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**ESTABLISHMENT OF THE GLOBAL
FINANCIAL MICROFINANCE FRAMEWORK**

MICROFINANCE, POVERTY REDUCTION AND STABILITY

Summary

1. The objective of this Study is to enable the actors operating in the Great Lakes Region to build the capacity necessary for improving the practices of institutions involved in micro finance and to increase their financial resources in order to make them efficient and effective instruments in the fight against poverty.
2. Many of the people of the Great Lakes Region live below the poverty line and one of the causes of this situation is the population's lack of access to means of production, of which loans is a vital component. However, it is a fact that today, in the region, a number of decentralized financial institutions, NGOs and governments are endeavouring to coordinate their efforts in trying to overcome this bottleneck, by coming up with sectoral policies in development, and by providing support to micro finance activities in the fight against poverty and making efforts to revive growth in order to achieve the Millennium Development Goals.
3. This Study covers ten¹ of the countries comprising the International Conference on the Great Lakes Region and is meant to jointly assist the Economic Commission for Africa and the International Conference on the Great Lakes Region in preparing a project document to be submitted to the member countries to be used in formulating concrete policies and measures to be adopted in the field of the fight against poverty and mainly in setting up a mechanism for the collection of data and competencies, in order to be able to finance and to strengthen the micro finance institutions operating within the region.
4. From the documentary review, from the consultations² with the various actors, and from the visits which the Consultant in charge of the Study made to the various countries, it is obvious that in their efforts, the major actors in this sector in the Great Lakes Region have, at different levels, accumulated various levels of experience in this matter and it will be useful to draw from this diverse experience, the general positive elements that could be used as examples in the other countries in the region, in their respective approaches in offering support in the fight against poverty through micro finance.
5. The Survey was organised as follows:
 - The first part of the document will be an analysis of the situation on the ground of the micro finance sector in the ten countries that were visited. For each country, a SWOT analysis has been carried out and it highlights the constraints that can slow down both the development of micro finance, as well as the entry of new actors from the other countries in the region.

¹ ANGOLA was not visited, for the simple reason that the Immigration services did not allow the Consultant to enter the country.

² Identities of the persons met appear in an annex.

Part 2 of the document will consist of a comparative and transversal analysis which identifies the points of convergence or similarities, strengths and weaknesses, as well as the good practices of the networks existing in the countries in the region as compared to one another. It starts with a summary of the common trends resulting from a comparative analysis and which necessitate improvements in each country; and ends with the identification of the possibilities for complementarity and synergies between decentralised financial systems in the region, by proposing pertinent recommendations for achieving the desired objective.

6. In general, from the survey carried out in the ten countries of the International Conference on the Great Lakes Region, the following major observations can be made:
 - Access to financial services and, subsequently, to micro finance loans, still remains a major problem to resolve, comparing the population living in poverty and the rate of coverage of micro finance institutions in the community. Thus, there is a huge demand awaiting to be reached. For example:
 - In the DRC: It is estimated that 70% of the population live under the poverty line, with only 0.01% of the entire population owning a bank account;
 - In Rwanda: 60% of the population live below the poverty line; while only 10% of the population have a bank account. Furthermore, there are needs for complementary financing in addition to bank deposits. In spite of the existence of a refinancing fund for Micro Finance Institutions (MFIs) deposited in the *Banque Rwandaise de Developpement* (Rwanda Development Bank), the MFIs do not put it to good use, because of a number of conditions that disqualify many of them;
 - In Burundi, 75 % of the population live below the poverty line, with only 4% of the population having a bank account. The refinancing needs for the MFIs that are members of the *Réseau des Institutions de Micro finance* (Network of Micro Finance Institutions) for the coming three years, for them to cover the deficiency in collected deposits stand at 2,530,000 Euros.
 - In Zambia: 66 % of the population do not have access to financial services and current deposits collected by the MFIs are not sufficient to meet the demand for loans.
 - In Uganda: 62 % of the population do not have access to financial services; voluntary deposits cannot cover the loans demanded, the MFIs have to turn to funds borrowed at market interest rates and would wish to use both compulsory savings obtained as guarantee for loans and to obtain loans at concessional interest rates in order to increase their offer of services.
 - The geographical coverage and location of the MFIs is not sufficient for them to reach all the rural population.
 - Most of the loans offered concentrate on products that the beneficiaries of the loans orient towards petty trade and craftsmanship. Owing to the small amounts of the loans granted and the short reimbursement period given, it has been noted, almost throughout all the countries under review, that rural and agricultural loans, as well as housing loans, are generally delinquent.

- Apart from Uganda, Sudan and Tanzania, loan facilities to micro entrepreneurs are still underdeveloped. Awarding of credit to young micro entrepreneurs (to young graduates or to the unemployed but with projects) is almost non-existent. In Zambia, the International Labour Organization offers training for women entrepreneurs and for vulnerable persons (such as those living with HIV/AIDS or who are handicapped) and helps to make them meet during seminars with MFIs that may be interested in financing them. In Uganda, the AMFIU (Association of Micro Finance Institutions of Uganda) has been charged with preparing and implementing a micro finance project for vulnerable and handicapped persons.
- Regarding the management and governance of micro finance institutions, it has been noted that there is lack of professionalism and technical competencies among the heads and officials of some of the MFIs; there is lack of innovation in the conception of financial products meant for the targeted clientele; and there is a problem of the use of an obsolete information and management system.
- The MFIs do not have sufficient financial resources. The ones that do not collect savings depend mostly on subventions and might totally disappear in case the subventions are abolished or in case of serious degradation of holdings. Lack of synergies and collaboration between the actors in the micro finance sector and the banking sector prevents the MFIs from accessing sources of refinancing. And given the disparities that are noticed when comparing the loans offered against the collected savings, it is clear that there is a glaring need to find cheap financing sources to enable the MFIs to play their role in the fight against poverty through micro finance.
- On the one hand, it has been observed that there is increasing dynamism and interest by governments and donors with regard to the importance of micro finance in the fight against poverty and, on the other, with regard to the preparation of national legislation on micro finance, the MFIs have shown interest in coming together as a network. The AMFIU, the Association of Microfinance Institutions of Uganda, appears to be a good organizational model that has managed to play a major role in the development of the microfinance sector among the countries that have been studied. The micro finance networks and associations in the Democratic Republic of Congo, the *Réseau des Institutions de Micro finance* RIM (Network of Microfinance Institutions) in Burundi, the Association of Microfinance Institutions in Rwanda (AMIR), which has hardly been in existence for six months, and the AMIZ in Zambia, do play a major role in assisting the development of the sector and are a driving force in capacity building in the institutions. The territorial expanse of the Democratic Republic of Congo requires that the several micro finance groups set up there should come together under a common umbrella to ensure proper coordination of their activities. However, Sudan and Tanzania are still lacking an organization that brings together the micro finance institutions, which could play a coordination role and enable them to share their experiences and good practices. On the other hand, in the Central African Republic, the association is still in its formative stages and it requires support for its development.
- Sadly, however, this dynamism and this good will are obscured by two shadows, namely
 - weaknesses in the information systems, directly resulting in the systematic lack of statistical data;

- weaknesses in the supervision system for the sector, given that the supervisory frameworks are characterised by lack of competent human resources; and by lack of material resources that are necessary for running the sector, for protecting its frail nature and for covering the entire mass of the MFIs existing across the region to ensure prudential control and supervision.
 - The legal and regulatory frameworks are not homogeneous in all the countries, but they share several aspects and good practices that are internationally recognised. Unfortunately, however, in many of the countries, although the regulatory machinery is solid and well articulated (in Kenya and Tanzania, for instance), it is rare to find institutions that have managed to conform to the regulation, particularly with regard to registration. In addition, since the regulation most often applies to those micro finance institutions which collect public savings, the bigger part of the institutions still remain un-regulated to the present day.
 - With regard to the experience to be shared with the other countries of the region and, if necessary, to be adapted depending on individual countries' specific situations:
 - Sudan offers a learning opportunity with regard to:
 - The government making available funds obtained from the petroleum sector for the development of the sector;
 - Offering back to back Islamic products on the practice of interest rates;
 - Research for alternative types of guarantees and collateral adapted to the target MFI populations;
 - Uganda, from the point of view of work done by the professional association with regard to support and guidance to institutions that are not regulated by the Central Bank;
 - Kenya and Tanzania, for the conception of regulation covering several linked sectors that are connected to micro finance activities;
 - Kenya, for the good results achieved in the improvement of access for the poor population to financial services;
 - The Central African Republic, for an attempt to set up a micro financing project for the support of the women of three neighbouring countries.
7. In view of the foregoing observations and especially of the need in matters of financing and capacity building, a series of recommendations have been made, the main ones being the following:
- The International Conference on the Great Lakes Region must set up a regional fund-raising structure for coordinating donor assistance aimed at supporting micro finance activities in the region, avoiding wastage of efforts and assuring proper coordination of actions. This regional structure, with the assistance of the technical service providers, should also play the role of a single regional support structure for professionalizing the micro finance institutions in the region and building of capacity, with the aim of developing the provision of financial services adapted to low income populations. It should also promote a commercial approach towards micro finance.

- The ECA, through its Sub Regional Office for East Africa, and through its multi-annual programme and by virtue of the Memorandum of Understanding signed with the International Conference on the Great Lakes Region, could assist in playing the role of lobbying with the various international donors and technical service providers who, moreover, are the same, and are already in action throughout all the countries of the region. These donors and technical service providers would also find it useful to coordinate their interventions in the Great Lakes Region instead of scattering them, in an effort to reduce the inequalities, which has been a source of envy and wars that are common in the region.
 - The International Conference on the Great Lakes Region should quickly launch the feasibility study for the setting up of the structure in accordance with the terms of reference for project No. **3.1.1. “Creation of a Regional Mechanism for Support to Micro Finance Institutions”**, taking into account the amendments to the text and to the road map agreed during the thematic workshop entitled **“Economic Development and Regional Integration”** held in Kigali from 09 to 12 September 2008.
 - The feasibility study should follow the leads given by the major actors in the countries that were visited during the compilation of the results of this survey. The outlines on form, structure and conditions of intervention should be finalised when the results are being compiled. At least, the structure to be put in place should comprise three units that will allow it to play the role of a guarantee fund, of a refinancing fund, and of a institutional support fund.
 - In order to have a proper estimate of the start-up fund necessary for the activities of the regional micro finance support mechanism, and of the eventual needs, the existing major micro finance networks and/or associations would provide their contribution by obtaining from their members, detailed figures of their needs over a minimum period of 3 years: in re-financing, capacity building and infrastructure. As a matter of fact, at the time when the various countries were visited, many professional associations could not furnish these figures.
8. Further ideas and foreseeable leads for complementarity and synergies between the actors in the sector across the region are listed in the detailed report.

Kigali, 03 March 2010.

Part 1: COUNTRY ANALYSIS

1. GENERAL PRESENTATION AND COUNTRY ANALYSIS

Country 1: BURUNDI

1.1. *General country presentation and some socio-economic indicators*

9. Burundi is a landlocked and mountainous country in central Africa. It is bordered to the west by the Democratic Republic of Congo, to the north by Rwanda and to the East by Tanzania. Its population is estimated at 8,390,505 inhabitants and it has a population density of 259 inhabitants per km². It has a surface area of 27,834 km² and a population growth rate of 3.6% per annum.

Table 1.1: Overview of some socio-economic indicators in Burundi

Population (est. July 2007)	8,390,505 inhabitants
Surface area	27 824 km ²
Population density (Year 2007)	259 inhab./km ²
Population growth rate (est. 2007)	3.6 %
GDP nominal (2007)	US\$ 680 million
GDP per capita (in parity with purchasing power)(2007)	US\$ 393
Annual inflation rate (2007)	14.4%
Population living below the poverty line (est. 2003)	56%
Rate of urbanisation (est. 2006)	8%
Life expectancy at birth (est. 2007)	51.3 years
Ranking <i>IDH</i> (2006)	169 th / 177
Infant mortality rate (est. 2007)	62%
Number of children per mother (est. 2007)	6.48
Rate of adult literacy (est. 2007)	59.3 %

Source: Various compilations.

10. After a national crisis that lasted for more than ten years, the return to social peace in Burundi has created the suitable atmosphere for economic revival, but which must be supported by innovative policies and reforms in order to heal the wounds inflicted on the country by the conflict.
11. Owing to the combined effects of the destruction of the country's means of production, massive displacements of the population and the drop in the level of public aid, the Burundian economy suffered a massive decline.
12. The crisis brought about a decline in GDP, which dropped by an average of 3% per annum, and the cumulative drop to the present date is almost 30%. The reduction in the country's GDP brought about a drop in income per capita, falling to US\$83 by 2004, whereas it had reached US\$214 at the beginning of the last decade. Today, the average GDP per capita per annum in Burundi stands at US\$144. It is at US\$393 in purchasing power parity, as compared with US\$ 951 for Rwanda and US\$332 for the Democratic Republic of Congo.

13. Apart from to the impact of the war, the economy of Burundi is faced with serious structural rigidities, which include a dominant subsistence agriculture with very low productivity, a limited capacity to export, and a net decline in foreign exchange earnings from the country's major export product, coffee. The economy is also characterized by a limited secondary sector and the country is seriously handicapped by its landlocked nature.
14. In Burundi, 92% of the working population are employed in the primary sector, 3% in the secondary sector and 5% in the tertiary sector. Agriculture alone caters for 84% of the country's employment. The other sectors that have any major weight in employment are animal husbandry with 6%, fishing with 2%, agro-based food industries accounting for 1%, construction with 1% and education catering for 1% (Year?)
15. The Strategic Framework for Growth and the Fight Against Poverty (*Cadre Stratégique de Croissance et de Lutte contre la Pauvreté, CSLP*), prepared in 2006, defined the detailed orientations for the improvement of the mechanisms of access to credit, hinging on the popularization of micro credits and the strengthening of the classic finance sector. These orientations were formulated as an answer to the following observations: the level of monetization in the rural economy is very low; opportunities of access to credit are particularly rudimentary; a very low level of mobilization of savings owing to scarcity and unequal distribution of rural credit institutions across the country.

– **1.2. General overview of the Finance Sector in Burundi**

16. Burundi's finance sector is dominated by commercial banks, which cover most of the sector, both in granting loans and in the collection of savings. According to the reports of the Central Bank, sight and fixed deposits by the end of 2006 stood at FBU 232 billion, whereas loans granted were worth FBU 216 billion. During the same period, loans given out by the Micro finance sector were worth FBU 14 billion, with savings standing at FBU 13 billion.

Table 1.2: Some Development Finance Indicators in Burundi

1.2. (a) The Micro Finance Sector

Variables	31/12/2004	31/12/2005	31/12/2006	31/12/2007
Clients or members	272,340	311,094	365,074	309,945
Amount of loans granted (in FBU)	9,603,149,000	8,704,138,000	14,172,283,643	20,622,337,797
Borrowers	52,955	63,051	115,997	112,422
Average loan (in FBU)	181,000	138,050	122,178	183,437
Cumulative savings collected (in FBU)	n/a	12,067,087	13,443,118,323	17,657,582,439
Exposure	n/a	13,897,427,000	14,173,075,189	18,930,603,801
Number of service points	138	166		160
Number of employees	352	449		636

Source: *Réseau des institutions de micro finance* (Network of Micro finance Institutions) (1 \$ = 1000 BIF on average)

1.2. (b) The Banking Sector

Variables	2004	2005	2006
Sight deposits (in million FBU)	99,921.3	115,620.1	148,267.0
Fixed Deposits (in million FBU)	60,058.4	74,201.5	83,975.5
Exposure (in million FBU)	180,871.1	174,732.1	216,221.4

Source: *Bank de la Republic du Burundi* (1 \$ = 1,000 FBU on average)

– 1.3. Analysis of the current situation and the state of progress of the Micro finance Sector

1. 1.3.1. At the micro level: Micro finance institutions

• *Micro finance services offered*

17. Being relatively young and having suffered more than 10 years of war, with few investments and external aid, except just of late, mainly, from the FORCE Fund, the micro finance sector in Burundi is still underdeveloped and relatively weak in the management of its components.
18. In a country where 80% of the population is rural, and where 90% of the population has no access to classic financial services, consolidation of this segment of the financial system in Burundi constitutes a priority
19. There are three categories of MFIs:
 1. Category 1: Savings and Credit Cooperatives
 2. Category 2: Public Limited Companies
 3. Category 3: Programmes or Projects run by NGOs and Non Profit-Making Associations
20. Only the MFIs in categories 1 and 2 are authorised to collect savings from the population.
21. Apart from the MFIs, commercial banks and other financial institutions are authorised to exercise micro finance activities. However, with the exception of the *Banque Nationale de Développement Economique, BNDE* (National Bank for Economic Development), no other bank is actually involved in micro financing at the moment.
22. It should be pointed out that in the absence of a sectoral chart of accounts, the statistics provided by the MFIs are not quite reliable and it is difficult to use them for comparative purposes. Many of the MFIs are not computerised, and they continue to use an archaic, fully manual accounting system.
23. Additionally, the MFIs do not have independent auditors to check their accounts, and this constitutes one of the main weaknesses in this sector
24. The table below highlights some key aspects of the situation of registered micro finance institutions in Burundi between late 2007 and early 2008:

▪ Total number of registered MFIs (*)	26
▪ Total number of branches and agencies (**) - (out of which 148 are in the rural areas)	182
▪ Number of clients (*)	308,000
▪ Number of salaried employees	750
▪ Total volume of credit (*)	FBU 11.2 billion
▪ Total volume of deposits (sight + savings + fixed deposits)	FBU 19.9 billion

(*) Excluding the BNDE, which has no deposits, but 25,000 borrower clients for a total amount of credit of FBU 7.9 billion.

(**) Excluding the 27 SACCOs affiliated to the FENACOBUR, closed and out of business since the beginning of the war.

25. From the above statistics, the following comments can be made:

- A total of 26 MFIs are registered with the *Bank de la Republic du Burundi, BRB* (Bank of the Republic of Burundi). Some of them were recently formed and are of modest size; while others have been in existence for about twenty years, and the most outstanding among them is the FENACOBUR (*Fédération Nationale des COOPEC du Burundi*) (National Federation of the SACCOs of Burundi), which, alone, accounts for about 50% of the sector.
- Out of these registered MFIs, the total number of branches and agencies only stands at 182, and the geographical coverage of these branches and agencies is not wide enough to allow for adequate coverage to reach all the population. According to a country study carried out by the *Réseau des Institutions de Micro finance (RIM)* (Network of Micro finance Institutions) in 2006, the rate of coverage of MFIs in Burundi is estimated to be 10%.

Figure 1 – Number and location of micro finance institutions in Burundi

Figure 1 - Nombre et emplacements des institutions de microfinance au Burundi



Tiré de NGENDAHOYO E. (2006) du Centre de recherche en Éthique Économique, Institut Catholique de Lille.

Table 1.4: Major micro finance operators in Burundi and their categories

Category	MFI /Operator	Definition as by the law
Savings and Credit Cooperative	CECM, FSTS, FSCJ, FSTE, COSPEC, UCODE Micro finance, CECAD	‘Savings and credit cooperatives or savings and credit <i>mutuelles</i> are non profit-making groups of individuals, founded on the principle of union, solidarity and mutual assistance and whose main objective is to collect savings from their members and to grant them loans’. Within the framework of the new decree, they belong to Category 1
MFI of NGO type	COPED, TWITEZEMBERE	They are governed by Legislative Decree No. 1/011 on non profit-making associations of 18 April 1992. Within the framework of the new decree, these institutions fall under Category 3.
Network of Micro finance Institutions	FENACOBU	Were governed by the decree on Savings and Credit Cooperatives. This particular text was reviewed and integrated into the new Decree No. 100/203. These institutions fall under Category 1 in the new decree.
Financial establishment	BNDE	Governed Banking law
Regulated MFI/Micro finance enterprise	MUTEC, HOPE FUND, TURAME, WISE, RECECA-INKINGI	Fall under Category 2, micro finance enterprises are public limited companies offering financial services to the general public, but not having the status of banks or financial establishments

- *Demand for financial products and services*
 - In the rural areas, access to financing for small farmers is still underdeveloped, as most of the classic financial institutions are hesitant to invest there, given the haphazard nature of agricultural output and the high risks involved, as well as high operational costs. The farmers’ needs for agricultural inputs are high, yet they do not possess their own funds for accessing these requirements.
 - In the urban areas, the population, composed of women heads of households, unemployed youths, internally displaced people and small micro entrepreneurs with a commercial activity mainly in the informal sector, constitute a potential demand for credit and savings services.

