles of women in rural and urban Senegal, and their increased political savoir faire. This study concludes with recommendations on how to better leverage microcredit and social capital to fill the vacuum left by restructuring of the welfare state through structural adjustment programs and neoliberal reforms.

The impact of microfinance on women's decision-making and empowerment has been the subject of several studies in the last two decades. Many of these quantitative studies have focused on the impact of microfinance—with a majority proving that microcredit increased the standard of

living—raised awareness, aided decision making, and reduced poverty among rural beneficiaries.[1] Putnam (1993) forwards the argument that dense associational networks within civil society correlate positively with indicators of political democracy and economic growth. In fact, Putnam (1995) asserts that political malaise and economic stagnation can be traced to declining stocks of social capital in neighborhoods and communities. Thus, what we have been seeing dominating development discourse in the last decade or two is a shift from "basic needs" or welfare approaches to poverty alleviation to an alternative approach using social capital manifested in social networks and associational life as resources that could fuel development from the bottom up (Rankin, 2002). When people engage in networks and forms of associations such as microcredit organizations, they develop a framework of common values and beliefs that can become a "moral resource" (Putnam, 1993, p. 172). Thus, as Rankin (2002) argues, social capital has been adopted as the "magic bullet" with the power to correct state market failures (Edwards, n.d.). This view has led to a worldwide consensus where nongovernmental organizations (NGOs) rooted in civil society and mobilizing social capital are considered to be the most appropriate institutions to carry out development work (Rankin, 2001). However, NGOs are not a panacea and cannot solve the problems facing developing nations alone. The role of states, albeit weak or corrupt, cannot be ignored. The case study of Gossas will be analyzed using social capital theory, including the strength of ties between poor communities and resource-giving (donor) communities and between NGOs and political development in the third world.

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Neoliberal and Marxist Theories, Social Capital, and Development

Social capital has been defined as "bonds of trust and mutual concern that arise through volunteering, socializing, and taking part in organizations such as church and civic groups, bowling leagues, PTAs, and professional association" (Koretz, 2001, p. 30). Social capital is expected to pay off in many ways by promoting the transmission of new ideas, improving children's education, and enhancing the efficiency of labor and capital markets. The previous examples of social capital were given in the context of the USA. In the context of Senegal, a developing country, social capital is manifested in memberships in solidarity groups (which frequently help each other to pull water, process grain, and access cooking ingredients and cash), Women in Development projects, *tontines*,[2] and *diaras*.[3] In the study area, social capital has been translated to contacts with northern NGOs, government funding, and political affiliation. In the study area it was found that women's groups received "rewards and spoils" as a result of the support accorded to the political regime. The important question we will try to answer is whether women who organize themselves within microcredit organizations are able to build their social capital and leverage themselves politically to receive "rewards and spoils" for the socioeconomic development of their community.

Recent sociological research has attempted to address the weaknesses in the deterministic relationship between social capital and development portrayed by Putnam. In 1998 Michael Woolcock, a World Bank economist, developed a typology of different types of social capital and their likely outcomes. Intracommunity ties ("bonding" social capital, or "integration") are manifested at the macro level with social opportunity requiring high levels of both integration and linkage. The macropolitical framework can facilitate or impede the capacity of communities to mobilize social networks. Woolcock goes on to say that state institutions can have more or less institutional capacity ("organizational integrity") and be more or less responsive to civil society ("synergy"). High levels of both are needed for states to achieve the cooperation, accountability, and flexibility character-

istic of successful developmental states such as Japan, South Korea, and Singapore (Rankin, 2001, p. 5).

Rankin, building on the work of Marxist anthropologist Pierre Bourdieu (1977), cautions that there is a struggle inherent in social capital. She asserts that social capital has an ideological function where the gestures of giving and kindness can function as a form of domination, a "symbolic violence" with the harmful effect of binding the oppressed to their oppressors through feelings of trust and obligation. This code of honor (credit, confidence, obligation, personal loyalty, hospitality, gratitude, piety) is the most economical mode of domination. Rankin therefore cautions that to the extent that development programs, such as the microcredit frenzy we are witnessing, nourish local forms of association underpinned by common moral frameworks, they risk exacerbating already existing lines of hierarchy, coercion, and exclusion (2002, p. 8).

The World Bank, bilateral agencies, and NGOs have largely adopted social capital within the liberal tradition as cultural properties, such as trust, norms, and networks that enhance efficiency by facilitating cooperation finance. Rankin argues that mainstream development agencies, who two decades ago used modernization approaches to development and would have attacked such small-scale forms of petty capitalism as anachronistic "vestiges of traditional society" that had no place in a modern society, now promote microfinance as a programmatic strategy that mobilizes social capital. This change of strategy and targeting of poor women, when previously credit inputs were extended to the male head of household in small farming communities, is happening for several reasons.

> The recent "career" of social capital to borrow an expression from Margit Mayer (2001) coincides with the conclusion of the Cold War, dubbed sympathetically by another social theorist, Francis Fukuyama, as the "end of history" itself (Kanishka Goonewardena 2000). Or that these events also paved the way for other, somewhat lesser endings, including state-centered planning and the comprehensive welfare state. Unmoored from state institutions, development planners with the best of inten-

> tions must now turn to civil society to do their good work—buttressed by policies and programs intended to devolve capacity to the local level. Much has been said about the opportunities this political economic conjuncture presents for grassroots mobilization, local self-reliance, participatory processes, and development informed by local knowledge (e.g. Mayer 1994). Without disputing the potential for such progressive outcomes, I wish to emphasize the extraordinary omission in most of the social capital literature of the implications of this conjuncture for the cherished local capacities, on the one hand, or for the emergence of *social capital as a politically expedient concept for those setting the terms of the new world order,* on the other. (2001, p. 10, emphasis added.)