- The total number of micro finance clients stands at about 333,000 people (including the clients of the BNDE), whereas the country's population is close to 8 million inhabitants, with more than 6 million people living in the rural areas. These figures further confirm the low level of service provision to the population by the MFIs.
- Thus, there is a high potential demand for financial services that is yet to be satisfied. Given the proportion of the Burundian population living below the poverty line, the potential demand for the micro finance sector is estimated at about 600.000 households³.
- The total amount of clients' deposits in the MFIs stands at FBU 19.9 billion, whereas the credit volume does not exceed FBU 11.2 billion. This excess of deposits vis-à-vis the lending, of more than FBU 8 billion, comes exclusively from the FENACOBU, whose prudence of the policy on credit is such that it is not able to recycle among the rural population, its liquidity surplus, collected from the same population.
- The majority of the clients of the microfinancing institutions are civil servants and low salary earners. The rural population, much as it is represented, is relatively less significant in number among this clientele. Furthermore, even though some MFIs made some efforts of late to change the situation, the majority of the clients still remain masculine.
 - *The Service Providers*

Several service providers are involved in the micro finance sector in Burundi:

1. *Réseau des Institutions de Micro finance (RIM)* (Network of Micro Finance Institutions)

26. The RIM, in its capacity as a professional association in the sector, was set up in 2002 and its main objectives are the following:
- To contribute to the improvement of the practices of MFIs and to their professionalization;
 - To represent their members in their interactions with donors, while soliciting the necessary funding for promoting their activities;
 - To orient the practices and policies of the government with a view to promoting micro finance;
 - To support the efforts of government in mobilizing the resources needed for the development of micro finance in general, and particularly micro finance in the rural areas.
27. By the end of April 2008, RIM comprised 12 members.

At this juncture, a number of important initiatives by RIM may be pointed out:

- Setting up a pool of local trainers in micro finance, in collaboration with CAPAF;
- Organizing training activities for all the managers and employees of the MFIs;

³ D'après NGEDAHAYO E (2006), *Système financier et secteur de la micro finance au Burundi*, Thèse de Doctorat, Centre de recherche en Ethique économique, Université Catholique de Lille. (Un ménage compte six individus en moyenne)

- Publication of a liaison periodical review on micro finance (*ZAMUKA*);
- Carried out a detailed survey on the strategy of the micro finance sector;
- Support to MFIs in preparing requests for registration by the BRB;
- Contacts with potential donors, with the FORCE Fund, among others.

2. *Banque Nationale de Développement Economique (BNDE)* (National Bank for Economic Development)

28. The BNDE, established in 1966, is a privileged public financing instrument for development projects aimed at reviving the Burundian economy and fighting poverty. In so doing, it offers short term, medium and long term loans.
29. Although the BNDE is not an MFI in the strict sense, it plays an important role in this sector.
30. Its holdings for micro loans stood at over FBU 7.9 billion by 31 December 2007. Its clients are basically salaried employees, for funding their secondary activities, but it also deals with farmers' networks spread across the entire country.
31. Another objective of the BNDE is to offer support to, to professionalize and to refinance the micro finance sector. To this effect, it was designated as the coordinator of a line of refinancing to the MFIs to the tune of € 1.5 million (about FBU 2.7 billions) provided by the *Coopération Néerlandaise*.

3. *Fonds de Micro crédit Rural (FMCR)* (Fund for Rural Micro Finance)

32. As an administrative public establishment, created in 2002 and working under the supervision of the Ministry for the Interior and Public Security, the FMCR received US\$2 million from the World Bank for refinancing MFIs.
33. Given the requirements of the FMCR in matters of interest rates and guarantees, it receives few requests for refinancing from the MFIs. Hence, its activities have since become rather 'dormant', and the funds it received were invested in treasury bills

4. The *FORCE Fund (Fonds pour la Relance, les Conseils et les Echanges en Micro finance)* (Fund for Revival, Consultancies and Exchanges in Micro Finance)

34. The FORCE Fund, created in late 2006, is a Burundian public administrative establishment, under the supervision of the Ministry of the Economy, Finance and Development Cooperation. Its mission is, within the framework of an emergency programme, the revival and rehabilitation of the micro finance sector in Burundi.
35. The Fund received € 2.5 million from the Dutch Ministry of Cooperation for Development, to be used in the form of non-refundable subsidies.

1.3.2. At the macro level: Current regulation of the Micro Finance Sector

Two institutions play a major role:

1. The *Banque de la R.épublique du Burundi (BRB)* (Central Bank of Burundi)

- 36.** In its capacity as the Central Bank, the main mission of the BRB is to define and establish the country's monetary and foreign exchange policy. Among the specific missions assigned to it, the BRB supervises the operations of all the commercial banks and financial establishments operating within the country.
- 37.** Decree No. 100/203 of 22 July 2006, on the regulation of the activities of micro finance institutions in Burundi defines the framework of the exercise of micro finance activities and confers upon the BRB the mission of supervising these activities.
- 38.** The objective of this decree is to ensure secure access for the entire Burundian population to easily accessible financial services, to develop healthy and professional MFIs, and to accordingly structure the micro finance sector in the country.
- 39.** In late 2006, the BRB set up in its Bank Supervision Division a Unit named "*Supervision de la Micro finance*", composed today of about a dozen people and responsible for the application of the regulations in force.
- 40.** Side by side with its inspection duties, the Unit is charged with preparing, disseminating and enforcing the application of all the circulars on the implementation of the attendant regulations.
- 41.** In late 2007, the BRB, with the funding of FORCE, recruited a service provider whose task was to assist the Unit in such tasks as: the preparation of reliable "on site" and "off site" control procedures, the setting up of a risks directory, designing a model balance sheet and a model sectoral chart of accounts, as well as the preparation of circulars for the application of the decree of July 2006.
- 42.** To date, the chart of accounts is in the process of being published, as well as the application circulars for the regulations.
- 43.** These positive steps on the plan for the support to the activities of the MFIs are encouraging.

2. The Ministry of Finance – Micro Finance Focal Point

- 44.** The Ministry of Finance set up a unit called the 'Micro finance Focal Point', composed of one individual and whose role is to define the national micro finance policy and its long term strategy, and to prepare an action plan for its implementation.
- 45.** Although the Micro finance Focal Point applied for and received from the FORCE Fund a subsidy to benefit from external support, it has not yet defined the national policy, the strategy and the action plan for the micro finance sector.

1.4. A SWOT analysis of the Micro finance Sector in Burundi

1.4.1. Strengths in the provision of financial services by the MFIs

46. The legal framework allows various institutions to participate in offering of financial services.
47. Some classic banks offer banking services to low-income populations: savings accounts, education loans, overdrafts to salary earners, transfers, etc.
48. The products and services offered are mainly of two types: savings products and credit products. In addition to these services, some MFIs have come up with products in insurance. Credit or loan products are varied, as opposed to the savings and insurance products.
 - A. Savings products:
 - Fixed deposits
 - Sight deposits
 - B. The main credit products that are listed are:
 - Animal husbandry loans
 - Fishing loans
 - Loans for minor household appliances
 - Overdrafts on salaries
 - Loans for construction
 - Association loans
 - Medical care loans
 - Education loans
 - Loans to small traders
49. The micro finance institutions have had the latitude to propose financial products to the populations, without the Government's intervention to censor and verify the interest rates. The Government has not made any efforts to intervene and force a reduction of the interest rates, which are relatively high.
50. The new decree on the regulation of the sector does not fix the lowest or the highest interest rates to be charged on the loans granted, or on the remuneration on savings. Any MFI is at liberty to fix the interest rate that will enable it to recover its costs and to ensure its profitability and viability, and to ensure that it remains in business.
51. The interest rates charged by the MFIs on the loans they offer vary from one institution to another. These rates vary between 14% and 36% for the loans given, and between 0% and 8% for interest earned on savings. The banks offer similar rates (varying between 14% and 18% according to type of loan). A survey carried out in 13 MFIs came up with the results as shown in the table below:

Table 1.5: Level of interest rates

Loans		Savings	
Annual interest rate	Number of institutions	Annual rate	Number of institutions
10%	1	0-3%	4
14-16%	3	3-6%	5
18-21%	7	8%	3
36%	2		
Total	13	Total	12

Source: *The survey- diagnostic*, September 2006

1.4.2. Weaknesses associated with offering financial services by the MFIs

52. In general, the concentration of the majority of the micro finance operations only in the city of Bujumbura poses several problems and calls for a strategic redeployment by some of the institutions.

- **Viability of the institutions:** Micro finance is characterised by small loans offered to several small clients, thereby leading to high administrative, transaction and monitoring costs. In the absence of subsidies, the institutions providing microfinancing must find themselves forced to charge high interest rates in order to cover these costs. Many MFIs have not shown proof of their being able to develop on their own and to become viable. The most common financial products are those offered to civil servants and traders and, as such, there are very few products on offer to cater for the needs of the poor clients. The number of women served by microfinancing institutions is also very low (about 20%).

- **Governance:** The micro finance institutions do not directly talk about the governance problems they encounter, as if they are not supposed to do so. However, in general terms, it is a fact that the micro finance institutions in Burundi are not the best performing in the Great Lakes region or on the African continent. As a matter of fact, it is suspected that the quality of governance in some of them is poor. Knowing that counter-performances in terms of governance impact on profitability, viability and permanence, it is imperative that the governance in the MFIs is critically looked into. Manuals, policies and procedures are indispensable tools in ensuring the quality of governance, but they are absent in many MFIs.

- **Human Resources:** Much as most of the stakeholders appreciate the need for training in the management of micro credits as a vital accompanying factor, the realisation of this aspiration has been largely insufficient, considering the needs for professionalism in the micro finance sector and the overall needs of the vulnerable population. Lack of qualified personnel affects all the institutions involved in micro finance activities. It must be admitted that the micro finance sector is still very young in Burundi and, as such, the country does not possess any facilities for qualified training. The cost of training their personnel outside Burundi is too high, beyond the reach of the MFIs if they were to use their own funds.

- **Information:** There is a general lack of information in the micro finance sector, either because reliable information is not always available as such, or it is not available at the time it is needed, or because its collection and processing to the extent of using it to make appropriate decisions is not well organised. It is difficult to access the statistical data that can be used to assess the good performance of the MFIs. Yet, good information obtained in good time would be useful in orienting the choices of the major decision-makers in the organs of governance, policy makers and donors, in making major strategic decisions for the micro finance institutions on the one hand, and for the needs of the sector in general.

- **Material and financial resources:** The resources of the MFIs are fundamentally made up of the institution's own funds and members' savings. These resources have remained too low for the MFIs to afford to own modern information management systems, to hire the services of auditors, certified accountants and management experts, to build capacity for their staff, to carry out evaluations, to carry out studies on the satisfaction of their clients, to study and launch new products, etc. Lack of resources in the MFIs also constitutes a major handicap in acquiring their own head offices and offering acceptable welcome conditions to their clients.

Micro finance institutions lack funds to add to their own resources so that they can be able to offer loans to a wider range of the population, especially the poor. Their relations with the banks are imbalanced. Lack of funding limits their capacity to expand their activities into the rural areas. A major cause of this is the high lending rates charged by the banks, which range between 18% and 24%. The FMCR that was put in place by the Government does not refinance the MFIs at less than 14%, yet some of the micro finance institutions are obliged to fix their lending rate at 20.5%, which leaves them with a very small profit margin. Another cause of lack of funding in the MFIs is the mistrust of the commercial banks with regard to the micro finance sector. Improved professionalism within the micro finance institutions and among the beneficiaries would help to progressively reassure the commercial banks so that they can better contribute to the financing of the MFIs.

- **Methodology used in offering loans:** The methods used in evaluating loan applications and in monitoring the loans to ensure immediate and regular recovery, are some of the other aspects that are not properly handled. Material guarantee is practically non-existent among the poor population, who are the target of the micro loans. This situation constitutes a serious problem for the MFIs because it becomes difficult to protect the depositors' savings and the micro finance institutions' own resources against defiant borrowers.

- **The quality of holdings:** It is difficult to have access to the quality of the holdings of the MFI. The information management system is weak and rudimentary. The weaknesses start from the collection of basic information on the institution's holdings on the one hand and, on the other, on how it is analysed by the software programmes within the MFIs. The quality of the holdings is highly vulnerable and is affected by environmental factors and climatic conditions. Additionally, the crisis that the country went through greatly affected the people's purchasing power, which rendered business opportunities less promising.

The post-conflict period the country is now going through could be favourable to doing business, but, unfortunately, with it came armed banditry, which constitutes an obstacle to the development of business. Lack of electricity in the urban and rural areas impacts negatively on profitability in the sectors of crafts and small trades and, as a result, it affects the capacity of the borrowers to pay back. Some other factors affecting the quality of the holdings are rooted in the country's dependence on agriculture, which provides a living for 80% of the population and which, unfortunately, is subjected to the vagaries of the weather.

1.4.3. Major weaknesses in the micro finance sector in Burundi

53. The major weaknesses in the micro finance sector are still found at several levels, in spite of the investments made over the past period of over a year, particularly with subsidies from FORCE.
54. In summary terms, these weaknesses can be summarised as follows:
 - In spite of the recent investments, the infrastructure and equipment at the disposal of the MFIs are often inadequate, and do not enable the MFIs to render the appropriate services to the population;
 - There has been insufficient coverage into the rural areas where the most impoverished populations live;
 - The MFIs are still weak in their institutional, managerial and human resource capacities. Several MFIs are yet to be computerised and their accounts books are not audited;
 - The trustees and supervisory authorities still lack experience and training;
 - Putting in place the necessary framework for the application of the regulatory instruments and of a standard accounting system have not yet been achieved;
 - The sector's development is hampered by the absence of a national policy, a national strategy and national operational action plans;
 - The micro finance institutions' means of refinancing are currently very limited and costly, in the absence of mechanisms or specific indications that could enable them to have preferential refinancing.

COUNTRY 2: THE CENTRAL AFRICAN REPUBLIC

– 2.1. *General Presentation of the Country and some socio-economic indicators*

55. The Central African Republic is a huge land locked country measuring 623,000 km², bordering with Chad to the north, with Cameroon to the west, with Sudan to the east, with the Democratic Republic of Congo to the south, and with the Republic of Congo to the south-west. With a population of 4,390,008 inhabitants in 2009, the population is unequally scattered across the territory, with population densities varying between 0.7 to 14.2 inhabitants/km². The population is mostly concentrated in many rural localities, where the supply of public goods and services such as road infrastructure, running water and electricity is insufficient. The recent increase in the geographical coverage of the territory by mobile telephone operators has contributed in part to the reduction of the country's difficulties in communication.
56. On the economic front, the Central African Republic is a country whose economy is based on export of agricultural and forestry products, as well as minerals. It has a weak industrial sector, with some food processing industries (breweries, cooking oil and sugar production...). The primary sector, namely agriculture and animal husbandry, occupies the major proportion of the working population (more than 70% of the population). It contributes to more than half of the country's national output (55%). The services sector comes second with an increasing number of informal actors, both in the capital Bangui and in the hinterland. Nevertheless, the Central African economy has many potentials, mainly a huge tract of fertile land for agriculture and animal husbandry, a diverse fauna and flora, a huge hydro and mineral potential.
57. The demographic structure of the Central African Republic is marked by two major characteristics. Half of the population is aged less than 18 years and slightly over half of the population is made up of women. The city of Bangui, which, alone accommodates close to 18% of the country's total population, together with the other secondary towns such as Nola, Berbérati, Bouar, Bambari and Bangassou, are the major destinations for the young people in search of means of subsistence. 7 out of the inhabitants of the rural areas live in poverty. During the last decade, owing to the recurrent conflicts the country has gone through, part of this population had to take refuge in the neighbouring countries of Cameroon, Chad and Sudan, while another part is made up of internally war-displaced people.
58. The survival reaction by the populations in a context of conflict created a professional bodies, who are potential seekers of financial services but, unfortunately, the offer by the banks and micro finance institutions is quite limited and, as a result, the majority of the population is excluded from the financial services. The population's major activities are, in order of importance, agriculture and market gardening, trade and petty restoration, mineral activities, animal husbandry and transport service, including motor cycle taxis.

Table 2.1: Overview of some socio-economic indicators of the Republic of Congo

Population (Census 2009)	4,390,008 inhabitants
Surface area	632,000 km ²
Density (Year 2009)	0.7 to 14.2 inhab. /km ²
GDP/capita (in purchasing power parity)(2007)	713 US \$ (174 th /181)
HPI Ranking (2007)	42.4% (125 th /135)
Literacy rate (overall) (Estimate 2007)	28.6% (175 th /177)
Life expectancy at birth (Estimate 2007)	46.7years (171 st /176)
HDI Ranking (2007)	179 th / 182
Population with no access to potable water (Estimate 2007)	34% (118 th /150)
Adult literacy rate (Estimate 2007)	48.6 % (140 th /151)

Source: Various compilations UNDP (2009) *Human Development Report*

59. At the political level, after a decade of political conflicts, the support of the international community and that of the countries of the CEMAC (Economic Community of Central African States) enabled the government to organise the *Dialogue Politique Inclusif (DPI)* (Inclusive Political Dialogue) in December 2008, which brought together all the stakeholders, with a view to reaching a peaceful and political solution to the conflicts. The return to social peace has created a favourable environment for economic revival, supported by innovative policy reforms aimed at healing the wounds of the conflict.
60. Owing to the combined effects of the destruction of productive capital, of massive displacements of the population, and of the fall in public aid; and in view of the improving political atmosphere in a country preparing for the forthcoming elections in this year, 2010, it was decided, with the assistance of development partners, that a National Inclusive Finance Strategy, the *Stratégie Nationale de la Finance Inclusive (SNFI)*, be elaborated. It was preceded by the launching (with the support of UNDP and FENU) of the *Programme d'Appui à l'Emergence d'un Système Financier Inclusif (PAE/SFI)* (Support Programme to the Emergence of an Inclusive Financial System) in 2008. This enabled the realisation of concrete actions at the macro, intermediate and micro levels of the micro finance sector of the Central African Republic.
61. From the draft document of the *Stratégie Nationale de la Finance Inclusive*, for strategic axes were identified, namely, to make improvements on the legal, regulatory and institutional framework environment; to facilitate and allow for increased financial inclusion by widening the geographical coverage as well as diversification of the products in the services offered; make the MFI interventions more permanent by professionalizing them, so that they can offer financial services in a more permanent manner; increase the MFI's access to resources and strengthen the integration of micro financing within the finance sector.

2.2. General overview of the micro finance sector in the Central African Republic

2.2.1. State of development of the sector analysis of the current situation at the micro level

62. The absence of a national policy has so far been an obstacle to the development of the micro finance sector, which is still in its embryonic stages, resulting in a very poor national geographical coverage. The development of the sector went through the following stages:

- This sector started developing in the 1990s, more precisely in 1993, with the introduction of the *Loan Mutuel of Central African Republic*, followed some years later by the *Caisse centrafricaine d'Épargne et de crédit*.
- 2002 – 2006: period during which the government started showing concern about the situation of the institutions in the sector, thanks to the legal and regulatory framework required by the CEMAC.
- 2006 – 2009: Period of structuring the sector, thanks to the support of development partners and to the creation of a professional association known as APMFI

63. Globally, the finance sector includes:

- Four primary banks: *Banque Populaire Maroco-Centrafricaine (BPMC)*, Commercial Bank Central African Republic (CBCA), EcoBank and the *Bank Sahélo-Saharienne pour l'Investissement et le Commerce (BSIC)*.
 - Four operational MFIs, namely the *Loan Mutuel of Central African Republic (CMCA)*, the *Caisse Mutuelle des Cifadiennes de Central African Republic (CMCC)*, the *Société Financière de crédit (SOFIA-Loan S.A)* and the *Express Union S.A*, specialised only in money transfers.
 - A network of MFIs which came into being thanks to the UNDP during the period 2003-2004, known as the *Union Centrafricaine des Caisses d'Épargne et de crédit (UCACEC)*, is currently in trouble, following cases of obvious embezzlement and management problems. This network is made up of 14 societies with five registered, out of which four became bankrupt. The other nine are not registered.
- *Provision/ Supply of micro finance services*

64. The provision of close financial services is characterised by a low geographical coverage across the country, with MFI activities concentrated mainly in Bangui. The significant experiences are those of the CMCA and of the UCACEC, which are today in a financial crisis and, of late, the *SOFIA Loan et Express Union*, which has the status of a private liability company.

65. The micro finance sector in the Central African Republic is dominated by the network of the *Mutual Loan of Central African Republic (CMCA)*. This network alone has grabbed 95% of the market share, both with regard to the loans offered and savings collected.

Table 2.3: Situation as of 31/12/2008 of the indicators of supply and demand in micro finance

Categories	2008
Number of clients	28 460
Deposits	3.793 billion FCFA
Loans granted	1.953 billion FCFA
Exposure running loans	1.719 billion FCFA

Source: Cellule Microfinance (1 USD = 470 XAF)

66. One can observe that as of 31/12/2008, the loans granted are much lower than the deposits, which denotes an over liquidity in the overall sector. This situation is explained by the prudence of the operators which are mostly the first category MFIs of operators which are mostly first Category MFI to take transformation⁴ risk.
67. It is worth noting that as of 31/12/2009, the network of the *Loan Mutuel de Central African Republic* was made up of first category institutions and composed of five registered societies, five attached offices for a total of ten agencies covering Bangui and the major urban centres in the west of the country. The personnel is estimated at 142 staff members, 72 of whom are salaried employees, while 70 are 'elected'. Its portfolio was composed of almost 29,587 active clients, a deposit exposure of 3.671 billion FCFA and a credit exposure of 1.712 billion FCFA.
68. The second category MFIs, *SOFLA Loan S.A* and *Express Union S.A*, with basis for a professional functioning, only have limited activities in Bangui, but with plans to open up their operations in the up-country areas in the short term.
- *SOFLA Loan*, with a single agency in Bangui, opened up its operations in March 2009 and, as of 31 December 2009, had a total of 1500 active clients, basically depositors for an amount of 245 million FCFA. Credit activities have not yet started. Its personnel are estimated at 27 staff members. For the period 2010-2014, this MFI plans to offer loans of up to 1 billion FCA. However, the main challenge is to find a source of financing for giving loans⁵.
 - Express Union also started its activities in March 2009 and specialises in money transfers as its main activity. It also collects savings. Its volume of savings as of 30 June 2009 stood at 4,231,350 FCA. It has not yet started offering loans. Express Union also envisages setting up 7 branches up country by the end of 2010.
69. The *Caisse Mutuelle des Cifadiennes de Central African Republic* (CMCC) is a first category MFI. It was registered in January 2009. Its specific nature is to concentrate on securing mainly female. It operated between 1990 and 2003, with contributions from members and financing from UNFPA on the following conditions:

⁴ As a matter of fact, in a post conflict environment, the constitution of long term savings is difficult, as the depositors prefer having their savings in a state of permanent liquidity. In addition, the bulk of the deposits is sight deposits and the depositors' main motivation for the savings is to keep their money away from theft and from losses resulting from wars and social upheavals. This financial illiteracy, combined with the post conflict environment, deprives the MFIs of fixed deposits, which could otherwise be used in financing loans.

⁵ Consultations with Mr DESSANDE Yves : Director General ;

- Revolving loans with “caution solidaire” to groups and individuals at the rate of 2% per month and it achieved a reimbursement rate of 97%.
 - Group loans 300,000 FCFA,
 - Individual loans 50,000 FCFA,
 - Farmers’ loans for seasonal products 500,000 FCFA, exclusively for groups.
70. With the politico-military crisis of 2003, the institution ran into re-imbursement problems and was forced to stop all its activities owing to: looting in the rural areas, where the majority of the societies benefiting from its loans were concentrated; non-payment of salaries of spouses of society members⁶; and, lastly, looting of all the institution’s records and its safe. As such, its activities had to be suspended until March 2009, by retracing the old members and looking for new ones, and by rehabilitating the institution’s premises. Its target population are the women, widows and young unemployed people with income-generating activities. The major bottleneck at the moment are the requests for credit which are much higher than the collected savings. The institution has a integrating project aimed at setting up a savings and credit society in the growth triangle ^{n°6} for the target populations of the Democratic Republic of Congo, of the Republic of Congo and of the Central African Republic, commonly sharing the Oubangui⁷ River.
71. Beside these MFIs, there are a number of NGOs involved in micro finance activities with particular training and education programmes for their clients. In addition to the above-mentioned structured MFIs, the majority of the activities are carried outside the regulations and, in most cases, are characterised by lack of professionalism (absence procedures, lack of control systems, absence of a business plan, etc.).
72. In general, the services and products offered are not diversified and consist mainly of savings, loans and money transfers.
73. Information collected from the *Loan Mutuel de Central African Republic*, the leading operator⁸, shows that the most offered products are:
- Site deposits:
 - The deposit book is the most solicited product;
 - Total amount required for membership is 12,000 FCFA⁹ (approximately 25 USD)

⁶ The wives must have used the money to play the role of head of household, thereby sacrificing the loan reimbursements.

⁷ Consultations with Mrs KAMOT Lydie, Director of the Institution

⁸ Consultations with Mr. CHENARD Hervé, Director General and Ms N’ZOMBO Bénédicte : Director for Human Resources, *Crédit Mutuel de Centrafrique*

⁹ This amount is broken down in the following manner: 3,000 FCA membership fee, 2,000 FCA cost of savings account book, 4,000 FCFA shares, and 3,000 FCA minimum balance on account.

- Fixed deposits:
 - The bigger part of it is used to serve as guarantee for covering loans; it cannot therefore be oriented towards credit activities;
 - The interest rate varies between 3.5 and 4% for periods of 3 to 10 months, and 4.5% for fixed deposit periods beyond 10 months.
 - The minimum amount for a fixed deposit is 100,000 FCFA (approximately 213 USD), as compared to 1,000,000 FCFA in the banks.
- Loans: consumer loans, housing loans, social loans and loans for financing small businesses. Interest rates vary between 15 and 24% per annum on principal amount due.

74. The societies falling under the UCACEC network, which have had a better penetration in the rural areas, have for a long time financed the production of agricultural products at very short terms (2 to 3 months), for crops such as ground nuts, potatoes and sometimes for fishing. At the moment, because of the well known problems in the network, this product is suspended.

75. The banks and financial institutions, while they have the right to exercise micro finance activities, mainly focus their attention on a relatively small number of large scale enterprises oriented into two sectors of activity that are considered paying: wood and diamonds. To the present date, none of them is really active in the micro finance field, in spite of the firm intention to go into this sector expressed by ECOBANK¹⁰. In fact, the partnership between the banks and micro finance institutions remains limited to deposits and to placing of excess¹¹ liquidity of the MFIs in the banks and to the development of the money transfer product.

76. The partnership with insurance companies remains limited to certain insurance policies taken by some of the registered MFIs. There is reciprocal lack of knowledge between the MFIs and the insurance companies. Yet, micro finance, through health micro insurance and other products that are specific to the MFIs could provide an promising breakthrough for the insurance companies, in view of the degradation of the social infrastructure, especially in the field of health and taking care of the women.

- *Demand for financial products and services*

77. The demand for micro finance services in the Central African Republic is still very low, both qualitatively and quantitatively. Three surveys¹² carried out respectively in 2003 (UNDP) and 2005 (FAO) and in 2006 (UNDP) revealed that there was un-satisfied demand in en term of savings products and credit facilities in both the urban and rural areas.

¹⁰ According to an operator in the sector, the non execution of this intention must be linked to the costs of operations and to the long period of waiting for return on investment, which a classic bank would not stand.

¹¹ Non-remunerated deposits, as they are sight deposit accounts.

¹² These studies, mentioned in the draft document of the SNFI are:

- ‘Survey on the living conditions of households in the rural and urban areas’ (ECVU/ECVR, 2003), carried out with the support of UNDP
- ‘Support to the strengthening of rural professional organisations’ (TCP/CAF/2912) carried out by FAO in 2005; and
- ‘Study on the demand and supply of micro finance services in the Central African Republic’ (EDOSMF 2006) carried out UNDP in business operators’ firms in 8 prefectures and it Bangui in July 2006.

78. In addition, looking at the 28,460 clients' accounts opened in the MFIs as of 31 December 2008, as compared to the active population, it is evident that almost 90% of the country's active population is yet to access banking services.

79. The needs of target groups in terms of loans are the following:

- In the rural areas:
 - Medium term loans for investment (agricultural equipment and inputs);
 - Farm loans for both individuals and groups;
 - Loans for financing the livestock and fisheries sector;
 - Loans for financing light investment and revolving funds for income-generating activities for women.
- In the urban areas:
 - loans for financing income generating activities;
 - loans for financing consumption and investment expenditure and loans for salaried employees;
 - loans start-up and for revolving funds for small and medium industries and TPE.

80. From the point of view of the utilisation of the loans received, the surveys also revealed that in order of priority, the main motivations for soliciting a loan were:

- Meeting of unforeseen needs (71% in urban areas; and 66.4% in rural areas);
- Prepare for medical emergencies (39% in urban areas and 49% in rural areas); and
- Carry out an investment (24% in urban areas and 13% in the rural areas).

- *The technical service providers*

Technical service providers provide assistance to the micro finance sector in the en Central African Republic:

81. The *Association Professionnelle des Etablissements de Microfinance de Centre Afrique* (APMFI/RCA) constitutes, in terms of regulatory deposits of the COBAC, the grouping of all the agreed micro finance establishments. With 17 members¹³ in January 2010, the process for its establishment started in 2006, with the support of UNDP and PAE/SFI¹⁴. It subsequently started its activities in Mars 2009, with the recruitment of an Executive Director. Because of its limited own resources¹⁵, the only activities carried out up until January 2010 consisted of 20 training sessions, thanks to the support given by the *Programme d'Appui à l'Eclosion d'un Secteur Financier Inclusif* (PAE/SFI). When this training programme comes to an end, scheduled for the end of 2010, the APMFI/RCA does not have a clear plan of how it will carry out its priority actions as stipulated in its strategic plan. The other difficulty encountered by the APMFI/RCA is lack of personnel. The organisational chart provides for 6 staff members and two of them, namely the Executive Director and an Administrative Assistant, have already assumed their duties.

¹³ It was set up in 2006 by the networks of the *Crédit Mutuel de Centrafrique* (CMCA) and of the *Union Centrafricaine des Caisses d'Epargne et de Crédit* (UCACEC).

¹⁴ For equipment and operational costs.

¹⁵ Contribution per member is 50,000 CFA and only 500,000 FCFA of contributions had been collected by January 2010.

82. The challenge facing the association over the coming years are: the search for financing for its strategic plan; coming up with a progressive strategy for self-financing; recruiting other members and increasing the level of membership contributions; organisation and setting up a risk database to facilitate exchange of information on clients¹⁶.
83. Beside this association are various development partners and donors which are operating in the micro finance sector and which offer technical and financial support to both the network and the MFIs themselves. Among these are: UNDP and FENU, PlanetFinance and the European Union, as well as the *Agence Française de Développement*.
84. As far as the Central African Republic is concerned, efforts are under way to professionalize the Micro finance sector and for developing the services rendered. The preparation of an inclusive national finance strategy for the country is the result of the strategic and operational support by UNDP FENU, which started in May 2005. The PAE/SFI Support Programme that has been in place since 2007 rendered a number of services too the sector and its implementation has been considered satisfactory¹⁷. The following actions have so far been realised:
- Support to the National Microfinance Committee;
 - Support to the Microfinance Cell (preparation of the plan for institutional capacity building 2009-2013, provision of logistics, technical assistance, setting up a data base, publication of a manual of regulatory texts, etc ...);
 - Support to the APMFI-RCA (preparation of the Strategic Plan for Development 2009-2013, donation of office materials, setting up a permanent executive secretariat, provision of equipment, capacity building for managers, etc...);
 - Support to micro finance institutions and to technical service providers (audits and preparation of a rehabilitation plan for the UCACEC, provision of office equipment and materials (CMCA and UCACEC) facilitating credit lines, organisation of 14 workshops for training and exchange of information and experience for 300 beneficiaries, etc...).
85. There is a very limited supply in terms of training and capacity building. There is only one national consultancy office that is specialised in micro finance, AZIMUT CAPACITES, which offers services in the fields of training, preparation of development plans, organisational audit and studies. With regard to institutions for professional and academic training in micro finance, there are no courses at university level, or at any other private tertiary institutions, or at the level of the Chamber of Commerce. The APMFI, through the PAE/SFI and with the collaboration of PlanetFinance, organised several training programmes for the actors in the micro finance sector.
86. With regard to support services in training, consultancy and financial advisory services, follow-up and supervision of projects, there is an obvious lack of institutions whose mission is to promote development of economic entities belonging to the Small and Medium Enterprises category. In general, the SME and the TPE find it difficult to access bank loans because they are not sufficiently trained in the preparation of loan documents, as they basically work in the informal sector and possess very little guarantee and collateral. For the moment, the MFIs do not have resources for long financing, and they finance very few SME due to the high amounts requested for financing the needs in form of revolving funds, investments for start-up capital and investments linked to growth. The *Centre d'Appui aux Petites*

¹⁶ Consultations with Mr. Fidèle WILSSON, Executive Director, APEMF RCA

¹⁷ Consultations with Mr SOGLONOU, Resident Technical Advisor, PAE/SFI ; See also a Powerpoint document dated September 2009, introducing the objectives of the project and its evaluation.

et Moyennes Entreprises et à l'Artisanat (CAPMEA) (Centre for Support to Small and Medium Industries and Crafts), which was a support agency for enterprises and crafts, is no longer operational. In view of its importance to the development of private entrepreneurship, the Ministry for the Promotion of Small and Medium Enterprises, Informal Sector and One Stop Centre (*Guichet Unique*), is envisaging its resumption of activity.

2.2.2. Analysis of the current situation at the intermediate level: Market infrastructure and financial transparency

- *State of the Electronic Money system*

87. In the Central African Republic, the payment system is still underdeveloped. Cash still constitutes the preferred payment instrument and it is only the ECOBANK that has some Automatic Teller Machines. Whereas the mobile phone is also widely used, this tool has not yet been used for electronic money payments as is the case in some other countries.
88. From the point of view of the relationship between the commercial banks and the MFIs, the latter are mere depositors in the banks. There is no risk data base for the MFIs; nor compensation operations between the banks and the MFIs. The market leader, *Crédit Mutuel de Centrafrique*, is convinced that there is need for the MFIs to join the national risk data base owing to the tendency that has been observed, whereby the clients of traditional banks become clients of the MFIs, with all the risks involved of over indebtedness and non-reimbursement of loans. As a matter of fact, the MFIs are not aware of cases of delinquent loans of these mobile clients in the traditional banking sector and are not brought to the MFI's attention.

- *Financial Transparency*

89. The provision of services destined to micro finance institutions in the field of accounts and audit is still limited. On the one hand, the Chart of Accounts applicable to the MFIs starting from January 2010 was not yet available and had not been circulated and, on the other, there are some audit chambers but very few of them are specialised in auditing Micro Finance Institutions, a field with its own specific requirements, notably with regard to risks. 'Universal Consulting' is the audit house that is progressively specialising in auditing MFIs.

90. Globally, there is insufficient expertise at national level to handle micro finance activities, taking into account the challenges in this sector. There is need to reinforce this capacity.

2.2.3. Analysis of the current situation at the macro level: regulation of the Micro finance

1. Sector

91. The following institutions play a key role on the legal, institutional and regulatory scene¹⁸ :
- Like is the case in all the countries of the CEMAC, *La Commission Bancaire de l'Africa Centrale (COBAC)* (Banking Commission of Central Africa) is responsible for supervising credit institutions, whether in activity or in the process of liquidation. Its competence extends to: administrative authority, regulatory authority, control or supervisory authority, as well as authority to sanction.
 - The *Comité National de Microfinance (CNMF)* (National Microfinance Committee), established by the government in 2005, is a consultative and orientation body whose duties are: 1) to make proposals, recommendations and strategic orientations aimed at contributing to the preparation and follow up of the national micro finance strategy; 2) to encourage dialogue between the government and all the in the sector, with a view to promoting and developing the micro finance industry, guaranteeing its viability and integrating it into the national financial system; and 3) to carry out any other activity aimed at disseminating information and increasing awareness to the national and international actors in the sector, on the role and importance of microfinance in improving the living conditions of the people of the Central African Republic.
 - The *Cellule de Microfinance de la Republic Centrafricaine* (Micro Finance Cell of the Central African Republic) was established in 2003 and placed under the supervision of the Ministry of State for the Economy, Finance, Budget and International Cooperation. But it only became functional in 2006, owing to lack of means, particularly human resources. By delegation, it has been given the powers by the COBAC the duty to oversee and monitor the activities of small scale MFIs, whose operating capital is below 1 billion 1 FCA, starting from the year 2010.
 - Since the regulatory provision is similar in all the CEMAC countries, the content is the same as the one presented in the summary (see above) for the Republic of Congo. However, the only difference is at the level of the fiscal incentives for the development of the sector, which do not exist in the case of the Central African Republic.
 - *Identification weaknesses in the legal and regulatory framework*
92. The COBAC and the *Cellule de Microfinance de la Republic Centrafricaine* do not have sufficient resources for accomplishing their supervisory and control mission. Today, the Cell is still confronted with the following major difficulties and challenges¹⁹:
- Lack of human and material resources (data bases and software programmes) that should enable it to carry out its mission;
 - Adding the mission of supervision to the one of promotion of the sector, which may bring about a problem of conflict of interests;

¹⁸ Consultations with Messrs Pierre TEKELI WAKET and SABA ABDIAS respectively Director and Chief of Service in the Microfinance Cell.

¹⁹ Consultations with Mr SABA Abdias : Chief of Service, Microfinance/Microfinance Cell

- The near total absence of control of the sector, of sanction to actors that do not abide by the rules specified in the regulatory framework.
- Absence of :
 - Fiscal incentives as compared to those accorded to the MFIs in the Republic of Congo²⁰.
 - A mechanism for the protection of depositors in case an MFI goes bankrupt.

2.3. SWOT Analysis of the Micro finance Sector in the Central African Republic

93. A careful reading of the draft document on the National Strategy for Inclusive Finance in the Central African Republic; and from the discussions with different professionals and technical service providers²¹ in the field of micro finance, the following opportunities, weaknesses, threats and constraints can be observed:

2.3.1. Strengths and Opportunities

94. The political will of a State to make micro finance an instrument for the reduction of poverty and a tool for achieving the Millennium Development Goals. This will is concretized by: existence of a regulatory framework; creating a Cell charged with following up the activities of the sector; establishing a National Micro Finance Committee; existence of a professional association which has made a number of achievements and enjoys the support of the PAE/SFI;
95. Improvement of dialogue between the operators in sector, which resulted in the preparation of a development strategy for the sector, whose priority fields are allotted a budget for the period 2010-2014. The cost of the strategy, amounting to 6,424,650,000 FCFA, is broken down per field of activity as shown in the table below. However, it has to be noted that an amount of 1,622,000,000 FCFA has been set aside for the guarantee fund (532,000,000 FCFA), to the refinancing fund (542,000,000 FCFA) and to the institutional support fund (548,000,000 FCFA).

²⁰ According to Mr. DESSANDE Yves, Director General, SOFIA-CREDIT SA, there is an investments chart which offers advantages to companies that open up business operations in some sectors of activity. Microfinance is not covered and it would be proper to extend the field of application to the microfinance sector. He also points out that the societies established under the form of cooperatives are accorded some advantages that the public liability companies do not benefit from.

²¹ Mr SOGLONOU Mathieu : Resident Technical Advisor, PAE/SFI – FENU ; Mr SABA Abdias : Chief of Service, Microfinance/Microfinance Cell; Mr DESSANDE Yves : Director General, *Société Africaine de Crédit* ; Mr CHENARD Hervé : Director General, *Crédit Mutuel de Centrafrique* ; Ms N’ZOMBO Bénédicte : Director of Human Resources, *Crédit Mutuel de Centrafrique* ; Ms KAMOT Lydie : Administrator, *Caisse Mutuelle des Cifadiennes de Centrafrique*

<i>Strategic Fields</i>	<i>Activity to be carried out</i>	<i>Amount budgeted</i>
Field 1	Promotion of awareness of the regulatory framework among operators; Capacity building for the supervisory and control organs for the sector, and for the professional association.	1,463,550,000
Field 2	Widening the geographical coverage of the country by the MFIs; Coverage of difficult access areas through approaches targeting women; Development of appropriate financial products for the sector.	1,423,500,000
Axe 3	Strengthening the MFIs; Rehabilitation of the bankrupt UCACEC Network and training of the beneficiaries of the financial services for better knowledge of the sector and to embrace the culture of savings and credit.	1,865,200,000
Axe 4	Development of the Banks/MFI/Insurance companies partnership; Setting up a Guarantee Fund, a Refinancing Fund and an Institutional Support Fund	1,672,400,000

Sources: Summary arrived at from the draft document SNFI-RCA 2010-2014 p. 47.