The social capital framework therefore enables the architects of neoliberal economic policy to cast the reconfiguration of state-society relations in progressive terms, such as local capacity building, local self-reliance, net social benefits from reduced transaction costs, and increased return to human capital. "As such, social capital can be expected to fill the vacuum left by restructuring of the welfare state in countries around the world" (Rankin, 2002, p. 10). These two prevailing theories of social capital will be discussed further in the context of our study area. Kabeer (1994) makes the argument that the "feminization of development" we have been witnessing manifested as microfinance projects is justified on the basis of efficiency and empowerment arguments drawing on the principles of social capital theory. The social costs of neoliberal reforms and structural adjustment, as discussed in our case study of Gossas, is disproportionately borne by women whose unpaid domestic labor absorbs much of the shock suffered by poor households as a result of cuts in health care, agricultural inputs, and educational subsidies. Women's labor therefore underwrites the transition in macroeconomic policy from the Keynesian welfare state to the neoliberal "workfare" state (Rankin, 2001; Jessop, 1994).

Rural women in agrarian economies similar to our case study in Gossas typically lack the collateral, literacy, numeracy, and freedom

of mobility necessary to access conventional credit from banks and other lending agencies. Women tend to spend disproportionately more of their incomes on the welfare of the household and exhibit higher repayment and lower default rates (Rankin, 2002; Jessop, 1994). The argument being made is that extending credit to women for microenterprise development will lead to beneficial outcomes for all household members, poor communities, and lenders themselves (Morduch, 2000), through social capital garnered due to membership in borrower groups, which helps to correct for imperfect information, borrowers' lack of access to formal credit, employment histories, and substitutes for collateral by ensuring against default through social sanction and peer enforcement (Rankin, 2002, p. 12). Therefore, by participating in a network of borrower groups, poor women are empowered through new forms of bridging and linking social capital.

Microfinance advocates drawing on liberal theories of social capital in their approach to poverty alleviation, according to Rankin (2002) are able to evoke feminist and union traditions by coining expressions such as "solidarity groups" to describe women's borrower groups. By making such expressions, the implication is that women's associations through microfinance generate not just social and economic capital but also collective consciousness and resistance to oppression. In practice, however, microfinance models propounded by multilaterals and bilaterals focus more on lenders' concerns about financial sustainability and profits rather than on getting involved in the more difficult task of building radical collective action. In other words, solidarity groups allow lenders to slash administrative costs, motivating repayment by using peer pressure to introduce financial discipline. Staff and founders of microcredit institutions are more concerned about outreach and repayment rates and are not engaged in building collective consciousness (Rankin, 2001, 2002; Ackerly, 1997; Goertz, 1997).

The assertions above will be tested in the case of Gossas. The intent is to investigate whether some level of consciousness or savoir faire is evoked as women become part of microcredit groups.

This point will be discussed further later when we look at microcredit in Gossas.

The Strengths of Ties

Apart from managing the social struggles inherent in social capital, another major challenge for NGOs is that they must perform two different functions in order to be effective: (1) generate financial resources with which to (2) give microcredits to their membership. These two functions require them to bridge two very different constituencies: other NGOs, especially those located in the north, government-owned nonprofits operating in the domain of microfinance, or donors and the relatively resource-poor world of marginalized farmers, urban squatters, and women who can use these loans and other resources to improve their own lives. Ashman, Brown, and Zwick (1998) argue that this challenge of bridging these divergent organizational environments of resource mobilization and grant making can be managed by building and maintaining relationships with people and organizations in both the environments through which Civil Society Resource Organizations (CSROs) gain the resources, information, and social legitimacy necessary for accomplishing their missions. The same kind of challenge is faced by microcredit organizations.

NGOs in the small rural town of Gossas are deeply involved in building social capital across diverse environments (donor/governmental grant-making institutions and rural women). In social network theory, *strong ties* in social networks are used to explain relationships among people with similar social identities, who are relatively equal, and who share common bonds, such as profession, ethnicity, family, status, and even recreational interest. Emotional bonds of friendship, intimacy, and reciprocity often characterize such relationships, and they tend to endure over time (Ashman et al., 1998; Granovetter, 1973). Most microcredit NGOs in Sub-Saharan Africa, however, have to manage relationships that are characterized as *weak ties,* which are less frequent, more instrumental, and less intimate; they are most common among those who are unequal and heterogeneous in their social identities (Ashman et al., 1998;

Putnam, 1993; Blau, 1994; Ibarra, 1993). According to Ashman et al. (1998), people with different values, interests, degrees of power, and ways of interacting often find it difficult to identify common bonds that build trust. Their relationships are more likely than strong-tie relationships to be threatened by conflicts or domination, unless the parties can learn ways of overcoming their differences through mechanisms such as friendship (Uphoff, 1992), intermediaries who perform bridging roles (Brown, 1993), or participatory decision making (Brown & Ashman, 1996). However, weak ties that connect otherwise socially isolated groups have been noted for their capacity to bring new information and resources that would otherwise not be accessible (Granovetter, 1973).

If microcredit institutions are too homogeneous and overassociated with either the resource-generating or grant-making environment, they can fail to bridge the two environments effectively and risk becoming irrelevant to their own missions. Overalignment with the perspectives of poor and marginalized constituencies can lead to alienation from the priorities of financial resource donors and managers, which in turn leads to the declining availability of funds for microcredit. But overcompliance with the demands of donors and financial managers for certain kinds of projects, strict financial accountability, and quantifiable results of social development projects can lead to grant-making relationships that are perceived by recipients to be controlling rather than supportive of their own developmental priorities and processes.

The Politicization of Microcredit Organizations

The relationships between NGOs and governments in Africa are difficult to characterize. NGOs can either choose to isolate themselves completely from the state, engage the state through advocacy (confrontational or nonconfrontational), or cooperate with the state through parallel or collaborative field projects (Fisher, 1998).

According to Fisher (2003), in a world increasingly beset by famines, wars, genocide, AIDS, environmental deterioration, and continuing population momentum in poor countries, the failed state has become the Achilles heel of the emerging international

community. For every failed state there are many more "weakly institutionalized" governments. To be both accountable and strong, government at the national level must intersect, at least indirectly, with the efforts ordinary people make in their communities. Weak states, pushed by international forces advocating structural adjustment and privatization, are now partnering with NGOs, who are now acquiring growing capacity, in order to avoid social unrest.

Fisher (2003) also asserts that in Senegal, during the early 1980s, the government began using grassroots support organizations (GRSOs) to increase its access to rural areas and reduce the power of the *marabouts*, or Islamic brotherhoods. Ironically, because this threatened NGO autonomy, a GRSO network was developed and led a long and complicated legal fight to forestall government intervention, thereby creating an NGO-*marabout* alliance.