96. The implementation of the PAE/SFI permitted the accomplishment of several activities at the macro, intermediate and micro levels in the micro finance sector, thereby enabling the emergence of an inclusive system in the Central African Republic.
97. The existence of MFIs functioning on a professional basis, even though their number is very limited; as well as the arrival in the sector of new actors, especially those with a legal status of a public liability company, stating their activities on a professional basis and with perspectives of extension to the up country areas.
98. The conscience of the populations in the rural and urban areas, whose level of living can be improved by micro finance. This conscience is seen through the massive membership to micro finance initiatives, although the population is often disappointed by embezzlements and collapse of some MFIs.
99. The eligibility of the Central African Republic to the PPTE Initiative, a high demand of financial services that is yet to be met, the actions scheduled in the DSRP with a view to improving the business environment, and the future development of production networks (cotton, sesame, palm oil, mining, maize, groundnuts, rice, etc..., constitute opportunities in matters of savings and loan products to be offered to the population.

2.3.2. Weaknesses, constraints and threats

- 100.** Concentration of the interventions of MFIs in and around Bangui, thereby bringing about a poor geographical coverage of the other regions of the country in providing close financial services.
- 101.** Reticence by the population, brought about by the collapse of several micro finance institutions, causing loss of savings and deposits and thereby causing an obstacle to the development of the activities of other MFIs.
- 102.** Insufficient surveillance and control of the sector by the COBAC, as well as lack of means at the National Microfinance Cell, resulting in the setting up of MFIs that do not fulfil the minimal requirements of viability and operating outside the scope of the regulations. This insufficiency adds to the existence of dormant internal control organs, because they lack the required profiles and proven technical competences.
- 103.** The APMFI, which is struggling to advocate for the microfinance sector, the improvement of the image of the profession and the implementation of its strategic development plan because of lack of financing.
- 104.** Lack of professionalism of the actors operating in the sector, characterised by:
- Absence of procedures, business plans and management information systems in several MFIs;
 - Absence of notation of the institutions and insufficient external auditing and internal control in a number of institutions;
 - Underdeveloped connection between banks and the MFIs through strategic partnerships;
 - Insufficient consideration of the dimension in the provision of financial services;
- 105.** Unsatisfactory diversification of services and products offered by the MFIs, characterised by:
- Absence of the provision of micro assurance products for the vulnerable populations;
 - The introduction of new products does not follow a professional process for the development of new products, resulting in the collapse of products that would otherwise fall within the needs of the population;
- 105.** From the point of view of technical service providers, one can highlight:
- Not enough qualified service providers in the field of micro finance and not enough support to the development of expertise among those that already exist;
 - Lack of training institutions in the field of micro finance, leading to lack of qualified human resources in the field;
 - Lack of a risk data base, leading to failure to identify clients with delinquent loans and thereby resulting in the risk of over indebtedness;
 - The existence of projects and programmes with loans that were not professionally managed, leading a culture of non-reimbursement among the population of certain localities.
- 106.** The following factors constitute threats to the development, penetration and involvement of MFI and foreign operators in the sector :

- Absence of clear policy on sanctions in obvious cases of embezzlement of funds within an MFI, which erodes the motivation of the population in its membership to the services of MFIs and encourages further mismanagement, thereby being a threat to the development of the sector;
- Lack of knowledge of the microfinance sector by the para-judicial actors, as well as a judicial system that does not offer sufficient protection to the borrowers and depositors, particularly with regard to debt recovery and to legal proceedings in case of embezzlement;
- The insecurity that prevails in some areas, coupled with a high country risk, which all tend to prevent the private operators from joining the sector;
- Lack of synergies between the MFIs and non-financial actors;
- Insufficient role of guarantor of public savings by the State.
- Stagnation of economic activity with two **lead activity sectors** (wood and diamonds) but in a catastrophic situation.

2.3.3. Major challenges to overcome and the expected support to the Micro finance sector in the Central African Republic

107. The major challenges to overcome, as a priority, are²²:

- Low national appropriation capacity: certain operators and beneficiaries of micro finance activities tend to believe that it is a foreign initiative and that it is especially a business if the UNDP. In short, they believe that it is all about donations.
- Mistrust of the population, following the collapse of several institutions, leading to loss of savings;
- Impunity following embezzlements and mismanagement;
- Low level of supervision and control of micro finance institutions by the authorities.

108. The necessary support to the development of micro finance should consist of:

- Increase in the resources to better strengthen the development capacities of MFIs, for them to be able to effectively cover the recovering areas;
- Exercising advocacy for:
 - The success of the reforms introduced by the Microfinance Cell;
 - Action to be taken against fraudulent financial managers;
 - Compensation to savers who lose their deposits;
 - Adoption of the national inclusive finance strategy and organisation of a round table of the **PTF**

²² Information obtained during consultations with Mr SOGLONOU of the FENU, Resident Technical Advisor, PAE/SFI

COUNTRY 3: THE EPUBLIC OF CONGO

3.1. *General Country Presentation and some socio economic indicators*

109. The Republic of Congo is located in central Africa. It bordered by the Democratic Republic of Congo to the east, by the Central African Republic and Cameroon to the north, by the Angolan enclave of Cabinda to the south and by Gabon to the west. With a surface area of 342,000 km² and a population estimated at 3,695,579 inhabitants (2007), it has a population density of 10.4 inhab./km². The population, with a growth rate is 3% par annum, is concentrated in the country's two major cities, namely Brazzaville and Pointe Noire (56.5% of the total population). The population majority of the population is composed of young people aged less than 20 years (55%).

Table 3.1: Overview of some socio-economic indicators of the Republic of Congo

Population (Estimate 2007)	3,695,579 inhabitants
Surface area	342,000 km ²
Density (Year 2007)	10.4 inhab. /km ²
Population growth rate (Estimate 2007)	3%
GNP/capita (in purchasing power parity)(2007)	3,511 US \$ (123 rd /181)
HPI Ranking (2007)	24.3%(84 th /135)
Overall literacy rate (Estimate 2007)	56.8 % (140 th /177)
Life expectancy at birth (Estimate 2007)	53.5 years (153 rd /176)
HDI Ranking (2007)	136 th rank/182
Population with no access to potable water (Estimate 2007)	29% (111 th /150)
Adult literacy (Estimate 2007)	81.1 % (97 th /151)

Source: Various compilations and UNDP (2009) *Human Development Report*

110. The Cadre Stratégique de Croissance et de Lutte contre la Pauvreté (CSLP) (Strategic Framework for Growth and the fight against Poverty) prepared in 2006, gave detailed orientations for the improvement of the mechanisms for access credit axed on the spread of micro credit and the strengthening of the classic finance sector. As a matter of fact, it was in response to the following observations that these orientations were considered: there is a very low level of monetisation of rural economy; opportunities of access to credit are particularly underdeveloped; low level of mobilisation of savings because of the scarcity and uneven distribution of rural credit institutions across the country.

– 3.2. *General Overview of the Micro finance Sector in Congo*

– 3.2.1. State of development of the sector

111. Micro finance in the Republic of Congo came into being in the 1980s, with the birth of the very first cooperative savings and credit societies. But it was in April 2002, with the publication of the regulation of the *Commission Bancaire de l'Afrique Centrale* (COBAC) (Bank Commission of Central Africa), that the sector took a formal set up and started participating fully in the Congolese financial sector.

112. The evolution took place in three phases:

- The first phase (1980-2002) characterised by the absence of regulatory texts saw the blooming of institutions and the rapid expansion of the sector. The economic crisis, coupled with wars and the

crisis of the banking systems right from the 1990s, led to a number of closures of banks and the many employees of the closed banks started launching alternative financial structures.

- The second phase (2002-2005) was characterised by the stoppage of the rampant proliferation of micro finance establishments, thanks to the drafting of a specific regulatory framework for the sector, which came into force in 2002. Its purpose was to cope with the numerous cases of abuse and theft of the savings of the poor population.
- The third phase, which was the consolidation of the sector, started in April 2005, when the legal framework was effectively put into application. It was during this phase that the *Association Professionnelle des Etablissements de Micro finance* (APMFI) (Professional Association of Micro Finance Institutions) was set up and the code of procedure for the sector was established by the *Commission Bancaire de l'Afrique Centrale* (COBAC) in 2007.

113. In a country where 50% of the population lives below the poverty line (World Bank, 2005) after having reached the mark of close to 70% the day after the conflicts, and where the unemployment rate among the active population is estimated at close to 50%, of whom the bigger part is composed of youths, the consolidation of this segment of the country's financial system made the government turn to micro finance as a major axis of its poverty eradication strategy.

3.2.2. Analysis of the current situation at micro level: the institutions

- *Provision of micro finance services*

114. There are three categories of Micro Finance Institutions:

Table 3.2. : Distribution by category of MFI in the Micro finance sector in Congo

Category	2005	2006	2007	2008	2009 Provisional
1 st Category	67	66	65	61	
2 nd Category	4	4	4	5	
3 rd Category	4	4	4	3	
TOTAL	75	74	73	69	63

Source: Ministry of Finance; Directorate of Currency and Credit

- First Category: institutions which represent approximately 89% of the sector in number collect savings of their members, which they use in credit operations exclusively for the members;
- Second Category: institutions which collect savings and offer loans to others;
- Third Category: institutions which offer loans to others, without collecting savings.
- At the end of 2008 and in 2009, only 60 MFIs had been registered for operation.

115. The micro finance sector in the Republic of Congo is dominated by the network of the *Mutuelles Congolaises d'Epargne et de Cr dit* (MUCODEC). This network, supported by the Congolese government and the *Cr dit Mutuel de France*, has a membership composed of 80% by civil servants. Among the other actors which come together under the umbrella of "*Etablissements de micro finance independents*" (Independent Micro Finance Institutions), the *Caisse de Participation   la Promotion des Entreprises et   leur Developpement* (CAPPED) is the second microfinance institution in the country. It should be noted that the first two leaders in the market are First Category institutions.

116. Although the banks and financial institutions have the right to practice a micro finance activity, focus their attention on a small number of large enterprises and, to date, none of them is really active in the field of micro finance.

117. From the statistics obtained from the *Directorate of Générale de la Monnaie et du Crédit* (DGMC), a department of the Congolese Ministry of Finance, we observe the following trend of some indicators of the development of supply in the micro finance sector:

Table 3.3: Some supply indicators in the micro finance sector in Congo

3.3. (a) Evolution of the numbers of MFIs

	2002	2003	2004	2005	2006	2007	2008	2009 Provisional
Independent MFI	51	82	71	41	40	38	34	39
MUCODEC Network	35	34	34	34	35	35	35	34
TOTAL	86	116	106	75	74	73	69	63

3.3.(b) Evolution of the volume of deposits (in millions of CFA francs)

	2005	2006	2007	2008	2009 Provisional
Independent MFI	6.716	8.863	10.774	13.232	9.946
MUCODEC Network	43.645	60.111	71.258	93.479	117.190
TOTAL	50.360	68.974	82.032	106.711	127.136

3.3.(c) Evolution of the volume of loans (in millions of CFA francs)

	2005	2006	2007	2008	2009 Provisional
Independent MFI	879	1.215	2.059	2.116	1.365
MUCODEC Network	14.386	18.100	22.065	29.662	29.955
TOTAL	15.265	19.315	24.124	31.778	31.320

3.3.(d) Evolution of the volume of transfers of funds (in millions of CFA francs)

	2005	2006	2007	2008	2009 Provisional
Independent MFI		14.953	16.885	28.778	Nc
MUCODEC Network		–	–	–	Nc
TOTAL		14.953	16.885	28.778	

Source: Ministry of Finance: Directorate of Currency and Credit

118. From the point of view of the number of MFIs and products offered, the following comments can be made from the above statistics:

- The significant increase in the number of MFIs between 2002 and 2003 is explained by the privatisation of some banks, where the dismissal of some of the employees led to the creation of several MFIs.
- The decline between 2004 and 2005 was a result of the closure of several independent MFIs following bankruptcies resulting from mismanagement and a crisis that hit the sector.
- On the other hand, the stability observed between 2005 and 2007, as well as the decline between 2007 and 2008, are explained by the strict application of the regulatory provisions and the closure of some institutions following regular controls by the administration.
- There are three types of products offered, mainly to the population: savings products (sight and fixed deposits), loans and transfer of funds.
- As of 31/12/2008, the deposits collected by the independent MFIs represented only 12.4% of the total collected and the MUCODEC network took a lion's share of 87.6% of the deposits. Unfortunately, however, the loans given out were by far lower than the deposits, which means an over liquidity²³ in the overall sector.

²³ According to Mr IKONGA, President of the Association (APEMF), this over-liquidity is manifested mainly within the two market leaders (the networks of MUCODEC and CAPPED) which are supported and assisted by the government and foreign donors. Since the MFIs of Second Category basically work with their own funds, find it difficult to cover their financing needs owing to the insufficient collection of funds, lack of local refinancing mechanisms and of lack of possibilities to access international financing.

- From the preceding tables, it can be noted that the most important activity in terms of volume for the independent MFIs is money transfer, yet in accordance with the regulations, this is an activity that can be carried out as an accessory. The MFIs belonging to the MUCODEC network do not provide money transfer services.

119. From the point of view of geographical distribution and the products offered, the situation is as follows:

Table 3.4. Geographical distribution of the MFIs by locality

	2005	2006	2007	2008	2009 Provisional
Brazzaville	37	37	36	36	32
Pointe Noire	15	14	14	14	13
Other departments	23	23	23	16	18
TOTAL	75	74	73	69	63

Source: Ministry of Finance: Directorate of Currency and Credit

- The MFIs in Congo operate basically in the capital Brazzaville and in Pointe Noire, the country's second city. These two urban areas alone concentrate 72% of the services provided, as against 28% for the rest of the departments. There are some departments which are totally deprived of micro finance activity. 55% of the MFIs under the MUCODEC network are located in the urban areas, as compared to 83% of the independent MFIs. This major imbalance in the distribution is explained by the economic situation of the rural areas, which are not to cope with the very commercial orientation of the Congolese MFIs.
- In 2008, the 69 MFIs had a total of 240 branches and sales points, spread across the country and the geographical coverage of these branches is not sufficiently spread out to allow adequate penetration to all the population. About 166 branches belong to two independent MFIs, namely *Chardon Farrell* and *Horty Services*, and only offered money transfer services.
 - Demand for financial products and services*

120. The vast majority of the micro finance clientele in Congo is made up of civil servants of the MUCODEC network, followed by traders, then employees of the private sector and lastly craftsmen and farmers who constitute the smallest group.

121. Although the demand for financial services cannot be estimated with exactitude, the needs in financial products (savings and loans) and non financial services (support to activities) exist if one takes into account the level of productive structures and the incidence of poverty concentrated in the semi-urban and rural. The demand is therefore still very high.²⁴

²⁴ The UNDP office sponsored a study for assessing the supply and demand of microfinance products and services in the Republic of Congo (in 2009), from which this conclusion was drawn.

122. In the rural areas, access to financing by small time business people is still very limited, as most of the micro finance institutions are still hesitant to open up branches in those areas, because of the economic situation characterised by: the landlocked nature of the areas of production, poor communication networks, the existence of an unproductive peasant sector, the level of poverty, the absence of storage structures, etc. However, needs have been expressed in agriculture, fisheries and animal husbandry. Unfortunately, the loans granted to these activities are insignificant, because: the risks in the activities of the rural world which the MFIs have not yet mastered, the resources of the MFIs, composed mainly of sight deposits; as well as the absence of structures or funds that can be used as guarantee for the loans accorded for these types of activities.

123. From the point of view of the utilisation of the loans received, the results of a survey²⁵ carried out with 549 beneficiaries, showed that 13.7% of the loans were used to finance income generating activities; 2.4% for financing consumption (social or scholastic problems, children's school fees, home improvement), 1.3% for the purchase of equipment for exploitation and 78.6% were not able to give precise answers on the way they utilised the loans.

- *The technical service providers*

124. Several service providers are providing assistance to the micro finance sector in Congo. These are mainly the micro finance networks and the structures for professional training and support to the MFIs; socio-professional organizations and support projects for the development of entrepreneurship and academic training institutions in micro finance.

125. With regard to micro finance networks, there is the *Association Professionnelle des Etablissements de Microfinance du Congo* (APMFI) (Professional Association of Micro Finance Institutions), which, in accordance with the regulatory provisions, must be the body under which all the registered micro finance institutions fall. By January 2010, the association had a total of 76 members. Its objective is to protect the interests of its members, to promote and facilitate their collaboration and to provide management for services of common interest (training, information, supervision). Although the association is limited in its actions by lack of adequate resources and absence of dynamic relations between the members and the association, it has, through its actions, contributed to the launching of discussions that led to the start of the talks on the preparation of the national micro finance policy and strategy.

126. Beside this association are different development partners and donors which operate in the micro finance sector and provide technical and financial support to both the network and the MFIs themselves. Among these are: UNDP, ADB, the EU, the World Bank, The French Development Agency (*Agence Française de Développement*), FIDA, SOS FAIM, etc. ...

127. UNDP must be lauded for its keen involvement. It was behind the organisation of two studies on the micro finance sector and contributed in facilitating the discussions between the various actors for the preparation of the strategic development plan for the sector, which will be approved by the government.

²⁵ Within the framework of the study on the assessment of supply and demand for these products.

After the study on setting up a support programme to the socio-economic reintegration of disadvantaged groups, UNDP decided to inject funds in the *CAISSES FEMININES* (Women's societies) with the purpose of financing only the disadvantaged persons, namely ex-combatants, widows, unemployed women, etc.... UNDP also plans to set up a guarantee fund for MFIs and a feasibility study is to be carried out²⁶.

128. With regard to institutions for professional and academic training in micro finance, there are no structures for professional training or academic institutions for this purpose. Nevertheless, there are some certified trainers under CAPAF (A programme for capacity building in the MFIs in Francophone Africa) who help in disseminating certain modules of training.

3.2.3. Analysis of the current situation at the intermediate level: market infrastructure and financial transparency

- *State of the E-money system*

129. The financial infrastructure of the Congo is fragile. To this effect, it can be noted, for example, that the payment system is still underdeveloped. Cash still constitutes the preferred mode of payment. Much as the COBAC regulations authorise the institutions to issue means of payment and to organise compensation mechanisms on the means of payment they have issued, the issuance of cheque books, loan and debit books, is up to the present date still reserved to the registered banks. The APMEF²⁷ is worried that the clients of the MFIs might be attracted by these modern means of payment offered by the classic banks and abandon the micro finance sector.

130. The relationship between the commercial banks and the MFIs still stop at the level of depositor/banker. The MFIs are mere depositors in the banks, which, moreover, do not remunerate the former for the deposits, but instead deduct huge amounts in form of handling and ledger fees. Furthermore, they do not accept fixed term deposits from the MFIs. The MFIs, which already suffer from over-liquidity, do not also wish to develop borrower relations with the banks.

- *Financial Transparency*

131. In order to ensure financial transparency, there should at least be a minimum accounts referential and data bases for compiling information and data that can be used in widening the access to financial services. Unfortunately, however, the provision of services to micro finance institutions in the domain of accounts and audit is limited by the fact that the service providers in this field are not well prepared to meet the specific needs of the micro finance sector and cannot, as a result, provide the appropriate services.

132. It was in 2007 that COBAC issued the prudential standards for the sector, as well as models for accounts statements for financial disclosure. However, it is rare to find MFIs that get their books audited and regularly submit information to COBAC.

²⁶ Consultations with Mr Joseph IKOUBOU, National Expert in charge of the UNDP CONGO Project.