In the context of the theories of social capital, the strength of ties, and the politicization of NGOs (including microcredit institutions), this article compares 10 microcredit organizations in a small rural town in Senegal to see how they managed their relationships with northern NGOs and governments; to consider the challenge of building social capital across the different environments of northern NGOs, donors, and governments; and to examine their constituency of poor rural women. The article also explores the role played by the founders or heads of these organizations, investigating how the social capital they managed to accumulate has influenced the effectiveness and resources of their microcredit institutions and whether this has translated into socioeconomic development for the community.

Methodology

The objective of this research is to examine microcredit activity in the community and the impact of that activity on the building of social capital. Research included socioeconomic surveys and semi-structured interviews on social capital and microcredit institutions in Gossas. The authors decided to focus on the more established *groupements* in order to better understand how they operate and their impact on social capital.

Ethnographic research was conducted over a period of three years, with one of the authors living in the community as a Peace Corps volunteer in the town of Gossas, Senegal, for two years. The other authors have traveled to Senegal and the Gambia to conduct research on this topic three times in the last two years, their time there totaling three months. Research included socioeconomic surveys and semistructured interviews on social capital and microcredit institutions in Gossas.

An ethnographic study was chosen as the most appropriate methodology, as the results of microcredit programs can be better understood using in-depth analysis of the social processes and economic histories of the communities impacted.

Economic Activities in the Peanut Basin of Senegal

The Study Area

Senegal, the country where this research was conducted, is located in West Africa. The capital of Senegal, Dakar, is the westernmost point in Africa. The country, which is slightly smaller than South Dakota,

Figure 1. Map of Senegal

Source: http://www.mapquest.com

surrounds the Gambia on three sides; it is bordered on the north by Mauritania, on the east by Mali, and on the south by Guinea and Guinea-Bissau. Senegal is mainly a low-lying country, with a semi-desert area in the north and northeast and forests in the southwest. With a population of about 10.85 million, a literacy rate of 40%, and a GDP per capita of US$446, Senegal was ranked 156th in 2002 by the United Nations Development Program's (UNDP) Human Development Report. Senegal has been subjected to IMF and World Bank Structural Adjustment Policies (SAPs) and in 1994 had a devaluation of its currency (Franc CFA). In 2005, 54% of the population lives below the poverty line. Senegal also has a high unemployment rate, with almost half of its population unemployed. This unemployment is most acute among the youths (CIA World Factbook, 2003).[4]

Economic Activities

Senegal's primary rural economic activity is agriculture. Approximately 70% of the country's workforce is involved in agriculture, and in 2000 agriculture accounted for 18% of the GDP. The two main agricultural activities in Senegal are peanut (groundnut) production and fishing. Peanut production takes place on 40% of cultivated land and employs over 1 million people, although it now accounts for a smaller portion of foreign exchange earnings when compared to fishing and mining (US$79.4 million in 2000). Most farms are smallholdings where family supplies all of the labor. Over 70% of agricultural production in Senegal comes from small and medium-sized enterprises.[5]

Fishing employs over 200,000 people full-time; in addition, it provides considerable temporary employment in the informal sector through small-scale traditional fishing. In 2000, fishing earned US$239 million. In addition to providing income, fish is also the dominant animal protein in the Senegalese diet.

Ethnographic research was conducted in Gossas, one of the three departmental capitals in the region of Fatick. Foundiougne and Fatick are the other departmental capitals. The primary ethnic groups are Wolof, Sereer, and Pulaar. The population is approximately

10,000. Gossas is on the national road between Kaolack and Diourbel. Because of its location (between two regional capitals—albeit not its own), Gossas is often marginalized with regards to resources available in the region, and there is very little NGO activity in Gossas. In order to get to the regional capital of Fatick, it is necessary to take a car 39 km to Kaolack and then take another car to Fatick. The essential economic activities in Gossas are agriculture and animal husbandry. Located in the "peanut basin," the area produces principally peanuts, millet, sorghum, and corn.

During the colonial era, peanut production was high and Gossas was a thriving town. There are several old French colonial buildings in the town, many of which are now deteriorated and crumbling. Due to both the increased salinity of the water supply and the depletion of minerals in the soil, peanut production and overall economic health of the town have declined over the years.

Gender Relations and Financial Resources of Sene-Gambian Women

Gender relations in Senegalese families are generally very patriarchal. Senegalese women may appear to have a lot of power because of their animated nature and dynamism. Women do have some power, but just within their spheres of influence—namely, the raising of children; and even with regard to this, their authority can be questioned by the *borom kerr* (male head of household). Typically, women who contribute financially to the family enjoy greater freedom and influence. And the first wife is more influential than the others. However, ultimately the male makes the final decisions concerning the affairs of the family.

In Gossas, wives must ask for permission to travel. If a wife does not have her own income, she is not at liberty to make decisions about the schooling and health care of the children. Family law in Senegal is also very patriarchal. Husbands are automatically given tax breaks for their dependent children, even if the wife works and even if the husband and wife are divorced and she provides financially for the children. The children are believed to always belong to their fathers. However, as Perry (2002) notes, neoliberal reforms have

diminished men's power in domestic spheres. In rural areas, male household heads were the official members of cooperatives and therefore lost a major source of patronage when cooperatives were abolished in the 1980s under the auspices of structural adjustment programs administered by the World Bank and IMF. Men's inability to provide their wives with peanut seed or to pay for much needed household essentials forces them to concede to women's wants and demands.

Although most of the inhabitants in the study area (Gossas) are Muslims, Wolof farmers do not practice purdah (the seclusion of women), and Wolof women have traditionally enjoyed some freedom to pursue such income-generating activities as cash-crop farming and livestock rearing. Wolof women do not generally pool their finances with their husbands'. This is evident not only in rural Senegal but even in the USA, where great numbers have emigrated to in the last three decades. The authors note that even in western settings, many Senegalese women do not own joint accounts with their husbands. Babou supported this point (2002) when he studied Senegalese *Murid*[6] Muslims in New York. Babou found that women refused to participate in household expenses, citing Wolof and Islamic traditions that exclusively assigned the financing of household responsibilities to men.