²⁷ She also notes that given the popular usage of the mobile phone, the search for partners that could assist in using this tool for purposes of E-money operations, the APMEF is said to be already be in the process of acquiring the software from a South African company. Contacts are said to have already been made with the *Société Monétique d'Afrique centrale* for the introduction of the bank card. Unfortunately, the association was required to pay a guarantee amount of 30 million FCA. Information received during consultations with the President of the APMEF

3.2.4. Analysis of the current situation at macro level: current regulation of the micro finance sector in Congo

Two institutions play a key role:

1. *La Commission Bancaire de l'Afrique Centrale (COBAC)*

133. It is charged with supervising active credit institutions and those that are under liquidation. Its competence covers: administrative authority, regulatory authority, control authority and authority to sanction.

2. *Ministry of Finance: Department of Currency and Credit*

134. There is a Department of Currency and Credit within the Ministry of Finance, Budget and Public Accounts. In the Department, there is a Directorate of Microfinance and Financial Markets, which, by delegation of powers from COBAC, is responsible for controlling and monitoring the activities of the MFIs. The Directorate is charged with: fixing the minimum operating capital for MFIs, after approval by the COBAC; approval of the memorandum and articles of association of a professional association; approval for exercising a micro finance activity; authorisation to Second Category MFIs to open branches or agencies after approval by the National Credit Council; receiving auditors' reports.

- *Identification of weaknesses in the Legal and Regulatory Framework*

135. The current Legal and Regulatory Framework governing the micro finance sector is riddled with some weaknesses: COBAC and the DGMC do not have ample resources for accomplishing their mission of supervision and control, which allows some MFIs not to fulfil their obligations in matters of reporting and external audit. This also gives the un-registered MFIs the leeway to operate without being bothered.

136. The absence of a single accounting referential for all the micro finance institutions in the sector is also a weakness in an environment where many of the MFIs suffer from lack of adequate understanding of the required accounting standards.

137. The absence of appropriate provisions for setting up a mechanism for the protection of depositors' savings in case MFIs run bankrupt. As a matter of fact, the closure of some MFIs in the past couple of years and the subsequent losses suffered by savers necessitates appropriate action, measures and mechanisms needed to restore the savers' confidence.

138. The table below gives a summary of the content of the regulatory framework, while focusing on the following essential aspects: the legal form, authorised activities, the level of minimum capital required, the type of supervision and prudential rules, the tax legislation applicable to MFI, the protection mechanisms for depositors.

Table 3.4: Summary of the content of a legal and regulatory framework for microfinance institutions in the Republic du Congo

	First Category MFI	Second Category MFI	Third Category MFI
Required Legal Form	<i>Mutuelle</i> (Mutual Insurance company), cooperatives, associations	Public Liability Company	All Legal Form, including that applicable to Projects
Authorised Activities	At principal level: Savings, credit, financial placements, reception of other At accessory level: Obtaining foreign currency from commercial banks on behalf of clients; safe custody; training activities; purchase of goods on behalf of; Leasing.		
Minimum level of required capital	None But obtain a minimum of 15 to 30 members whether they belong to a network or not	50,000,000 F CFA	25,000,000 F CFA
Type of supervision And Prudential Rules	COBAC is responsible for the supervision of the sector. Unfortunately, however, its head office is located in the Bank of Central African States, which results in lack of human and financial resources necessary for carrying out this task over the entire territory of the six countries of CEMAC. That is why COBAC delegates some powers and competences to the DGMC. There are 21 prudential standards to be respected, and they cover several aspects of risk management.		
Tax Incentives	A preferential tax regime is accorded to the MFIs, applying solely to principal and accessory activities for a period of 3 years for MFIs that existed by January 2008, for the same duration starting from the date of creation, for any new MFI. They are exempted from: - some duties and taxes: Duties on societies and on revenue of physical persons; duties on revenue from movable valuables, land ownership contribution, lump sum tax on salaries, special tax on companies; - VAT on: interest paid on collected savings; interest on granted products; interest on refinancing operations between MFIs or between MFIs and banks; members' contributions - A reduction of 50% on registration fees.		
Protection of depositors	Putting in place a system for insuring the clients' deposits in the MFIs has not yet been planned.		
Policy on interest rate	There is no regulation setting the ceiling for interest rates on loans, or fixing a minimum remuneration for savings for micro finance.		
Operations for change of legal status and participation in EMT	Some operations require prior authorisation from COBAC, while others need a mere statement: - Prior authorisation: change of Category of registration; legal form; activities; amount of capital in MFIs of First and Second Category. - Simple statement: modification of rules for calculation of voting rights; composition/membership of board of governors and of monitoring; address of MFI head office; change of social and commercial name.		

Source: Compilation based on Texts and Regulations of the COBAC

3.2. *SWOT Analysis of the micro finance sector in Congo*

3.2.1. Strengths and opportunities

139. The legal and regulatory framework enables the different institutions to participate in offering financial services with fiscal advantages which are appreciated, although they still remain insufficient²⁸. In addition, this regulatory framework reflects and encourages the practices in force in the micro finance field worldwide.
140. The micro finance institutions have had the latitude to propose financial products to the population without the intervention of regulators or supervisors to censor and verify the interest rates. The interest rates, which have been relatively high, have not been put under any pressure from government to have them reduced.
141. The political goodwill of the government to turn micro finance into an instrument of poverty reduction and a tool for attaining the Millennium Development Goals.

3.2.2. Weaknesses and constraints

142. In general, the concentration of the majority of the MFI operations only in the cities of Brazzaville and Pointe Noire, as well as the specialisation in similar products of savings, credit or money transfer, calls for a strategic redeployment of some institutions and for the necessity to diversify the type of products offered.
143. Several exogenous constraints hamper the development of micro finance in the Congo, namely:
- Geographical and demographic constraints: the uneven distribution of natural resources and the concentration of the population in the urban areas of Brazzaville and Pointe Noire;
 - Economic and social constraints: rural areas characterised by poor and unproductive peasant entrepreneurs, lack of business opportunities in some rural areas; as well as recurrent armed conflicts;
 - Transport and mobility of the local populations, bringing about high transaction costs;
 - Institutional constraints: At the level of the APMFI, there is lack of collaboration between the members. There is lack of means and data bases for monitoring the evolution of the sector, while at the level of justice, the legal machinery shows some weaknesses that prevent the MFIs from protecting themselves against the risk of moral hazards of borrowers and of dubious promoters;

²⁸ These exemptions will come to an end in 2010 for many of the institutions, at a time when they are undergoing full scale growth. The result of this is that their performance and their viability could suffer from this development, because of the huge tax burden. The APEMF would prefer a total removal of taxes, similar to what happened in Madagascar.

- Operational constraints: The absence of support structures dedicated particularly to the sector, from the point of view of financial reporting and sectoral analysis of risks.

144. On the other hand, there are some endogenous weaknesses and constraints within many of the MFIs:

- Lack of professionalism: which results from low managerial competence of the leaders, and from lack of technical competence. As a matter of fact, a good number of promoters of MFIs have known micro finance by learning on the job. This lack of professionalism is seen through lack of a clear strategic vision on the part of the leaders, both in the way branches have been set up and in the inadequate development of new products.
- Low capital level and lack of financial viability in certain MFIs: Apart from the two market leaders, which are suffering from over-liquidity, the Second Category institutions find it difficult to cover their needs in financing, because of lack of local mechanisms for refinancing and of difficulty of access to international financing. Some other MFIs, on the other hand, carry out operations that are short-lived and their liquidity is weak.
- Heavy dependence on sight deposits, which does not allow the MFIs to have sufficient financing for medium and long term loans.

145. To wrap up, these weaknesses may be summarised as follows:

- The infrastructure and equipment at the disposal of the MFIs are still quite often inadequate, and generally do not allow them to provide the requisite services to the population;

The rate of penetration in the most disadvantaged populations, the women, the unemployed youth, etc, is still very unsatisfactory;

- The institutional, managerial and human capacities of the MFIs are still weak. Several MFIs are not yet computerised; and their accounts are never audited;
- The supervising authorities lack the required experience and training;
- The enacting of the laws needed for the application of the regulation on micro finance, as well as the necessary accounting referential, take long too long;
- The development of the sector suffers from the absence of a national policy, strategy and operational action plans;
- The refinancing means of the MFIs are currently limited and costly, in the absence of mechanisms or specific lines to enable them to have access to preferential refinancing.

COUNTRY 4: DEMOCRATIC REPUBLIC OF CONGO

4.1. General presentation of the DR Congo and poverty situation

- 146.** The Democratic Republic of Congo, located in the centre Africa, could be one of the richest countries in Africa given its geographical location, the size of its population, its mineral wealth, the extent of its navigable waterways and the fact that it shares borders with nine countries that are members of the International Conference on the Great Lakes. Unfortunately, however, because of its political, economic and social instability, and because of recurrent wars that have led to the destruction of the tools of production, the country's population is still living in a state of abject poverty.
- 147.** With a population estimated at 62 million inhabitants, 69% of whom live in rural areas, and 31% in urban areas, the diagnosis of the country's poverty highlights the profile and perception according to the place of residence²⁹. According to the investigations carried out during the preparation of the document on the Strategy for Growth and Poverty Reduction, the food and non food poverty line is estimated at 153,265 Congolese francs (or US\$ 1.025) per person per annum in the urban areas, and at 97,655 Congolese francs (or US\$ 0.653) per person per year in the rural areas.
- 148.** Using the traditional instruments of measuring poverty, namely the Foster-Greer-Thorbecke indices, the situation in the DRC is as follows:
- For the entire country, the incidence of poverty which shows the proportion of the poor in a given population is 71.34%;
 - The depth of poverty, which is an indicator of the gap between the poor from the rich and which enables to estimate the financing required for eliminating poverty outright in conditions of perfect targeting stands at 32.23%;
 - The severity of poverty, which measures the extent of aversion of a society to poverty and measures the inequality between the poor stands at 18.02%.
- These indicators are very high, compared with those of other countries in central Africa.
- 149.** The incidence of poverty is higher in the rural areas (75.72%) than in the urban areas (61.49%); and the same applies to the intensity (34.90% against 26.21%) and of severity (19.76% against 14.10%) of poverty. People living in urban areas are, therefore, are better off than those living in rural areas.
- 150.** In rural areas, poverty is seen through lack of factors of production, which prevents the exploitation of the existing potential. This is mainly lack of money, inability to obtain agricultural inputs and technical support. On the other hand, in the urban areas, poverty is seen through lack of money, employment, electricity, easy means of transport, descent accommodation, potable water and drainage
- 151.** In view of all the above considerations, the strategy for growth and poverty reduction (GPRS) of the Government of Congo has been based on five major pillars highlighting clear orientations and an action plan to be adjusted according to the evolution of the situation, the availability of resources and the progress in their implementation.

²⁹ Statistics extracted from the document of the Growth and Poverty Reduction Strategy (DSCR) published in July 2006 by the DRC government.

One of the pillars, which is the consolidation of macroeconomic stability and growth, features the promotion and development of microfinance and small scale enterprises as a means of consolidating the sectors stimulating growth in the rural areas; while the improvement of intermediary financing and the promotion of microfinance are the means for promoting the private sector. The same strategy, which recommends in one of the pillars, support to community-based growth, emphasizes the necessity of enabling basic communities to have access to financial services adapted to their needs. Microfinance is indeed high on the list of actions the government of the DRC is planning to carry out in the fight against poverty.

4.2. General overview of the Finance Sector in DRC (Banking, Cooperatives and Microfinance)

- 152.** From 2001, and throughout 2002-2003, the Congolese Government and the Central Bank of Congo implemented a number of reforms in the Finance Sector, and remarkable progress was noticed in the: strengthening of the legal and regulatory framework of the financing system, improvement of monetary control and overhauling the banking sector. In this regard, the government: promulgated new laws on the status of the Central Bank with a view to strengthening its independence and its authoritative role in regulating and controlling financial intermediaries; consolidated the banking sector by closing down bankrupt public and commercial banks; introduced laws governing savings and credit societies and credit institutions, and a special instruction on microfinance institutions.
- 153.** However, in spite of these efforts, the Finance sector is still underdeveloped and fragile. As a matter of fact, as will be seen in the table below, commercial banks are the dominant institutions in the finance sector in the DR Congo, but their network is still underdeveloped. Since the closing down of all banks that were totally owned by the government, along with their wide network of branches, the Congolese Bankers Association and the Central Bank of Congo estimate that there are now 100,000 bank accounts³⁰ for a population of 62 million inhabitants. With a network of 58 branches on the entire Congolese territory, the country has a very low rate of banking facilities, with one bank for one million people, and the percentage of people owning a bank account is a worrying 0.01 %. Worse still, it is worth noting that the banks have all concentrated their activities in the capital Kinshasa, with a few banks operating in the other main cities in the country.

³⁰ The Central Bank of the DR Congo does not have recent figures on the number of bank accounts, but the bulk of these 100.000 accounts belong to companies and commercial enterprises and not to individuals.

Table 4.1: Structure of the Finance System in the DRC in 2006

INSTITUTIONS	Number	
	of Institutions	of Branches
Commercial Banks	11	58
• <i>Domestic Banks</i>	3	20
• <i>Foreign owned Banks</i>	8	38
Insurance companies	2	146
• <i>State Pension Fund</i>	1	36
• <i>Other State-owned companies</i>	1	110
Other non-bank financial institutions	32	146
• <i>Financial companies</i>	1	10
• <i>Savings and credit institutions</i>	1	66
• <i>Postal Savings Network</i>	1	69
• <i>Microfinance Institutions</i>	28	n/a
• <i>Development Finance Institutions</i>	1	1
TOTAL FINANCE SECTOR	45	

Source: Central Bank of DR Congo: Department of Supervision of Financial Institutions
Extract from MFI DRC Country Report n° 07/329, July

154. Following the 2006 elections, the government prepared a number of projects aimed at re-launching development in a number of sectors of the economy and the Central Bank came up with a number of projects for the strengthening and development of the finance sector, namely: pursuing the preparation of the legislation governing microfinance; strengthening the monitoring of the banking and microfinance sectors, preparation of legislation on electronic payments; and modernisation of the national payments system. However, more efforts are still needed to ensure that the population has a wider access to financial services. We shall now attempt to analyse the current status of the Microfinance sector and the practice regarding microfinance loans in the DR Congo.

4.2.1. Analysis of the current situation and the state of progress of the Microfinance sector

155. Throughout the world, microfinance institutions have proven to be a complement to the banking sector, particularly in the case of rural populations, for whom access to borrowing and savings are vital tools. Similarly, in the DR Congo, the government put the subject of micro financing and microfinance loans high on its agenda as vital instruments of poverty reduction, in pursuit of attaining the millennium development goals. This section will analyse the development of the sector, highlight its characteristics and attempt to appreciate its contribution to poverty reduction.

156. The analysis of the present situation and its impact on poverty reduction revolves around the three main pillars that constitute the basis of any financial system, namely: the institutions, the market infrastructure and regulation.

4.2.2. At the micro level: Microfinance Institutions

- *Provision of Microfinance services*

157. In general terms, the Microfinance sector comprises the granting of loans, savings, money transfers, insurance and other financial services to low-income earners. The institutions that offer extended financial services in the DRC are mainly composed of savings and credit SACCO societies, NGOs, microfinance societies and enterprises, money transfer companies and, of late, new banks specializing in microfinance loans.
158. There are no exhaustive and reliable statistics in the DRC on the number³¹ of financial institutions (apart from those registered at the Central Bank) that offer extended financial services. Nevertheless, by the end of 2007, two banks specialising in microfinance were active in the DR Congo, namely the Trust Merchant Bank, established in 2004, and the *ProLoan* Bank established in 2005. 38 savings and credit societies and 9 microfinance institutions had been licensed by the Central Bank. The majority of these institutions were based in Kinshasa and in the Kivu region. One of the two banks is mainly based in the Katanga region. There is a glaring lack of services in the rural areas, home to 69% of the country's population. Institutions providing money transfer services are governed by a particular law on financial messaging services and exchange bureaux.
159. Apart from this group of service renderers governed by the law and registered at the Central Bank, a number of NGOs offer financial services in areas far away from Kinshasa, but the Central Bank estimates that there are more than 500 un-registered cooperative societies across the country, many of which must have stopped operating. The Central Bank also estimates that the cooperative societies account for more than 70% of the initiatives in the microfinance field.
160. With regard to services, the various institutions mainly offer: two savings products: sight deposits and fixed term deposits at an average interest rate of 6% per annum; basically short term loans at a monthly interest rate of between 3 and 5% (36 to 60% per annum) in the form of individual loans or of group loans. Many institutions also require their clients to build a compulsory saving³² before being granted a loan.

³¹ Within the framework of the *Programs d'Appui au Secteur de la Microfinance, PASMIF* (Support Programs to the Microfinance Sector), the Central Bank of Congo in partnership with the UNDP, FENU, the French Ministry of Foreign Affairs and ACIDI, introduced in 2007 an inventory of all the microfinance institutions active in the country. This will help to identify the geographical coverage of the services available in the whole country.

³² The institutions that are not authorised to collect savings deposit these compulsory savings in an registered commercial bank.

161. Whereas the commercial banks that exclusively target large clients composed of large and medium enterprises (mining companies and import-export companies), NGOs and public administrations require a minimum deposit ranging between US\$1,000 and US\$25,000, the two active banks in the Microfinance sector require a minimum deposit of US\$100. The other savings and credit societies and the MFIs, which are authorised to collect savings, require an amount that does not generally exceed US\$50 for opening a bank account or for qualifying to be a member.

Table 4.2: Summary of services offered and conditions of access

Categories of institutions	Conditions for opening an account	Types de products offered	Cost of operation and rates practiced	Collateral required
Microfinance Bank	Minimum US\$100	<ul style="list-style-type: none"> - Debit card - Money transfer - Telephone banking - Sight deposits - Fixed deposits - Individual loans - Group loans 	US\$10 to US\$30 per annum 6% per annum credit rate 36 to 60% per annum debit rate with or without compulsory savings	Group collateral for group borrowers Material guarantee for individual loans
MFI	Minimum US\$50 for those who collect savings	<ul style="list-style-type: none"> - Sight deposits - Fixed deposits - Individual loans - Group loans 		
SACCOs	Right of membership varies from US\$30 to US\$50.	<ul style="list-style-type: none"> - Sight deposits - Fixed deposits - Individual loans - Group loans 		

Source: Author's observations

162. With a grant from the ACP/EU Microfinance Programme, the *ProCredit* Bank installed the first batch of automatic teller machines, mainly in Kinshasa, as well as sales points in some shops to facilitate cash transactions. The *ProCredit* Bank debit card is accompanied by a ledger-free account and charge-free withdrawals for an annual cost of US\$10 for internal transactions and US\$30 for international transactions.

The Trust Merchant Bank, functioning mainly in the Katanga region (Lubumbashi, Kolwezi and Likasi), was planning to open a money transfer service between Lubumbashi and Kinshasa, and to install automatic teller machines for cash withdrawals

163. With regard to collateral, there are two main types: material guarantees and joint surety. The material guarantee that is generally required for individual loans is based on either: salary pay slip, compulsory savings, signature guarantee or a mortgage. Very rarely is the borrower required to provide guarantee in form of a land title or other immovable assets.
164. With regard to the number of clients served by recognised microfinancing institutions and which provide data to the Central Bank of Congo, it is estimated that 60,000 accounts were opened with the recognised MFIs in 2007. The largest number of microfinance clients is with FINCA DRC and the *ProCredit* Bank. As for the financed activities, although the bulk of the population lives in the rural areas, and taking into account the geographical distribution of the MFIs in the major towns, the share of agricultural loans in the overall loans portfolio still remains very low. The financing priority for MFIs mainly targets urban activities and particularly small scale trading activities.

Table 4.3: Some statistics on the activities of Banks, MFIs and SACCOs as of 31/12/2006

Institution	Number of Clients	Amount Savings accounts (US\$)	Number of loans	Amount loan portfolio (US\$)	Average size of loan (US\$)
<i>ProCredit</i> Bank	21,254	14,900,000	2,782	7,400,000	
Trust Merchant Bank	2,168	714,000	464	402,920	
FINCA	22,186	-	19,500	3,500,000	200
HOPE	5,000	-	5,000	450,000	126
PAIDEK		-	9,936	1,360,000	
MECREKIVU	9,370 members	4,000,000	6,455	2,180,000	
MECREKIN	1,764 members	700,000	2,971	380,000	

Source: Some of the statistics were extracted from MIX Market site www.mixmarket.org and others from the concerned MFIs.