Peddling among rural Wolof women is a common practice, and weekly rural markets open up new avenues to spawn small businesses. Perry (2002) contends that, as opposed to largely held assumptions about West African women, who are commonly depicted as "market mammies" and avid traders, Wolof women joined their more market-savvy counterparts from Nigeria, Benin, and Sierra Leone, in recent years. Even though this observation is true, the authors are of the opinion that women in the Sene-Gambia region have increased their numbers in trading not only locally but internationally. Women from the Sene-Gambia region are now traveling to the Middle East and North Africa (Dubai, Tunis, Morocco, Turkey, etc.) and to the Far East (Shanghai, India, China, etc.), and they are radically changing their communities.

The authors wish to emphasize that economic migrants from Sub-Saharan Africa (estimated at 35% of the highly trained and

skilled workforce) to developed countries are also responsible for meeting the void left by failed states and neoliberal reforms pushed forward through the "Washington consensus." Communities would have collapsed and died of hunger without the joint efforts of women at the home front and economic migrants (both men and women) in developed countries sending remittances to meet school, housing, food, and health expenditures. Remittances to Senegal through formal channels were estimated by the World Bank at CFA 127 billion in 2001. This amount should be trebled in order to capture the informal remittances, making a total of CFA 381 billion (US$0.762 billion). The authors' observation is substantiated by Jettinger (2005), who states that

> remittances are not only sent out of a moral obligation towards the family in Senegal, but are essential in guaranteeing a family's livelihood. These regular remittances developed as a result of the increasing social and economic problems in Senegal (such as drought, structural adjustment programs, and devaluation of the Franc CFA), and the changing immigration policies in the countries of residence. (p. 14)

In urban Sene-Gambia, women are building social capital by joining associations or microcredit organizations and jointly sponsoring one or two members to go overseas and buy goods (clothing, expensive lace and sequin materials, insulated food containers, gold jewelry, scarves, incense, perfumes, stainless steel and porcelain cookware and bowls, etc.) on behalf of each individual group member. Goods are put in freight containers and distributed to the individual members of the group. These people in turn distribute to their own intermediaries to sell for cash and on credit. The middle women and men are then responsible for collecting monthly payments. The intermediaries put a margin on top of their "patron's" asking price to serve as their commission for the distribution of goods and the collection of debts. In rural areas we see less elaborate activities and goods, but women still trade in incense, palm oil, fish, locally sewn clothes, etc. In the Gambia, which is only three hours away from Gossas by car, most goods are substantially cheaper than in Senegal,

due to lower import taxes. Women in Gossas are taking advantage of this difference in price by regularly sending women to the Gambia to buy fabric, clothes, shoes, sugar, flour, chicken, etc., to be distributed to other *groupement* members and sold in the community.

Microcredit Alliances in Gossas, Rural Senegal

The first formal *groupement* (association or group) in Gossas was created 20 years ago. In 2005, there are more than 50 *groupements* in Gossas, a town of 10,000 people. The average membership is 30 women. Microcredit has become particularly important to women in the agrarian-based rural economy of Senegal due to major institutional changes. Senegal, like many developing countries, entered into structural adjustment programs in the early 1980s with the Bretton Woods Institutions, bringing about neoliberal reforms such as the abolition of state-led agricultural cooperatives throughout rural Senegal. This means that farmers can no longer get the plows, seed drills, fertilizer, or high quality seed they used to receive on credit (Perry, 2002).

In recent years, NGOs from developing countries have been providing financing to microcredit institutions in developing countries. In Gossas, Alliance de Credit et D'Epargne pour la Production (ACEP [Credit and Savings Alliance for Production]), an American NGO, has identified 15 *groupements* to receive financing. The 15 most dynamic member organizations of the Consortium (Gossas's most powerful federation of women's groups) were chosen. Loans to the *groupements* vary widely but range from CFA 250,000 to CFA 950,000 (US$500 to US$1,900). (Most *groupements* hold *tontines* in addition to their lending activities.)

Notably, many *groupements* were formed between 2000 and the present, with several being formed in the year that Mr. Abdoulaye Wade, the current president of Senegal, was elected. Furthermore, it is no coincidence that the *Parti Démocratique Sénégalais* (PDS) headquarters (Wade's party) is also where the Consortium holds meetings.

Through federations, associations, and alliances, participants synchronize their efforts and resources. NGOs are now forming more alliances by reducing their insularity, largely because of the

realization that they cannot do (or be) everything, and they now accept a holistic view calling for complementary action with others. Yet other more strategically oriented alliances occur to achieve micro-macro complementarities (Fowler, 1997). At the grassroots level, women's economic groups are creating alliances that allow them to reach greater economies of scale, heighten their political clout, and realize greater opportunities and profits.

In Gossas, microcredit institutions formed alliances to reduce redundancy, to maximize their impact, and to have a stronger political voice. There are three federations or alliances of associations (*groupement federation*) in Gossas. Gossas has approximately 50 *groupements*, which fall under 3 different umbrella organizations. With 49 member *groupements*, the Consortium of Gossas is the most dynamic of these umbrella organizations. The Consortium was started in 2001 and became a recognized organization in 2002. Presidents of Consortium-member *groupements* meet monthly to repay loans and to discuss opportunities, policies, and politics.

When the Consortium was started, each member of each *groupement* was required to pay CFA 650 (US$1.30), of which CFA 150 (US$0.30) went to administrative fees (copying identity cards and notarizing documents). The consortium initially started with 20 *groupements* and approximately 500 members (often women are involved in more than one *groupement*). At its inception, the organization had CFA 270,000 (US$540) in operating funds. In November 2004, the Consortium had CFA 2 million (US$4,000) in its bank account. Their account was strengthened by CFA 207,000 (US$414) from the government, which *groupements* in Gossas were given following the visit of Prime Minister Macky Sall's wife to Gossas in 2003.

Gossas Groupement *Structure and Governance*

Generally every *groupement* has a president, vice president, treasurer, and secretary. Money is collected only during meetings of the entire group. Generally, money is collected in a pot, and each transaction is verbally accounted for and then recorded in a book by the secretary. For example, one will take the money of a member and loudly

say for all to hear, "Fatou Ndiaye 1,000 CFA," after which the transaction will be recorded in a book. After money is collected, it is then disbursed to members who will get loans during that meeting. Money saved by the *groupement* may be deposited in the community savings bank. Many groups have accounts at the savings bank. The treasurer and the president usually have access to these funds.