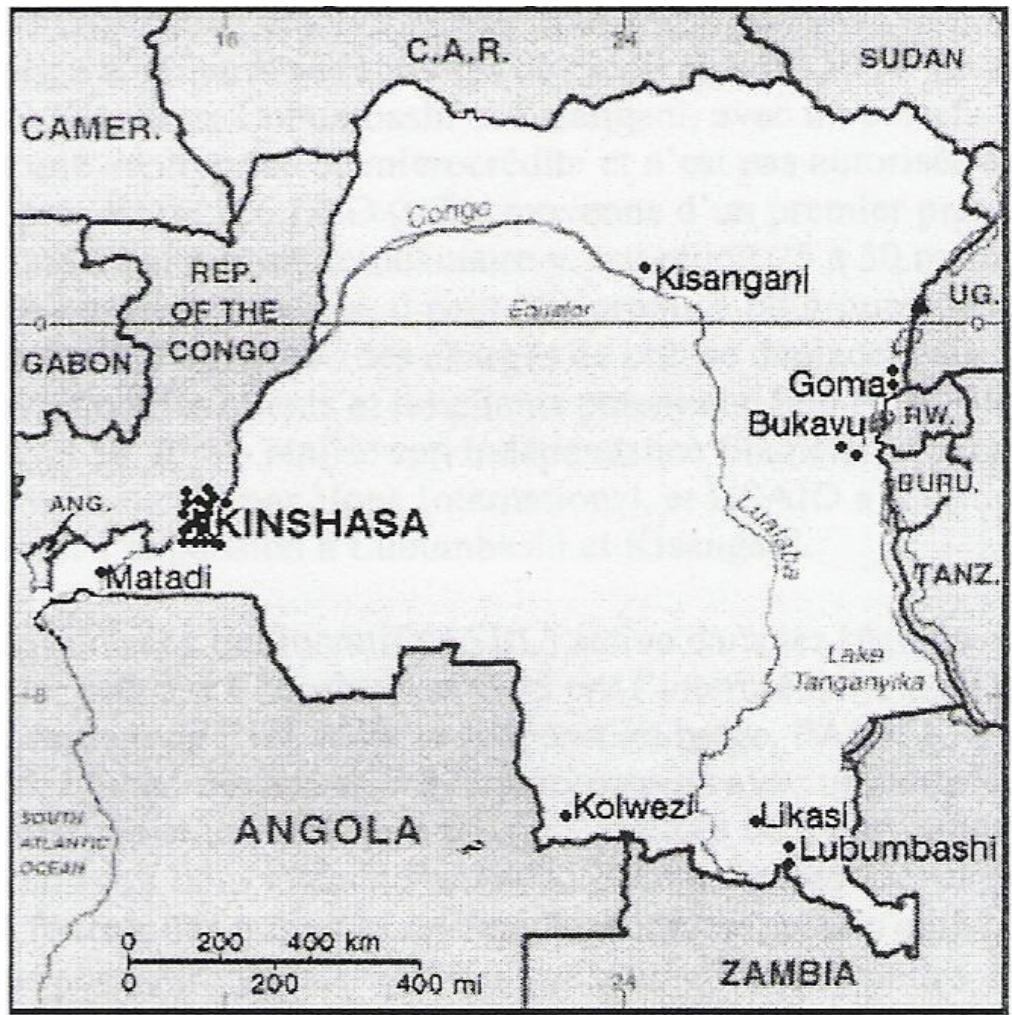
- *Demand for financial products and services*

165. With regard to the demand for financial products and services, one can comfortably state that demand for financial services is very high and almost unlimited. As a matter of fact, the informal sector is relatively well developed, to the extent that the number of microfinance institutions, small and medium enterprises (formal and un-informal) is estimated at between 2.4 and 3 million in the DR Congo (according to D’Huart, Libois & Massiani, 2004). Furthermore, when one compares the total number of people that

have access to microfinance institutions (0.01%), with the Congolese population, of which the majority are poor (71.34%), one immediately notices the potential demand that is yet to be satisfied.

166. From the geographical point of view, there is an outstanding concentration of banks, micro finance institutions and SACCOs in Kinshasa, Lubumbashi, Bukavu, Goma, Kisangani, Kolwezi and Likasi, while most of the regions in the hinterland have no easy access to banking and financial services. Subsequently, it becomes obvious that vast areas of the country still have a high demand for financial services.

Figure 2.1: Concentration of MFIs, SACCOs and banks providing microfinance services



167. At present, it is still difficult to assess the impact of the micro finance institutions in poverty reduction,

because studies on the impact of micro finance loans and on the satisfaction of their beneficiaries have not yet been carried out on a large scale in the DR Congo. It can only be presumed that some beneficiaries of micro finance loans in the urban areas have been able to improve their day-to-day lifestyle, to afford better health services and to have better access to education for their children, thanks to the small income-generating activities that they have managed to start up.

- *Technical service providers*

168. Another category of actors that could contribute through its experience to the development of the provision of micro finance services and from there to the spreading of micro finance loans in the various areas are the providers of technical services and these may be considered as structures for financial and non-financial support with long experience in matters of micro finance. These are mainly the micro finance networks and institutions of technical training and support to the MFIs; socio-professional organizations and projects for support to the development of entrepreneurship; as well as academic training institutions in the field of micro finance.
169. Regarding the existence of micro finance networks, several of them have been set up and the most outstanding are: the *Regroupement des Institutions du System de Financier Décentralisé du Congo*, RIFIDEC (Group of Institutions of the Decentralised Financing System of Congo), the *Regroupement des Institutions de Microfinance*, RIM (Group of Microfinance Institutions), the *Réseau Solidarité Microfinance*, RSF (Microfinance Solidarity Network), and the *Groupe d'Acteurs de Microfinance du Kivu*, GAMF (Group of Microfinance Stakeholders of Kivu). These networks, whose objective is, in most cases, to provide support and capacity building within the MFIs, NGOs, SACCOs and to *Mutuelle* members, are also concentrated in Kinshasa and in the Kivu region and play a negligible role in the fight against poverty through extended financial services. Side by side with these networks are different partners and donors which are involved in the micro finance sub-sector and provide technical and financial support to the network of MFIs. Notable among these are: UNDP, FENU, KFW, GTZ, USAID, ACDI, CTB, MAE/France, AFD, World Bank, etc.
170. Although the informal sector is relatively well-developed, with a significant number of informal micro, small and medium enterprises, the DR Congo still lacks institutions that are committed to promoting the development of economic entities falling within the small and medium scale enterprises, with regard to support services in training, consultancy services, assistance in financing, and project supervision and monitoring.
171. The only existing public institution, the OPEC, *Office de promotion des Petites et Moyennes Entreprises au Congo* (Board for the Promotion of Small and Medium Enterprises in Congo), under the Ministry of Industry and Small and Medium Enterprises, has not been playing its role properly because of lack of sufficient funding. This situation should lead the microfinance institutions into coming up with products for serving the particular needs of investment in the micro and small scale enterprises. As a matter of fact, at the moment, some MFIs offer a number of products within the framework of individual loans to micro entrepreneurs that have already started a commercial activity, but they do not make any proposals whatsoever to those who would wish to have some capital to start an activity. It would sound more reasonable that rather than

financing the poor of the urban areas who can withstand the pressure of servicing microfinance loans, it would be wiser to finance the creation of small scale enterprises with a high potential of initiating an economic dynamics and employment opportunities that would indirectly benefit the poor.

172. As for the presence of professional micro finance training and academic institutions, there are some structures for professional training, but none for academic training. However, some universities are timidly beginning to introduce micro finance modules in their academic programmes.

4.2.3. At the intermediate level: Market infrastructure and financial transparency

- *Status of the payment and e-money system*

173. The DR Congo has a fragile financial infrastructure. For example, the payment system is obviously underdeveloped. Cash still constitutes to be the preferred mode of payment and this gives rise to a serious security problem for the financial institutions, as they have to cope with handle huge amounts of cash. It is only the registered banks that issue chequebooks and credit and debit cards.

174. Because of the limited use of the cheque as a means of payment, only a few operations are carried out solely in the compensation house administered by the Central Bank and the MFIs do not have access to this facility.

175. In 2001, the Central Bank issued an administrative order on the regulation of the activity of financial mailing services to facilitate money transfers to the remotest corners of the Democratic Republic of Congo. These financial mailing services are neither credit institutions nor institutions of microfinancing, but it appears that it could be possible for the MFIs to extend their services to a wider portion of the population by having a structure that enables them to transfer funds.

- *Financial Transparency*

176. In order to ensure financial transparency, there should be a minimum accounting reference and databases for compiling statistics that could enable wider access to financial services.

177. In March 2007, the Central Bank of Congo, in an effort to establish a chart of accounts for the decentralised financial systems, invited a number of accountants to work with the committee that had been set up to establish the required chart of accounts. It was during that year that the Permanent Accounts Council of Congo started to popularise the international norms for the disclosure of financial information (IFRS) with the aim of having them integrated in the national accounts chart.

178. Much as the MFIs and the SACCOs are supposed to report the results of their transactions to the Central Bank, it has been observed that less than half of them fulfil this requirement. Furthermore, it is very rare to find MFIs that have had their books audited. And to compound the problem, there are very few auditors that are trained in the field of the special risks run by micro finance institutions.
179. The banks and other registered credit institutions are automatically affiliated to the risk management centre of the Central Bank, which charges them 40% of the administrative costs for the management of the database concerning the granted loans and payment procedures. Unfortunately, however, it is worth pointing out that this risk management centre is far from efficient, as it is not able to correctly compile the totality of all the loan movements countrywide, for the following reasons: credit institutions use manual ledgers, monitoring is done for only a few of the enterprises that have obtained a credit facility, or some banks even simply do not communicate the required information. Like in the case of the compensation house, the MFIs and SACCOs are excluded from this arrangement.

4.2.4. At the macro level: Current regulation of the Microfinance Sector

180. The legal and regulatory framework is the mechanism that is susceptible of attracting national investors or investors from the Great Lakes Region or beyond, that would like to be stakeholders in the Microfinance sector. Its analysis enables the investor to make a comparative assessment vis-à-vis his environment of origin, of the major risks a new operator trying to join the Microfinance sector in the DR Congo is likely to face.
181. The presentation and analysis of the legal and regulatory framework constitutes a summary of some of the essential aspects such as: the statutory forms, authorised activities, minimal capital requirement, type of supervision and prudential rules, options of transformation into MFI or commercial bank, fiscal requirements of MFIs, as well as mechanisms for the protection of depositors.
182. The SACCO societies are governed by a specific law (Law 002-2002), while the MFIs are still governed by a Central Bank Instruction. The MFIs are divided into three categories: first category micro finance loan enterprises, second category micro finance loan enterprises and micro finance companies.
- *Identification of weaknesses in the legal and regulatory framework*
183. There are a number of weaknesses in the present legal and regulatory framework governing this sector: it does not sufficiently take into consideration the realities of the micro finance sector in the DR Congo, particularly the exclusion of NGOs involved in micro finance, as well as the impact of their activities on the livelihood of the poor population.
184. From the point of view of the products offered, the framework implicitly prohibits the MFIs from managing the means of payment, which constrains the MFIs from effectively participating in the objective of making the economy more bank-oriented.

Additionally, it explicitly makes no reference to microfinancing and to leasing operations that could be offered by these institutions.

185. From the viewpoint of financing the activities of controlling and supervising the sector, the costs involved are particularly high to effectively control and supervise the entire country and the rules do not give precise indications on the modalities of financing, control and supervision of the sector. Neither are there any precise directives for delegated supervision entrusted with other structures.

Table 3.4: Summary of the content of the legal and regulatory framework governing microfinance institutions in the DRC

	SACCOs	Microfinance companies	Microfinance Loan Enterprise Level 2	Microfinance Loan Enterprise Level 1	Non profit-making organisation for the promotion of social loans
<i>Statutory Form required</i>	Cooperative society	Limited Liability Company	Free choice compatible with society law	Free choice compatible with society law	Non profit-making organisation Constituted by members
<i>Authorised Activities</i>	Savings and credit	Savings and credit	Credit. But saving on special authorisation by Central Bank	Only credit with maximum of US\$250 per person per cycle	Social Credit to members
<i>Minimum capital required</i>	None	US\$100,000	US\$50,000	US\$15,000	None
<i>Type de supervision</i>	The Central Bank envisages the supervision of all registered stakeholders. Unfortunately, the sub-directorate in charge of microfinancing located only in Kinshasa lacks the necessary human and financial resources to carry out this task throughout the entire country.				Non profit-making organisations are not covered
<i>Prudential rules</i>	There is a code of rules for the banks, containing 2 prudential rules to abide by. Some prudential rules applicable to SACCOs are contained in the law governing SACCOs. For MFIs, the rules will be contained in a law on the activities and control of MFIs				
<i>Tax incentives</i>	Exempted from all duties and taxes on all savings and loans. Members are also exempted on their shares and	PLCs and Limited liability companies, which form the MFIs may take, are subjected to all the duties and taxes. Duty on profits does not allow deductibility of provisions for doubtful debts. The rate of sales tax, which will be replaced by the VAT system, varies according to the type of loan. It is 18% on financial charges, 0% on investment loans for professional purposes and 9% for other loans			Are exempted from paying some duties by nature of their status.

	SACCOs	Microfinance companies	Microfinance Loan Enterprise Level 2	Microfinance Loan Enterprise Level 1	Non profit-making organisation for the promotion of social loans
	revenue from savings				
Protection of depositors	There is no system yet for insuring deposits in SACCOs and MFIs.				
Policies on Interest Rates	There is no regulation fixing maximum interest rates on loans, or fixing a minimal remuneration on savings, both under microfinancing and in the banking sector. Nevertheless, the banks are required to show, for the intention of their clients, the remuneration tariffs for fixed deposits, as well as the schedule for interest rates. Specifically, the last provision does not exist with regard to MFIs and SACCOs.				
Options for conversion to other institutions	The Central Bank encourages associations and NGOs to convert to companies in order to better carry out the activity of microfinancing. Change from a civic society into a PLC and then into a Limited Liability Company is also possible.				

Source: Compilation based on the laws and instructions of the Central Bank

- *Constraints and risks that a newcomer in the sector might be confronted with*

- 186.** In the 2006 and 2007 publications of the Report “*Doing Business*” of the World Bank, the Democratic Republic of Congo was ranked 175th out of 175 countries in offering hospitality to potential investors. As a matter of fact, the general business environment is characterised by lengthy administrative procedures in processing accreditation, which makes it costly for a new investor to settle in, with all the offices responsible for processing and issuing the appropriate documentation being based in Kinshasa.
- 187.** Another formidable constraint is the lack of harmony between Company Law in the DR Congo and company law in other African countries. For example, the legal status required of an MFI that is to carry out a credit and savings business is one of a limited liability company. In the DR Congo, creation of a Limited Liability Company that is equivalent to a Liability Company in other countries requires authorisation by a government order. Furthermore, it must be noted that the process for obtaining all these authorisations can take more than 18 months, whereas in the case of the OHADA law, registration at a commercial court suffices and renders the process much faster. Level 1 micro finance loan enterprises have no other alternative but to transform themselves into Public Liability Companies (PLC), which, under the OHADA law, is equivalent to a Limited Liability Company.
- 188.** In addition to the above constraints, the legal environment and the decrepit overall legal framework governing business are not conducive to the development of the activities of the MFIs, with corruption and lengthy legal procedures being the order of the day in Congo. The formalities for executing judgements are complicated and rigid, especially vis-à-vis insolvent debtors. This constitutes an obstacle to the realisation of guarantees.

189. The final constraint is the lack of financial transparency and lack of statistical and accounting information. This is a result of the absence of a harmonised accounting plan for SACCOs and MFIs, of insufficient capacity in accounting and finance, for both the leaders and managers of MFIs, and of lack of external service renderers in accounting, namely auditors and chartered accountants.
190. Conscious of the need to build up a national finance sector, the actors in the Microfinance sector and the Government of the DR Congo undertook a brainstorming process that led to the elaboration of the premises (not yet discussed at national level) of what should be the national microfinance policy. The dialogue identified three strategic axes to enable the creation of a viable and permanent Microfinance sector by the year 2012, being private and integrated within the national finance sector. These axes are: improvement of the economic, legal and regulatory framework; offering diversified and expanding products and services; and putting in place an institutional framework that enables the concerted and harmonious management among the partners.
191. With regard to the improvement of the legal and regulatory economic framework, the government of the DR Congo has already opted for membership in the OHADA (Organisation for the Harmonisation of Commercial Law in Africa). The necessary contacts have been made and the DR Congo should soon integrate the OHADA principles in its legal and regulatory framework.
192. In view of all the foregoing, it is now timely that at the end of this analysis of the current situation, we come up with an analysis of the strengths and weaknesses, and of the advantages and the threats that may hamper the harmonious development of the micro finance system and thus annihilate the country's efforts in the fight against poverty.

4.3. A SWOT Analysis of the Microfinance Sector in the DR Congo

193. The analysis of the current situation and of the competition in the Microfinance sector enables us to identify the Strengths and Weaknesses within the existing institutions, but also the Opportunities and Threats brought about by the existing situation. These observations are summarised in the following table :

Table 4.5: Results of the SWOT Analysis of the Microfinance Sector in the DR Congo

I. INTERNAL STRENGTHS AND WEAKNESSES OF THE MFIs & ACTORS	
Strengths	Weaknesses
<p>- Some MFIs that manage to communicate accounting data on their activities (SACCOs of KIVU and international MFIs) present risk portfolios that are compatible with internationally recognised norms.</p> <p>See MIX Market</p>	<ul style="list-style-type: none"> - Absence of adequate training for the managers of the MFIs and SACCOs, portrayed by insufficient mastering of banking, financial and accounting techniques, resulting in poor performance in the institutions' activities; - Lack of maturity in management - Insufficient logistical means for the accomplishment of activities, processing of financial data, and monitoring of activities; - Absence of innovations and of a diversified range of financial products and services; - Often insufficient financial resources.

II. OPPORTUNITIES AND THREATS LINKED TO THE ENVIRONMENT

Opportunities	Threats
<ul style="list-style-type: none"> - Understanding the importance of microfinance by all the stakeholders: government, service renderers, and institutions; - Upcoming political and economic stability after a period of conflicts that had partitioned the country; - Commitment by the Government to support the sector; - Existence in the Central Bank of a sub-division in charge of supervising the sector and existence of a basic legal framework; - High demand for financial services linked to the presence of a dynamic informal sector and to a high business acumen developed during the days of crisis; - An increasing number of investors and donors interested in joining the sector. 	<ul style="list-style-type: none"> - Persistence of armed conflicts, which constitute an obstacle to peace, which is vital in development and in the setting up of institutions in the areas that have not yet been reached; - A legal and regulatory framework that is still insufficient for encouraging the emergence of a solid sector; as well as absence of tax incentives; - Lengthy and costly administrative formalities for obtaining accreditation, with all the processing offices being located only in Kinshasa; - Absence of a consensus on the nature of supervision and monitoring of MFIs to be put in place, in view of the country's vastness; - A legal system that is not yet up to standards for protecting the MFIs in recovering contentious loans; - Absence of financial transparency and lack of statistical and accounting data. - Lack of a savings and credit culture among a population that is accustomed basically to cash transactions; - Absence of a link between the Microfinance sector and the promotion of private entrepreneurship, which may negatively impact on the financing of small and medium enterprises; - Absence of synergy and collaboration between the stakeholders in the Microfinance sector and those in the banking sector, which may lead to a waste of resources.