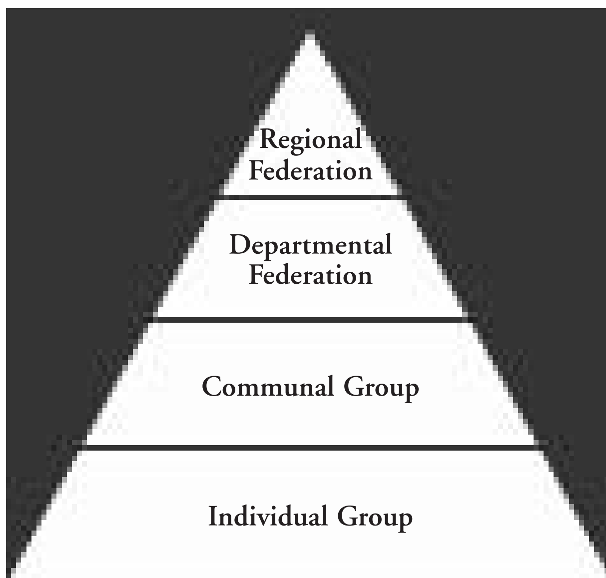
As indicated by the interviews, all groups have a protocol for the enforcement of rules regarding repayment. Fines, social pressure, and the threat of being kicked out of the group are all means employed to ensure that women repay their loans. One *groupement* indicated that they would not hesitate to take nonpaying members to the police.

Lending Structure of the Consortium

Every month, each *groupement* president is given CFA 40,000 (US$80.00) to lend out to members of their *groupement*. The interest rate is 10% over a two-month period. In the first month, *groupement* presidents must come to the Consortium meeting with the interest payment of CFA 4,000 (US$4), and the second month they must pay back the complete CFA 40,000 (US$80). With the continuing growth of the organization, it is difficult to continue giving 40,000 per member out of Consortium funds. Therefore, new member *groupements* are limited to monthly loans of CFA 20,000 (US$40). The Consortium also has a *tontine* each month for whoever wants to participate. Each participant contributes CFA 2,500 (US$5) into the pot, and two people are selected to win the money. If members do not pay their loans back on time, there is a CFA 1,000 (US$2) late fee. The *groupement* structure in Gossas is shown in Figure 2.

As a result of the political acumen of the *groupements*, in November 1994, in a townwide meeting at the mayor's office of Gossas, the government of Senegal committed to providing CFA 40,000,000 (US$80,000) for loans to women's *groupements* in the department of Gossas. These loans can be individual loans or group loans. The disbursement of loans began in early 2005. The largest individual loan is CFA 250,000 (US$500) and the largest group loan is CFA 2,500,000 (US$5,000). The loans are being given at 5% interest, payable over a 12-month period, with a 3-month grace

Figure 2. Structure of Associations in Gossas



period before beginning payment. Women are required to fill out applications detailing their plans for the money and a strategy for repayment. Based on this information, the best projects are being chosen to receive loans. Table 1 shows the most active microcredit institutions in Gossas. Membership varies from 30 to 300 members; longevity also varies, from 1 year to 18 years. Two of the groups are receiving ACEP microcredit loans. The loan amounts, interest rates, and penalties vary from one group to another.

Anatomy of Social Capital Amongst Gossas *Groupements*

This section seeks to identify patterns in the formation and overall standing of microcredit organizations in Gossas, as well as their access to resources. Even though we cannot draw firm conclusions about the patterns identified in this research, such an exercise is very insightful to researchers and practitioners by pinpointing the "necessary" factors propelling microcredit organizations to have greater impact. This section assesses the development of social capital by the founders and

Table 1. The Most Active Microcredit Institutions in Gossas

Bokk Ndeye ak Baye‡
(Sharing same mother and father—portraying closeness of group)
- Year of Commencement: 1984
- Number of members: 300
- Initial start-up financing: Started with member funds. Each person contributed CFA 100 (US$0.20).
- Loan terms: Max.: CFA 50,000 (US$100) is both the maximum loan and the average loan.
- Interest rate & penalties: The interest rate is 10%, and the duration of the loan is four to five months. There is a late fee of CFA 100 per day.
- Microenterprises that members are engaged in: Members have businesses doing tie dying and tailoring and selling vegetables, fabric, household goods, etc.

Diakhao*
- Year of Commencement: 1987
- Number of members: 30
- Initial start-up financing: *Tontine* to defray the costs of the baptism and CFA 5,000 (US$10) for themselves.
- Loan terms: Dues: CFA 50/wk; Max.: CFA 3,000 (US$6); Min.: CFA 2,000 (US$4); Ave.: CFA 2,500 (US$5)
- Interest rate & penalties: 10%, payable over two months. First month: interest due, second month: principal due
- Microenterprises that members are engaged in: Members sell vegetables, churaye (incense), cloth, shoes, and household items.

Takku Liggeey Diakhao
(Stand steadfast and build Diakhao)
- Year of Commencement: 1996
- Number of members: 65
- Initial start-up financing: Started with member funds of CFA 1,000 (US$2) each.
- Loan terms: Max.: CFA 5,000 (US$10) Min.: CFA 2,500 (US$5)
- Interest rate & penalties: The interest rate is 5%, and the loans are paid back the next month.
- Microenterprises that members are engaged in: Most members sell food items in the market. They sell vegetables, dried fish, millet, etc.

Bokk Jomm
(Together in pride)
- Year of Commencement: 2001
- Number of members: 30
- Initial start-up financing: Started with the funds of group members. They put in CFA 500 each to get things started and each donate CFA 100 every month.
- Loan terms: Max.†: CFA 100,000 (US$200) Min.: CFA 50,000 (US$100)
- Interest rate & penalties: 25%, payable over five months. Members are given a three to four month grace period. After the grace period is over, they must make a payment equal to 20% of the loan and 25% of the total interest payment. For example, on a loan of CFA 50,000, member will pay 12,500 per month for a total of 62,500 repaid over the life of the loan.
- Microenterprises that members are engaged in: Members own boutiques, sell vegetables in the market, and generally engage in all types of petty commerce, i.e., buying fabric, jewelry, perfume, etc. to resell. Members also farm and sell their produce—mostly millet.