COUNTRY 5: KENYA

5.1. General Presentation and some socio economic indicators

194. Kenya, with a surface area of 580,367km², is located in eastern Africa. It is bordered by five countries, namely Ethiopia to the north, Somalia to the north-east, Tanzania to the south, Uganda to the west and North-West. Located on the Equator and having a coastline along the Indian Ocean, the country's agriculture is one of the most prosperous in the region. Its animal reserves and its relief have made tourism and the connected services the strong force behind its economy

Table 5.1: Overview of some socio-economic indicators of Kenya

Population (Estimate 2009)	39,002,772 inhabitants
Surface area	580,367 km ²
Density (Year 2009)	67.2 /km ²
PIB /habitant (in parity with purchasing power)(2007)	1,542 US \$ (149 th /181)
Ranking HPI (2007)	29.5 % (92 nd /135)
Overall literacy rate (Estimate 2007)	59.6% (138 th /177)
Life expectancy at birth (Estimate 2007)	53.6 years (152 nd /176)
Ranking IDH (2007)	147 th rank/182
Population with no access to potable water (Estimate 2007)	43% (136 th /150)
Adult literacy rate (Estimate 2007)	73.6% (107 th /151)

Source: Various Compilations and UNDP (2009) *Human Development Report*

5.2. General overview of the Microfinance sector in Kenya

5.2.1. State of development of the sector and analyse of current situation at micro level

195. Micro finance in Kenya is a fast growing and dynamic sector, owing to the special attention the government and the Central Bank attach to it. They intend to use it to reach the vast majority of the population which does not have access to financial services. It was this determination that enabled the creation of the legal and regulatory framework between 2006 and 2009, in order to ensure the development of the sector and garner the results, which now show that the objectives are being attained.

196. The results of the FinAccess Survey 2009³³, which were made public in June 2009, revealed the following:

- A rise of 3.7% of the number of adults who managed to have access to formal financial services offered by the commercial banks and the Post Bank. The rate rose from 18.9% to 22.6% between 2006 and 2009;

³³ These results can be consulted on the following website: www.fsdkenya.org. The Central Bank hopes to see the barrier to the access to the financial products and services eased, with the coming into force of the *Sacco Societies Act* and the introduction of the *Branchless Banking*

- From another angle, there was a notable proportion of 17.9% of Kenyans who were served by Microfinance institutions and Cooperative Societies (SACCO) in 2009, compared to 7.5% in 2006;
- The proportion of the population that depended mainly on the providers of informal financial services such the tontines, savings and credit associations, traders and money lenders³⁴ went down from 35.2% in 2006 to 26.8% in 2009;
- Finally, the results showed that there was an marked increase in the proportion of Kenyans who had access to financial services and products offered by the providers of formal and informal services, that is, 67.3% in 2009 as compared to 61.6% in 2006, or a drop from 38.4% to 32.7% of the proportion of Kenyans excluded from financial services between 2006 and 2009.

• *Supply and demand of micro finance services*

197. The supply of microfinance services in Kenya is the work of various registered actors, regulated and/or supervised under different legislations, namely: commercial banks; development financial institutions such as the Agriculture Finance Corporation (AFC) and the Kenya Post Office Savings Bank (KPOSB); micro finance institutions operating under different institutional status: NGOs, Societies, Cooperatives, Tontines (ASCAs and ROSCAs) and money lenders, among others.
198. *The Commercial banks:* According to the 2008³⁵ Report, there were four commercial banks³⁶ engaged in microfinance operations. However, it should be noted that the number of banks with microfinance counters to specifically serve low income households, SME and TPE, is growing significantly. In addition to these commercial banks, the KPOSB³⁷ offers financial products and services, specifically savings products, to a wide range of the Kenyan population through a network of 87 branches across the country. As of 31 December 2008, it had 1.2 million deposit accounts with a total deposit volume estimated at Ksh. 10.1 billion.
199. *The Microfinance institutions:* The exact number of MFIs operating across the country is not precisely known. However, by the end of 2008, the Association of Microfinance Institutions (AMFI) had a total membership of 34 of which: the 4 commercial banks mentioned above, as well as 30 MFIs. The MFIs had a total of 1.44 million active deposit accounts for savings evaluated at Ksh. 15.80 billion. Out of these, 1.26 million clients obtained loans amounting to Ksh 47.52 billion. It should be noted that these 30 MFIs operated in 2008 through 825 branches scattered across the country, as compared to 648 branches in 2007 and 531 in 2006.

³⁴ ASCAs, ROSCAs, Money lenders, Shopkeepers

³⁵ Banking Supervision Annual Report 2008 p.15

³⁶ Equity Bank, Family Bank, K-REP et Co-operative banks.

³⁷ Which is a Government owned bank, regulated by a specific legislation under the supervision of the Ministry of Finance

200. *The Savings and Credit Cooperative Societies (SACCO Societies)*: Up to 2008, they were governed by the Co-operative Societies Act. In view of the development of the activities in this sector and of the problems of governance that had been observed, the government and the major actors agreed to get the financial cooperatives (Sacco Societies) out of the scope covered by the Co-operative Societies Act and to regulate and supervise them under a new legislation known as the Sacco Societies Act 2008, with effect from the end of 2009. According to the information available as of 31/12/2008:

- There were 5,350 Saccos, up from 5,122 in 2007 and 4,876 in 2006;
- There were 6.19 million members in 2007, up from 5.35 million in 2006;
- The total volume of fixed deposits was Ksh 53.61 million in 2007, as compared to Ksh. 38.47 million in 2006;
- The share capital was Ksh. 123.16 billion in 2007, as compared to Ksh. 110.93 billion in 2006;
- The volume of loans was Ksh. 104.98 billion in 2007, up from 96.36 billion in 2006.

201. The trend of the figures shown above corroborates the results of the FinAccess 2009 Survey in terms of positive results. Nevertheless, still according to this study, there is still a potential demand of 32% of the population that is yet to be satisfied.

- *The Technical Service Providers*

202. The professional association AMFI Kenya continues to play its role of a platform for all the microfinance institutions. With the assistance of various technical partners specialised in supporting and providing capacity building for the members.

5.2.2. Analysis of the current situation at the intermediate level: the market *infrastructure* and financial transparency

- *The Status of E-money System*

203. The environment within which the financial services are being offered in Kenya is constantly changing. Investments in information and communication technology constituted a major determinant in the improvement of the services rendered. Although at the moment these developments have mostly been felt in the classic banking sector, there is no doubt that in the near future, the micro finance sector will also follow the same trend. As a matter of fact, it was noted that:

- There was an increase in the number of points served by Automatic Teller Machines (ATM: DAB). 1,325 points in 2008, as against 1,012 points in 2007;
- The commercial banks, in partnership with mobile telephone operators³⁸, acquired software that led to the introduction of “mobile banking”;

³⁸ Case of Safaricom avec Equity Bank ; Standard Chartered Bank et Zain

- This tendency towards automation was the result of the cut-throat competition existing between the actors and a welcome avenue for improvement of the operational efficiency in the sector.

- *Transparency* *Financial*

204. In order to ensure financial transparency in the sector, the regulations provide for strict prudential rules in the matter of disclosure of financial information, of risk management, and of both internal and external audit. The operators are urged to respect the IFRS standards.
205. Within the framework of the banking sector, instituting a regulation for the establishment of Credit Reference Bureaus, which will serve as back-up to the **Risk Database** thanks to the information on the incidence of payments and credit in the banking sector.

5.2.3: Analyse of the current situation of the macro level: current regulation of the micro finance sector

206. Whereas micro finance activities had been exercised over the years, it was not until 2006 that a properly written legal, regulatory and supervision framework was put into application, and eventually became effective in 2008, through the following legal instruments:
- *The Microfinance Act, 2006*³⁹–
 - *The Microfinance (Categorization of Deposit-Taking Microfinance Institutions) Regulations, 2008*⁴⁰
 - *The Microfinance (Deposit-Taking Microfinance Institutions) Regulations, 2008* – Legal Notice No. 58 of 16th May 2008
 - *The Microfinance (Deposit-Taking Microfinance Deposit Protection Fund) Regulations, 2009*⁴¹ –
 - *The Microfinance (Deposit-Taking Microfinance Institutions Administrative Sanctions and Penalties) Regulations, 2009*⁴²
207. In accordance with this regulatory framework, micro finance services must be provided by the following two categories of micro finance institutions:
- Those that are permitted to take savings from the public and offer loans (*Deposit - Taking Microfinance institution*), under one of the following forms:
 - *Community microfinance institution*
 - *Nationwide microfinance institution*
 - Those that are only authorised to offer loans (*Non-Deposit Taking Microfinance Institution*),

³⁹ Special Issue, Kenya Gazette Supplement No.103 (Acts No. 19) of 2nd January 2007

⁴⁰ – Legal Notice No. 57 of 16th May 2008

⁴¹ Legal Notice No. 5 of 23rd January 2009

⁴² – Legal Notice No. 6 of 23rd January 2009

- As of 31 December 2009, only one Microfinance institution was formally registered to operate as a *Nationwide Deposit-Taking Microfinance Institution*; 33 applications were still being processed, 8 of which were likely to receive registration in early 2010⁴³.

5.3.SWOT Analysis of the Microfinance sector in Kenya

5.3.1. Strengths and Opportunities

208. Microfinance is a key sector, which enables the actors to effectively reach the rural areas. As a matter of fact, the geographical coverage of the service providers in microfinance comes in handy to cover the deficiency where classic banks are not represented in these areas.
209. The government's strong involvement and the clearly manifested goodwill to make microfinance an axis for the fight against poverty, both in the 'Vision 2030' and in the document of the poverty reduction strategy.

5.3.2. Weaknesses, threats and challenges to overcome

210. Although the Microfinance sector in Kenya has attained a decisive turning point in its development process, and it is expected to continue with its evolution in the market dynamics, it is still faced with a number of challenges⁴⁴ that have to be overcome if it has to be fully integrated into the country's financial system, by supplying a wide range of financial products and services to the majority of the population. The following are some of the challenges that have to be overcome:
- The fierce competition between banks and the microfinance institutions in taking savings. The only institution that managed to be registered in June 2009 struggled over six months of activity to be able to collect a mere Ksh. 70 million;
 - The culture of savings is not yet very well understood by the majority of the population. Many clients join microfinance institutions for nothing else but to obtain a loan;
 - Transformation of several service providers according the legal framework is expensive for the operators. A good number of them are not yet sufficiently ready to meet the exigencies in terms of reporting and declaration to the Central Bank, as the information and management system required calls for colossal investments;
 - A good number of managers need strengthening in capacity building to improve their competence in order to meet the challenges of their activities and to master the risks of micro finance. This calls for technical assistance in the short and medium term.

⁴³ Consultations with avec Timothy KIMUTAI , Manager Bank Supervision Department , Central Bank Of Kenya et Peter N GIKANG'A, Assistant Manager Bank Supervision Department, Central bank of Kenya.

⁴⁴ Idem

- Lack of support institutions: such as rating agencies and credits reference bureaus, to assist the MFIs in risk management;
- The outbreak of solidarity groups in the aftermath of the post-election disturbances and violence affected the microfinance industry and efforts must be made to stitch the links between the members of MFIs, which were broken as a result of the violence.
- The need and urgency to put in place a regulatory framework to cover the *Non-Deposit-Taking Microfinance Institutions*.

COUNTRY 6: RWANDA

6.1. General country presentation and the poverty situation in Rwanda

211. Rwanda is one of the most densely populated countries in Africa, with small land holdings and a few natural resources. With a surface area of 26,338 km², and a population of about 8.8 million, it has a population growth rate of about 2.4% per annum.
212. Having suffered the tragedy of the 1994 genocide, the country's social and education infrastructure was damaged and the quality of services, which was already below standards before the war, drastically went down, owing to the resultant shortage of human and financial resources. The country's demographic structure was also transformed after the genocide, with the women now comprising almost 54% of the total population.
213. More than 90% of Rwandans live on subsistence agriculture and, like in all other countries emerging from a conflict, economic growth and social change have been hampered by the lack of qualified human resources, and the country had to invest significantly in order to resorb this lack of resources and to increase its productivity.
214. In 2002, during the preparation of the Poverty Reduction Strategy Document, it was noted that 60% of the country's population was living below the national poverty line. The Government of Rwanda, conscious of the fact that the reduction of poverty could not be attained without improving access to financial services for the poor people, considered micro finance as a tool to be used in its drive to ensure that by the year 2015, the number of poor people will have dropped from 60% to 30% of the population.
215. In view of all the foregoing, the first document on the Poverty Reduction Strategy (PRSD) came up with a detailed definition of the many specific interventions programmed in the field of microfinance. The new Economic Development and Poverty Reduction Strategy (EDPRS) also recognised the importance of microfinance in the efforts for poverty reduction and stimulating economic growth in Rwanda. What is the status of the Finance sector in Rwanda; and what is the status of the development of the Microfinance sub-sector in the country; and what is the current practice in microfinancing in the country? These questions are answered in the following sections.

6.2. General overview of the Finance Sector in Rwanda (Banking, Cooperatives and Microfinance)

216. Commercial banks are the leading institutions in financing the Rwandan economy, in view of the total value of credit granted and the savings mobilised. As a matter of fact, in June 2006, the BNR (National Bank of Rwanda) estimated that deposits in commercial banks stood at 194 billion Rwandan francs, whereas the loans granted were totalling 185 billion Rwandan francs, as compared to 65 billion and 59 billion francs respectively in the MFIs.

These figures show that the commercial banks account for 76% of the overall financing of the economy and 75% in the mobilisation of savings. On the other hand, the institutions involved in micro financing, including the *Banques Populaires* (Peoples' Banks), cater for the major part of the network with 93% of all the branches opened by credit institutions across the country by June 2006, and reaching more than one million clients.

217. The rate of provision of banking services at the national level is estimated to be still very low, with only 10% of the population having an account in a formal financial institution by June 2006. However, the majority of these accounts have been opened with the *Banques Populaires du Rwanda*. The MFIs play a very important role in enabling large numbers of the population to have access to financial services. Considering the number of depositors and borrowers, the MFIs serve 88% and 90% respectively as against 12% and 10% for the commercial banks.

6.2.1. Analysis of the current situation and the state of development of the Microfinance sector in Rwanda

218. Much as peasants' inter-aid organisations have existed in Rwanda for a long time, micro finance in Rwanda is a sector that started to formally exist in 1975, with the birth of the first Popular Bank (*Banque Populaire*). The process for applying for accreditation at the BNR started in 2004, with intensive activity in 2005. It was accompanied by awareness campaigns organised by the BNR and the MINECOFIN (Ministry of Economic Planning and Finance) throughout the country. Towards late 2005 and early 2006, some MFIs that had failed to respect the required standards were closed and the process for their liquidation started.
219. We shall now examine the current situation and its impact on poverty reduction along three main axes namely: the institutions, the market infrastructure and regulation.

6.2.2. At the micro level: Microfinance institutions

- *Provision of Microfinance services*

220. An analysis of the table of the list of SACCOs and MFIs registered by the BNR shows that by 9 June 2006, 88 SACCOs and MFIs, as well as 134 popular banks had been either fully or provisionally registered. It is worth noting today that the popular banks under the umbrella of the *Union des Banques Populaires* (Union of Popular Banks) have completed their transformation from being cooperative societies to becoming commercial banks, with a legal status of a public limited company (PLC).
221. The geographical coverage of the MFIs is not even, with a major concentration in the towns and some trading centres. There is a glaring lack of services in the rural areas, which, incidentally, account for 80% of the country's population. The provinces located in the central area of the country, and particularly the City of Kigali, are the best served by microfinance institutions, while the provinces further east are the least served. It is also observed that the few institutions that seem to have been successful in the rural areas are those that work closely with farmers' cooperative societies for financing their production activities.

222. As for the services offered, there, as of now, only a few services and products on the market; and some MFIs are in the process of investing in the conception and development of new products. In general, the products offered are: ordinary loans, that is to say, individual loans that are given to individuals, associations and small enterprises with various means and guarantees; loans to women entrepreneurs who work on their own or exercise activities whose level is economically greater than that of those forming solidarity groups; and loans to savings and credit groups.

Table 6.1: Overview of the modalities of access to some of the available services

Type de loan	Conditions of eligibility	Ceiling and field financed	Cost of operations and practiced rates	Required guarantee
Ordinary Loan or Individual loan	<ul style="list-style-type: none"> • Be aged 18 and above • Deposits for at least six months • Having a financially viable project 	<p>3,000,000 Rwf</p> <p>A business, a small industry or craft activity</p>	1.7 % per month	<ul style="list-style-type: none"> - Immovable property - Pledge on savings
Loans to women entrepreneurs	<ul style="list-style-type: none"> • Be a woman and aged 18 and above • Accept to deposit a personal contribution equivalent to 30% of the amount to be borrowed 	<p>According to cycles:</p> <ul style="list-style-type: none"> - 300,000 Rwf - 600,000 Rwf - 1,200,000 Rwf - 2,000,000 Rwf and above <p>respectively for the 1st, 2nd, 3rd, and 4th cycles</p>	<p>1.1 % per month</p> <p>Duration of reimbursement is 8 months for the first cycle and 12 months for the other cycles</p> <p>Maximum 4 cycles</p>	<ul style="list-style-type: none"> Pledge on the 30% contributed Immovable property Valuables - Domestic appliances
Group Loans	<ul style="list-style-type: none"> - Man or woman aged 18 and above - Member of a savings and credit group - Having experience in trading activities - Deposit a personal contribution equivalent to 5% of the amount to be borrowed; - Accept to make a compulsory saving of 10% of the amount borrowed 	<p>-According to cycles:</p> <ul style="list-style-type: none"> - 25.000 Rwf - 50.000 Rwf - 75.000 Rwf - 100.000 Rwf - 125 000 Rwf - 150 000 Rwf <p>Respectively for the 1st, 2nd, 3rd, 4th, 5th and 6th cycles</p>	<p>1.1% per month</p> <p>Reimbursement period is 4 months for the first two cycles; 6 months pour the 3rd and 4th cycles; 8 months from the 5th cycle.</p> <p>Maximum 6 cycles</p>	<ul style="list-style-type: none"> Joint guarantee Pledge on savings of 5% of borrowed amount Pledge on 20% to 5th and 6th cycles

Source: Compilation of Activity Reports of the MFIs *AGASEKE, COOPEDU, INKINGI* (2005-2007) (US\$1 = 550 Rwf on average)

223. Some MFIs operating in the rural areas also give agricultural loans, salary advances, etc.

Type of loan	Ceiling in Rwf	Interest rate (% per month)	Other charges (%)	Reimbursement period	Reimbursement frequency
Petit commerce	400.000	3	-	4 months	Week
Agriculture/livestock	400.000	2	1	6 months	Depends on project
Salary advance	200.000	1.25	0.5	6 months	Quarterly
Domestic appliances	200.000	2	0.5	12 months	Monthly
Social Loans	60.000	1.25	-	3 months	Monthly
Trade and crafts	1.000.000	2	0.5	12 months	Monthly
Housing	1.000.000	1.5	0.5	12 months	Monthly

Table 6.2: Types of products offered by the RIM SA branch working in Ruhengeri

Source: Consultations with Twizerimana Bélancille, Branch Manager. (US\$1 = 550 Rwf on average)

224. Apart from the loans offered, MFIs offer two other types of savings products: non-remunerating sight deposits and fixed deposits whose remuneration depends on the term and amount of saving. Table 3.3 below gives some examples:

Table 6.3: Interest rates for fixed deposits

Amount	Terms and interest rates		
	3 to 6 months	7 to 12 months	Over 12 months
50,000 - 500,000 Rwf	4 %	5 %	6 %
500,001 – 1,000,000 Rwf	5 %	6 %	7 %
Over 1,000,000 Rwf	5.5 %	6.5 %	7.5 %

Source: Compilation of Activity Reports of the MFIs *AGASEKE*, *COOPEDU*, *INKINGI* (2005-2007)

225. The priority of MFI financing is mainly on urban activities, particularly small-time traders and the crafts industry.

Table 6.4: Some statistics on the activities of microfinance banks, MFIs and Cooperatives, as of 31/12/2006 or 31/12/07

<u>NAME</u>	<u>Nature of institution</u>	<u>Gross Loan Portfolio in US\$</u>	<u>Number of Active Borrowers</u>
<u>UOMB</u>	Bank	2,101,833 (31/12/07)	29,143 (31/12/07)
<u>RML</u>	Non-Bank Financial Institution	1,070,160 (31/12/07)	1,161 (31/12/06)
<u>CFE</u>	Non-Bank Financial Institution	1,169,863 (31/12/06)	841 (31/12/06)
<u>Union des SACCOs Umutanguha</u>	Cooperative/Credit Union	359,483 (31/12/07)	723 (31/12/07)
<u>Duterimbere</u>	Non-Bank Financial Institution	673,537 (31/12/06)	6,628 (31/12/06)
<u>ACB s.a</u>	Non-Bank Financial Institution	38,263 (31/12/06)	19 (31/12/06)

Source: Figures extracted from MIX Market on the www.mixmarket.org site.