Dangou Lebou

- Year of Commencement: 2001
- Number of members: 60
- Initial start-up financing: Started with member funds. Each member gave an initial contribution of CFA 100 (US$0.20).
- Loan terms: Max.: CFA 10,000 (US$20) Min.: CFA 5,000 (US$10.00) 80% repayment rate.
- Interest rate & penalties: The interest rate is 5%, and the duration of the loan is two months.
- Microenterprises that members are engaged in: Members have businesses doing tie dying and tailoring and selling vegetables, fabric, household goods, etc.

Doleel Jaboot

- Year of Commencement: 2001
- Number of members: 33
- Initial start-up financing: Started with member funds. Each member gave an initial contribution of CFA 500 (US$1.00).
- Loan terms: Max.: CFA 15,000 (US$30.00) Min.: CFA 2,500 (US$5.00)
- Interest rate & penalties: The interest rate is 5%, and the duration of the loan is 1 month for every CFA 5,000 borrowed. For example, if a member borrows CFA 10,000, the duration of the loan is two months. 100% repayment rate. Fine of CFA 150 (US$0.30) per day for late payment.
- Microenterprises that members are engaged in: Members have businesses doing tie dying and tailoring and selling vegetables, fabric, household goods, etc.

Kai Fii**

(Come here)

- Year of Commencement: 2001
- Number of members: 45
- Initial start-up financing: *Groupement* was started with member funds. Each member contributed CFA 500. Every three months, every member must contribute CFA 500. In November they received funds from ACEP.
- Loan terms: With the funds contributed by *groupement* members: Max.: CFA 15,000 (US$30) Min.: CFA 10,000 (US$10). With the funds the *groupement* received from ACEP: Max.: CFA 50,000 (US$100), Min.: CFA 25,000 (US$50)
- Interest rate & penalties: The duration of these loans is one month at 5% interest. 13%, payable over 12 months. Two-month grace period.
- Microenterprises that members are engaged in: Members own boutiques, sell vegetables in the market, and generally engage in all types of petty commerce, i.e., buying fabric, jewelry, perfume, etc. to resell.

Takku Liggeey Dangou

(Stand steadfast and work for Dangou)*

- Year of Commencement: 2001
- Number of members: 48
- Initial start-up financing: Started with member funds.
- Loan terms: Max.: CFA 40,000 is both the maximum and average loan.
- Interest rate & penalties: 10%, and the duration of the loan is three months.
- Microenterprises that members are engaged in: Members have businesses doing tie-dying, raising chickens, selling vegetables, and all types of petty commerce, i.e., buying fabric, jewelry, perfume, etc. to resell. The *groupement* also owns a millet machine.

Bunkard

- Year of Commencement: 2002
- Number of members: 32
- Initial start-up financing: Started with member funds. Each member contributed CFA 650 to start.
- Loan terms: Max.: CFA 25,000 (US$50), which is also the average loan.
- Interest rate & penalties: 5%, and the duration is 2 months.
- Microenterprises that members are engaged in: Most members are involved in some form of petty commerce, i.e., buying items for resale in Gossas.

Funkal Sa Cherie
(Revere your husband)

- Year of Commencement: 2003
- Number of members: 70
- Initial start-up financing: Started with member funds.
- Loan terms: Max.: CFA 15,000 (US$30) Min.: CFA 10,000 (US$20). When the *groupement* started, the maximum loan was CFA 2,000. When they had enough money for each member to be able to borrow 2,000, they moved the maximum loan to 5,000. They will continue this upward progression indefinitely. Currently, every member has a loan out of at least CFA 10,000, and two members have a loan of CFA 15,000.
- Interest rate & penalties: 10%, and the duration of the loan is one month. There is a penalty of CFA 500 per day for late payment.
- Microenterprises that members are engaged in: Members have businesses tie-dying fabric, working in hair salons, and all types of petty commerce, i.e., buying fabric, jewelry, perfume, etc. to resell.

Sopp Sokna Mame Diarra Bousso

- Year of Commencement: November 2004
- Number of members: 33
- Initial start-up financing: ACEP
- Loan terms: Max.: CFA 100,000 (US$200); Min.: CFA 50,000 (US$100)
- Interest rate & penalties: 13%, payable over 12 months. 2 month grace period.
- Microenterprises that members are engaged in: Members own boutiques, sell vegetables in the market, and generally engage in all types of petty commerce, i.e., buying fabric, jewelry, perfume, etc. to resell.

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* Name of a town

** The founder is a dynamic change agent in Gossas. She was largely responsible for ACEP choosing to finance Gossas *groupements* and is the point person for the project. She keeps track of all ACEP loans made in Gossas. She is also the secretary general for the Consortium of *groupements* in the town and the federation of *groupements* at the departmental level.

† A member receiving an initial loan of CFA 50,000 (US$100) must borrow and successfully repay a loan of CFA 50,000 (US$100) five times in order to be eligible for the next tier loan of CFA 65,000 (US$130). Then the member must borrow and repay a loan of 65,000 successfully five times in order to be eligible for a loan of CFA 100,000 (US$200).

‡ Bokk Ndeye ak Baye was the first *groupement* started in the commune of Gossas.

leaders of Gossas *groupements* and evaluates its impact on women's political clout and their ability to garner financial and material resources from the government of Senegal and the NGO community. The founders of the microcredit organizations in this study are the individuals and groups who played the most critical roles in the formation of the new organizations. They include the national, regional, and local social leaders and groups who invested their ideas, time, and resources in founding the organizations.

The authors observed that women, especially microcredit founders and leaders, have built their social capital by allying with the regime. They are thus using their political connections to get access to northern NGOs, government financing, and grants. It is therefore evident that these rural women have become more sophisticated in their dealings with government and are "banking" on the political clout of their organization. This leverage is brought about by these women arguing that "I carry X number of women who will listen to my directives [voting and supporting the regime]."

Ties with government are assessed from the interviews performed with microcredit organization presidents, founders, and members. Gossas has a Social Development office, a regional office of the Ministry of Family and Social Development. The director of the Social Development Office is the point person for receiving government financing; all proposals will go to the Minister of the Family and Social Development from the director's desk. It is this regional office that supplies technical support to women's economic groups in Gossas. Regarding the awarding and distribution of the CFA 40,000,000 (US$8,000) government fund earmarked for *groupements* in the department of Gossas, staff of this office were trained to provide support applicants and provide the winners of the funding with training in accounting, record keeping, and the rules and regulations of the financement. In 2004, the request for proposals for the new government financing was presented to the public at the mayor's office. This has been an arduous task for Social Development office staff. While microcredit organizations have become very aggressive in their search for more funding and have successfully wielded their social capital to obtain greater funding opportunities, they often lack the vision and

skills to work with greater sums of money. The following remark made by a government official underscores this dilemma:

> I am frustrated. When the women come to me for help, they not only want me to help them type the proposals, they essentially want me to write the proposals. They come with no clue of what type of project they want to do and how they will manage the money. All they know is that they want more money. (Interview Notes)

In the last year, vast changes have occurred on the political-economic landscape for Gossas *groupements*. Before 2004, when ACEP began to finance *groupements*, and 2003, when Prime Minister Macky Sall's wife introduced a fund, *groupements* in Gossas were primarily self-financed. Women who have been accustomed to receiving loans no larger than CFA 100,000 (US$200) are now able to access loans that are over 10 times larger. Hence, these women are experiencing growing pains as their dreams of greater financement become a reality.

These realities notwithstanding, it is important to assess the factors that have precipitated these new infusions of capital. How were these women able to garner social capital and wield it to their advantage in a town often overlooked in the distribution of resources, also located in one of the poorest regions of Senegal?

Women's *Groupements* in Sene-Gambia and the Political Process

Women's *groupements* form one of the most powerful voting blocs in Senegal. Highly organized, these groups meet frequently and regularly, devise political strategy, and wield great power and influence over politicians and government actors. In the town of Gossas alone, which only has a population of ten thousand, there are close to 1,000 women who belong to a *groupement*. Women have been called on time and time again to don their blue and gold *boubous,*[7] the colors of the Partie Democratique du Senegal (PDS), to go to rallies in support of the PDS. For very significant rallies, women are often bussed in from near and far. In 2004, women in the region of Fatick made their

voices heard in vociferous support for the mayor of Fatick's ascension to prime minister of Senegal. Following Senegal's independence celebration on April 4, 2004, amidst accusations of improper use of funds designated for revitalization projects in the region of Thies, Prime Minister Idrissa Seck was booted from the number two post. During the controversy, President Abdoulaye Wade dissolved his cabinet and changed several members. When the smoke cleared, it was Macky Sall, the mayor of Fatick, who was standing in the country's number two political spot as prime minister of Senegal. The women of Fatick and particularly the women of Gossas did not hesitate to use their influence to realize economic benefits for *groupements*.

The leader of the Consortium, the most powerful *groupement* federation in Gossas, is a charismatic woman well known and liked in the community by both young and old. When the vice president of the Consortium was asked about the role of politics in the activities of *groupements*, she stated that "*Groupements* are more and more a political thing. It is difficult to talk about development anymore because everything is politicized." When asked why the Consortium is so strong, the vice president responded, "It's the president, X; when she walks down the street you hear children and old people chanting her name. She worked very hard to have the prime minister's wife come here to Gossas." The president of the Consortium is also very active within the departmental and regional *groupement* federations and was instrumental in persuading the wife of the newly appointed prime minister, Macky Sall, to come to Gossas and commit funds to Gossas *groupements*. At that meeting she committed CFA 207,000 (US$414) to the town of Gossas, and more was given to *groupements* in the rural villages of the department of Gossas. The president's success in persuading Sall's wife to come to Gossas before going to the other departments in the region further legitimized her status and role as a powerful change agent capable of wielding the social capital garnered by Gossas *groupements* to produce results.

Therefore, when assessing the relationship between microcredit organizations or women's *groupements* and government, the important question to ask is what social capital theory (Marxist or rational choice) best captures the social capital exhibited by the people in our

study site of Gossas. The authors are of the opinion that microcredit organizations are using their political affiliations to get more support from government and northern NGOs. As shown in Table 2, the strength of ties and the politicization of the 10 microcredit organizations chosen is just developing. Out of the 10 organization studies, 3 have strong ties with northern NGOs (ACEP) and 1 has very strong ties to the government. However, most of the microcredit organizations are tied to government since they are dipping or planning to dip into microcredit funds administered by the Ministry of Family and Social Development.

Impact of Microcredit in Gossas

In order to determine the impact of microcredit on the community, we performed a process flow analysis of where the money goes—i.e., what is done with the loan money. Women in Gossas are primarily engaged in economic activities such as selling foodstuff in the market (fruit, vegetables, fish, etc.); selling clothes, shoes, and other consumer items; hairdressing; and tailoring. When women receive loans, they use the money to purchase inputs for their businesses and pay business-associated fees. For example, the women who sell vegetables in the

Table 2. Microcredit Organizations and Scope of Ties

Microcredit organization	Inception Year	Ties with northern NGO
Bokk Ndeye ak Baye	1984	No
Diakhao	1987	Yes
Takku Liggeey Diakhao	1996	No
Bokk Jomm	2001	No
Dangou Lebou	2001	No
Doleel Jabot	2001	No
Kai Fii	2001	Yes*
Takku Liggeey Dangou	2001	No
Bunkard	2002	No
Funkal Sa Cherie	2003	No
Sopp Sokna Mame Diarra Bousso	November 2004	Yes

* Kai Fii is also has strong ties to the government—it was founded by a political leader.

market use their money to pay those that deliver vegetables, which come from Cassamance and Guinea, and also to pay rent for their stalls in the market. They use the money they earn to pay debts, make business related purchases, and take care of familial obligations (school fees, clothes, baptisms, marriages, etc.). While in Senegal the finances of women are generally kept separate from those of their husbands, women are often the ones who pay their children's school fees. In polygamous families, a husband may have four wives and more than a dozen children. The expense of educating children is too great for fathers to pay alone, and often the only way children are educated is through the earnings of women. Women also spend a substantial amount of money on the required gifts for baptisms and marriages. Finally, Sene-Gambian women take particular pride in their appearance and often spend substantial amounts of disposable income on clothing. There are very little personal savings amongst the women.

When the founders and some members of microcredit organizations were questioned on whether their lives have been significantly changed by microcredit, the answers were not very convincing. Most women accept that microcredit has impacted their lives, but not considerably. Figure 3 includes some of the statements given by the women interviewed in November 2004.

As shown by these statements, microcredit institutions have brought positive changes to this poor rural town of 10,000 inhabitants. However, the expectations portrayed in neoliberal development discourse that microcredit and social capital will help lift communities out of poverty are a bit too optimistic. The abject poverty, lack of social amenities, and deprivation suffered by rural communities as a result of structural adjustment programs and failed states that we are currently seeing all over the Sub-Saharan African landscape will take more than microcredit to correct.

Conclusions

The general expectation of the impact of microcredit is largely due to the interpretation of social norms and networks that underlies the Grameen model of microfinance that is now widely promoted by

mainstream development agencies. Drawing on liberal theories of social capital, these interpretations expect that opportunities for association afforded women through "solidarity groups" will foster the social networks and common moral frameworks necessary for cooperation and collective action (Rankin, 2002).

However, the authors are of the opinion that since its inception, there has been much debate as to the merits of microcredit as a tool of empowerment and poverty alleviation. High interest rates, low rates of personal savings, and inaccessibility of higher levels of credit and formal lending institutions are all factors that have been highlighted in this debate. The women of Gossas, Senegal, face all of these obstacles. There was a common thread of empowerment vis-à-vis husbands and communities, which was highlighted during interviews.

Figure 3. Statements from November 2004 Interviews

"We only just started. But [and she waves her hands towards her pots, where she is preparing the night's meal of millet couscous and dried fish] we are just trying to add a little to our pots, dress a little better, and contribute more to our households."

"I've seen especially how *groupements* have helped single women, women with no husbands. Many of these women didn't have enough even to eat for the day. It's tough. Gossas is a poor town. Now they have money to buy food and the things they need."

"Yes and no. We now have a source of money when we need a loan. But the loans are too small and we need more money. I would like to really expand my boutique, but to do that I need a lot more money."

"When we started this *groupement*, we had nothing—not one single CFA. Now we have 350,000 CFA in our account, and it only keeps growing. Each member is up to having a loan of at least 10,000 CFA. We are making great progress."

"I initially started this *groupement* to bring greater unity and cohesion in our neighborhood. Through the activities of our *groupement*, we have learned unity in economics. Everyone is struggling to make it here. We are now struggling and working together."

"I definitely see the changes. If you can help your husband, this lifts your voice in the household. He listens to you more."

"It took a while for the women to understand how the *groupement* works and to believe that they'd see real benefits. But now, things are running smoothly and everyone sees the benefits."

"Yes. Before, there was no one to borrow money from. Often, you just need a little money to get you through until the end of the month, a little money to buy your merchandise and fill up your table. Before, when we fell short of money, there was no one to turn to."

Women who contribute to the family financially enjoy greater freedom and influence. When asked if her standing within the family has changed as a result of her earning income, one *groupement* president stated, "I definitely see the changes. If you can help your husband, this lifts your voice in the household. He listens to you more." Within the author's host family, in the town of Gossas, this was quite apparent. Of the three wives, the wife who is a *groupement* president and has had her own stand in the vegetable market enjoys the greatest freedom and mobility. While, like the other wives, she must ask permission to travel before going anywhere, she is given permission to travel more frequently. This wife is very involved politically and often travels to rallies and meetings. The other wives, who are completely financially dependant on the husband of the family, are not granted permission as often, and it is evident that their voices do not carry as much weight in the household. Furthermore, they are not at liberty to make certain decisions regarding the schooling and welfare of their children. The income-earning wife pays school fees for her children and in some cases purchases their medicine when they are sick.

Whether the increased flow of microcredit to Gossas will have significant socioeconomic impact is unclear. From the interviews conducted, when asked to describe lessons learned, while some gave concrete examples, most interviewees stated that their *groupement* has operated essentially in the same manner since the beginning. Members were also asked what they needed in order to advance or improve their organization, and all answered, more financement. None answered that they needed more training in any area. When members were asked what would they do if they had more money, only two people gave very detailed responses: to build a vegetable and fruit processing business and to open stores; but the majority answered that they would continue to buy more products to resell in Gossas.

It is evident from this case study that women are using microcredit organizations to organize and have more voice in politics. Indeed, women in this small town of Gossas have played a role in getting the mayor of their region elected as prime minister in Senegal (Macky Sall) and in return have received some spoils from visits of the prime minister's wife, the establishment of a northern NGO

offering microcredit loans, and microcredit loans from the Ministry of Family and Social Development. The crucial question to investigate in the very near future (2–3 years) is whether these benefits have gelled together to propel the socioeconomic development of the community or whether microcredit and social capital merely act as "symbolic violence" binding the oppressed to their oppressors—the state, multilaterals, bilaterals, and northern NGOs.

Notes

1. See Gladwin (1991), Buckley (1997), Abdulai and Delgado (1999), Mordoch (2000), and Martin and Holme (2003).

2. A joint financial arrangement in which members contribute monthly or weekly a set amount, and the entire amount collected is awarded to one participant at a time. Each participant gets a chance to be awarded the entire amount collected per week or month.

3. Weekly or monthly meetings that fulfill religious as well as secular purposes. *Diaras* are used for educational purposes (recitation of the Quran and sermons) but also for socialization purposes.

4. See http://strategis.ic.gc.ca/epic/internet/inimr-ri.nsf/en/gr110237e.html

5. These estimates are from 2001.

6. An Islamic sect or brotherhood in Senegal founded by Amadu Bamba Mbakke around the 1890s. Scholars of the Muridiyya interpret the brotherhood as a response of the Wolof to the structural changes brought about by colonization and the introduction of a market economy (Babou, 2002, p. 152).

7. *Boubous* are long flowing garments consisting of a wrap skirt and shirt with a head scarf traditionally worn by Sene-Gambian women.

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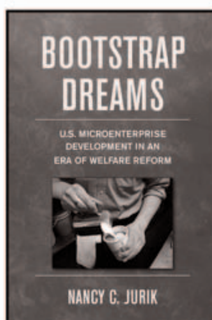

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