- *Demand for financial products and services*

226. Regarding the demand for financial products and services, one can comfortably assert that the demand for financial services is quite high. As a matter of fact, when we compare the total number of people who have access to financial services, that is to say, a bank service rate of 10%, and the Rwandan population living below the poverty line of 60%, it becomes obvious that there is a high potential of demand that is yet to be satisfied.

227. As for the number of clients served by the microfinance institutions, a survey⁴⁵ carried out by the International Monetary Fund estimated that 15% of the economically active population in Rwanda have an account in a registered institution. On the other hand, although 21% of the active population have access to financial services, it is still a fact that the majority of Rwandans continue to live without basic financial services. Table 10 shows that the number of households in need of microfinance services is around 2.1 million inhabitants, that is to say, 400,000 households.

⁴⁵ I.M.F (2005), Rwanda Financial Sector Assessment.

Table 6.5: Estimated active population without access to financial services

	Statistic	Calculation
Population size	8.8 million	
Active population	53%	53%*8.8 million = 4.6 million
Active population with access to financial services	21%	21%*4.6 million = 966,000
Active population without access to financial services	79%	79%*4.6 million = 3.6 million
In terms of population below poverty line	60%	60%*3.6 million = 2.1 million
In terms of households below poverty line	Average household size = 5.3	400,000

Source: compiled from PRSP, Minecofin Census 2002, <http://www.popcouncil.org/pdfs/wp/144.pdf>

228. As for the expressed needs for microfinance products, when requesters of micro loans are asked what they would do with the micro loans obtained from the MFIs, the commonest uses mentioned are: livestock farming and purchase of fertilizers; take advantage of some business opportunities; engage in agriculture or buy a piece of land; construct or purchase a house; build up an emergency fund; buy foodstuffs or raw materials; improve or diversify one's business; or acquire some domestic appliances.
229. In Rwanda too, the studies for the impact and satisfaction of the beneficiaries of micro loans are not regularly carried out. However, the beneficiaries express their satisfaction for the following reasons: security and ease of access to MFIs, interesting loan conditions, proximity and rapidity, as well as reasonably affordable loan guarantees.
230. A survey carried out among the beneficiaries of micro loans from three MFIs in Kigali⁴⁶, namely *AGASEKE*, *COOPEDU* and *INKINGI*, showed that the beneficiaries in the urban areas have invested in activities that fall within the service sector and in small businesses: beauty salons, restaurants, sale of wrappers, hardware, tailoring workshops, sale of second hand clothing, and sale of foodstuffs. Regarding ordinary loans, the funds obtained were mostly used for the improvement of residential houses, with the intention of leasing them to tenants; while the group loans were mostly used for the sale of foodstuffs and second-hand clothing. On the other hand, the women entrepreneurs oriented their funds towards restaurant services, beauty salons and the sale of wrappers.
231. In the same survey, it was found out that the beneficiaries who oriented their funds into a productive activity also stated that the micro loans, through the development of their activities, contributed to hiring additional staff and hence to the reduction of unemployment. Others stated that their income went up, although they claimed that the additional revenue was quickly taken up by their multiple needs: medical care, education for their children, and acquisition of domestic appliances. In short, the improvement of comfort in their livelihoods and the financing of education for their children were the two most important positive results mentioned by the beneficiaries of these loans.

⁴⁶ Uwayezu Pauline (2008): Miffs and the promotion of self- financing capacities of members. Degree dissertation, Adventist University of central Africa, Kigali, July.

232. From the above results, it is easy to appreciate the impact of micro loans in the sphere of poverty reduction. The beneficiaries of micro loans in the urban areas have managed to improve their day-to-day living conditions, to afford better medical care and to have better access to education for their children, thanks to the moderate income-generating activities that they managed to set up. As for the rural areas, they have not, in general, benefited from these services, owing to the geographical location of the service renderers.

- *Technical service providers*

233. With regard to the microfinance networks, it should be pointed out that some MFIs had decided to form an association, which they named the Rwandan Microfinance Forum (RMF). However, the majority of the MFIs did not join this forum, which was supposed to constitute a platform between the practitioners in microfinance and their partners and it was dissolved, and a new structure was created in 2007, although the management team was only set up in May 2008. Today, the Association of Microfinance Institutions of Rwanda (AMIR) has a total of 60 registered members and has already organised a number of training seminars for its members⁴⁷.

234. Several international donors offer support in the development of the sector through financial assistance or through capacity building in microfinancing. Among others, one can mention: IFAD, ADB, USAID, WOCCU, DID, CTB and AQUADEV.

235. As for the professional and academic training institutions in the field of microfinance, some of the academic institutions have now started including modules on microfinance in their programmes. The *Centre de Recherche et d'Information en Socio-Economie Rurale, CRISER* (Research and Information Centre in Rural Socio-Economy) at the Butare University conducted studies on microfinance initiatives. However, the School of Banking and Finance could play a major role in the training of practitioners in this sector.

6.2.3. At the micro level: Market infrastructure and financial transparency

- *Status of the payment and e-money system, and financial transparency*

236. Issuing of chequebooks and of credit and debit cards is still the preserve of only the registered banks, some of which have already introduced automatic teller machines. Given the non-usage of cheques in many of the MFIs, they are not yet accepted in the compensation house. Nevertheless, it still remains a fact that the payment system must continue to undergo modernisation in order to facilitate financial transactions for all the levels of the population.

⁴⁷ Consultation with E. SINZABAKWIRA, Research & Product Development Specialist, AMIR (Association of Microfinance Institutions in Rwanda)

237. In order to ensure financial transparency, there must be at least one referential accounting chart and database for compiling the statistics that can enable the widening of access to financial services. In Rwanda, there are some audit firms that operate within the financial sector and registered at the National bank of Rwanda (BNR). However, these firms are rather specialised in auditing in the classic banking sector and they would need to build their capacity in understanding the special risks found in the MFIs.
238. All firms are bound by law to disclose their financial information. However, this law is difficult to apply, owing to the short supply of auditors and certified accountants that have to carry out this task. This matter has to be resolved. Additionally, on the one hand, there is need to reform the OCAM accounts chart that is in use at present in the audit firms, in order to include the IFRS standards and, on the other, to set up a strong association of the firms operating in the audit sector, which association would participate in the disclosure of the accounting standards.

6.2.4. At the macro level: Current regulation of the Microfinance Sector

239. In 1999, the BNR was given the responsibility of regulating and supervising the activities of the MFIs. The years 2002 and 2003 were characterised by the creation of two instructions, one governing the activities of the microfinance sector in general, and the other being a specific instruction on the running of savings and credit cooperative societies.
240. Pursuant to Law No. 08/99 on the regulation of banks and other financial institutions, two instructions governing the activities of microfinance institutions were issued. These are Instructions No. 06/2002 and 05/2003. These instructions on microfinance treat all the MFIs in the same manner, whatever their level or whatever services they render. Subsequently, the registration procedure, the prudential ratios to be respected, as well as the requirements in internal audit and information management, became basically the same for all the MFIs.
241. Applying a standard type of regulation and the extended supervision were chosen for protecting the depositors' savings and in order to have viable microfinance institutions with a solid capital base and healthy and prudent management, so as to control the microfinance institutions which only offer credit as a service, in order to avoid the risks of depleting the capital in reserve (especially given Rwanda's small size) and to contribute to the encouragement of a good credit culture. Lastly, it was also aimed at avoiding self-regulation by some ridge organisations, which regulation can only succeed if the MFIs have a good structure or accept to abide by the standards fixed by such a ridge organisation.
242. Three legal entities are allowed for operating an MFI. These are the legal entity of a cooperative society, of a public limited company and of a limited liability company. Also, within the sector, there are some informal entities of microfinancing, namely the *tontines* that are commonly known as *Ibimina*.

- *Identification of the weaknesses in the legal and regulatory framework*

243. The legal and regulatory framework governing the microfinance sector came into force in 2002, but there still remains a challenge to overcome. As a matter of fact, during its conception, the BNR did not bring together the professionals in the sector around any discussion on the supervisory framework. The criticism from the actors in this sector is that it was just a replica of the one used in the banking sector and that, as such, it did not adequately take care of the complexities of the microfinance sector. Subsequently, in order to listen to these criticisms, the National Bank of Rwanda decided to involve the MFIs in some of the discussions.

244. The regulatory framework is also criticised for the glaring absence of categorising the existing MFIs and the types of services offered. And in wanting to enlarge the base of the entities to be supervised and controlled, because of the choice of the supervision system, the BNR slows down the registration process because of lack of sufficient human resources needed in supervising the sector.

245. Lastly, another problem that is plaguing the regulation and the supervision of the Microfinance sector is the fact that control of the cooperatives sub-sector was also put under the Ministry of Commerce (MINICOM), which may reduce the efficiency with which the cooperatives are supervised, again due to insufficiency of human resources and lack of competence within the MINICOM.

- *Identification of constraints and risks that a new comer in the Microfinance sector might be confronted with*

246. Being aware of the need to build an inclusive national financial sector, the Government of Rwanda, in collaboration with the stakeholders in the microfinance sector, published a document on the national microfinance policy.

247. In order to enable micro financing to reduce the number of people living below the poverty line from 60% to 30% by the year 2015, seven strategic axes were identified. These are: the creation of a coherent legal and regulatory framework; diversification of refinancing; creating tax incentives; capacity building for human and managerial resources; support to the development of products tailored to the needs of the poor; and a new classification of microfinance institutions in the country.

248. In view of all the foregoing, it is now important at the end of this analysis, to carry out a review of the strengths, weaknesses, and advantages of the existing situation; and then examine the threats that may prevent the harmonious development of a desired microfinancing system and thereby annihilate the country's efforts in the fight against poverty.

6.3. A SWOT Analysis of the Microfinance Sector in Rwanda

249. From the government document that spells out the national microfinance policy to be put in place, the following strengths and weaknesses, as summarised in the table below, can be pointed out.

Table 6.6. Results of the SWOT analysis of the microfinance sector in Rwanda

I. I. INTERNAL STRENGTHS AND WEAKNESSES OF THE MFIs & ACTORS	
Strengths	Weaknesses
<p><i>For the performing MFIs:</i></p> <ul style="list-style-type: none"> - Good representation on the national territory - Fast services at the counter - Perception, professional image and premises judged appropriate by the clients; - Computerised management of operations - Good team spirit; young, dynamic and motivated staff; - Shareholders with excellent competence in matters of governance 	<p>Many MFIs are not professionally managed;</p> <p>Lack of transparency standards and performance indicators, thereby inhibiting efficient management of financial and non-financial affairs;</p> <p>Lack of transparency in the cost of products and services rendered;</p> <p>Non-respect of the rules by some MFIs;</p> <p>Existence of destructive competition between some MFIs;</p> <p>Poor governance within the MFIs, characterised by the existence of conflicts of interest and by the lack of respect of the principles of cooperation;</p> <p>High rates for non-performing loans in several MFIs;</p> <p>Lack of financial discipline in some MFIs, particularly the insufficiency of own funds to guarantee deposits;</p> <p>Absence of consultation between the MFIs on the background of the indebtedness of clients;</p> <p>Lack of capacity in human resources, equipment and investment capital (long term resources);</p> <p>Absence of separated management between the microfinance section and the commercial activities section in the SACCOs which are, at the same time, production cooperatives.</p>

II. OPPORTUNITIES AND THREATS ASSOCIATED WITH THE PRESENT SITUATION	
Opportunities	Threats
<ul style="list-style-type: none"> • Substantial unexploited demand. The majority of the active poor population does not have access to financial services. • Economic and dynamic entrepreneurial potential, which includes women; • High population density is an opportunity for the MFIs to increase their penetration; • Potentiality of attaining timelessness because of limited competition; • Interest of the banking sector to join the microfinance sector: the banks have reviewed their loan products and would now like to introduce the MFIs as debtor clients. • Existence of a platform of practitioners. This can allow the sharing of ideas and experiences and the lessons learnt, and coordination of efforts and collaboration. It can also serve as an entity for self-regulation, particularly for the MFIs that only offer loans. • Development by the Government of the national microfinance policy. • The interest shown by an active community of donors and the existing foreign aid policy. • The surface area of the country makes it easy to build an inclusive financial sector that is easy enough to handle, as opposed to the situation in huge countries with more complex administrative structures and regulations. 	<p style="text-align: center;"><i>From the point of view of the beneficiaries of micro loans and competitors</i></p> <ul style="list-style-type: none"> • Over-indebtedness of some microfinance beneficiaries, having secured loans from several microfinance institutions; • Abuse or non-respect of the rules of joint surety; • Bad usage of the loan, characterised by its utilisation for ends other than the ones stipulated in the loan file, which leads to insolvency; • The old habit of receiving gifts, which encourages ill-intentioned individuals to refuse to pay back the loan, under the pretext that the funds received were meant for poverty reduction; • Lack of capacity to identify viable projects and lack of information on investment opportunities; • With some banks being interested in microfinancing activities, they often hijack human resources from the performing MFIs; • Existence of several competitors with unconventional practices <p style="text-align: center;"><i>From the point of view of the administrative authorities</i></p> <ul style="list-style-type: none"> • Low level of development of basic infrastructure in the rural areas; • Limited efficiency of forced recovery; • Absence of detailed information on the formal and informal MFIs; • Lack of a clear definition of the role of the local authorities in the processing of loans and in the settlement of disputes inherent to the microfinance sector, particularly the absence of an appropriate judicial framework; • Vague nature of the registration process, especially for the SACCOs (that is to say, the role of the BNR vis-à-vis the MINICOM); • Controversial experience with public projects using microfinance funding; <ul style="list-style-type: none"> •Lack of flexibility in the regulations issued by the BNR.

COUNTRY 7: SUDAN

7.1. *General Presentation and some socio economic indicators*

250. The Sudan is one of the largest countries in Africa, with a surface area of 2,505,800 km². Its main neighbours are: Libya to the north-west, Egypt to the north, Eritrea and Ethiopia to the east, Chad to the west, the Central African Republic to the south-west, and the Democratic Republic of Congo, Uganda and Kenya to the south. Its north-eastern coastline is along the Red Sea. The country is traversed by the River Nile and it is endowed with vast natural resources.
251. From the demographic point of view, the Sudan is a nation composed of:
- A number of religious, ethnic and linguistic groups that make up a population of approximately 41 million inhabitants, 77% of whom reside in the North of the country, according to a census carried out in 2008.
 - With an unemployment rate estimated at 18.7%, the rest of the active population is employed as follows: 80% in the agriculture sector, 7% in industry, and 13% in the services sector.
252. With regard to the territorial distribution, the regions of the north of the country cover the bigger portion of the Sudan and have the country's most important urban areas. The 18 million Sudanese who live in these urban areas are Arab-speaking and Muslims.

Table 7.1: Overview of some socio-economic indicators in SUDAN

Population (2008)	41,350,000 inhabitants
Surface area	2,505,800 km ²
Population Density (Year 2009)	16.5 inhab./km ²
PIB /habitant (in parity with purchasing power 2007)	2,086 US \$(137 th /181)
Ranking HPI (2007)	34.0% (104 th /135)
Overall Literacy Rate (Estimate 2007)	39.9% (168 th /177)
Life expectancy at birth (Estimate 2007)	57.9ans (142 nd /176)
Ranking IDH (2007)	150 th rank / 182
Population with no access to potable water (Estimate 2007)	30% (113 th / 150)
Adult literacy rate (Estimate 2007)	60.9 % (126 th /151)

Source: Various Compilations and UNDP (2009) *Human Development Report*

253. From the economic point of view, over the past years, the Sudan managed to improve its economic prospects which were previously very sombre, and it also heightened its international image through healthy economic policies and through investment in the infrastructure.
- From 1997, the country started applying a number of macroeconomic reforms in partnership with the IMF.
 - In 1999, the Sudan started exporting crude oil and registered its first trade surplus;
 - The monetary policy that was put into application succeeded in stabilising the country's exchange rate.

- The petroleum industry attracted a lot of direct foreign investment and gave a significant boost to economic growth.
 - The increased production of petroleum led to the growth of light industry and to the widening of free export areas, thereby contributing in supporting the country's GDP.
254. Politically, the North and the South went through two decades of war, but a Comprehensive Peace Agreement was concluded by the two belligerents in 2005. And in order to respond to the challenges of the Peace Agreement with the South, the country undertook a number of political and institutional reforms aimed at sustaining economic growth and maintaining macro-economic stability. This development therefore constitutes a great source of optimism for the country.

7.2. General Overview of the Financier Sector in Sudan

255. The years of conflict created two different economies for the Sudan: a weak, subsistence economy in the South, against a dynamic economy capable of attracting foreign investments in the North. Owing to the religious differences between the two regions, North Sudan and South Sudan adopted different banking systems:
- The South used classic banking principles; while
 - The North practiced Islamic banking principles, which govern the financial sector by using traditional Islamic instruments in the conduct of its operations.
256. The Sudan now uses two financial systems: an exclusively Islamic financial system in North Sudan; and a conventional finance system in South Sudan.
257. The financial system is supervised by the Central Bank of Sudan (CBOS), which works on behalf of the Government of National Unity. While the Bank of South Sudan (BOSS) remains part of the Central Bank of Sudan (CBOS), it only has the power to register the financial institutions that operate in the ten States of the South. Thus, the CBOS is responsible for⁴⁸ :
- Issuance and management of macroeconomic, monetary and credit policies;
 - Regulation and supervision of the banking sector;
 - Issuance of currency
 - Management of the Compensation House of all the banks in Sudan
 - Promotion and development of the banking sector with a view to allow for balanced economic and social development, as well as economic stability.
258. The CBOS supervises a diversified sector which is made up of:
- 33 registered banks, of which
 - 26 are registered as commercial banks, (2 belonging to the State, 2 being branches of foreign banks, and 22 joint-ventures)

⁴⁸ Obtained from the Central Bank of Sudan Act (2006); and from the Central Bank of Sudan Annual Report (2007).

- 5 banks registered as ‘specialised banks’ (4 belonging to the State and one joint-venture). Among these banks, 3 are major providers of microfinance⁴⁹ products.
- These banks are organised in a network of 522⁵⁰ branches, but which are unfortunately concentrated in the central river region of Khartoum. As a result, in accordance with African standards, the use of the bank in Sudan is relatively high and the rate of use stands at 144 bank accounts for every 1000 adults⁵¹
- The financial sector is dominated by a very big commercial bank belonging to the State and in crisis, the Omdurman National Bank (ONB), which accounts for 28% of the total volume of loans (2008) in the sector, and the vast majority of the loans are considered to be in dispute. The government has undertaken to restructure and privatise the bank. Its restructuring plan had been envisaged to start in late 2009⁵².
- At least 12 financial services societies and one leasing society;
- A State institution that issues “*sukuk*⁵³” and other financial titles that are ‘Charia compatible’;
- The Bourse of Khartoum has about 40 companies on its list;
- 22 Foreign Exchange companies⁵⁴ ;
- 15 Insurance companies, 4 National Pension Funds⁵⁵. The Insurance sector is quite advanced⁵⁶ in Sudan, where the first insurance company offering products (*Takaful*) that are in conformity with Charia was established in 1979.

7.2.1. State of development of the sector analysis of the current situation at the micro level

259. Micro finance has been exercised in Sudan for more than ten years. But the year 2006 marked the beginning of control and support by the Government, with :

- the production of a document outlining the vision for the development and expansion of the microfinance sector in Sudan⁵⁷ (July 2006),

⁴⁹ The Agricultural Bank of Sudan; The Savings and Social Development Bank et the Family Bank, all operating from the State of Khartoum.

⁵⁰ See <http://www.cbos.gov.sd/arabic/id/bankingsystem/spread.pdf>

⁵¹ See “Getting Finance database” in World Bank : Banking the Poor, 2009

⁵² See Ministry of Finance and National Economy & CBOS: Sudan Memorandum of Economic and Financial Policies to IMF, June 2009.

⁵³ Islamic obligations borrowing

⁵⁴ According to IMF: SMP Sudan Program Note, July 2009, the Central Bank is responsible for supply foreign currency to the bureaux de change and to the commercial banks to respond to the private demand.

⁵⁵ Pensioners Fund, the National Social Insurance Fund,

the Industrial Finance Fund and the Bank Deposit Security Fund, this list must certainly be updated: it was copied from the CBOS website on the following link: http://www.cbos.gov.sd/english/id_e/banks/banks.htm

⁵⁶ CBOS: Annual report 2007, it can be noted that: in 2006, gross insurance premiums by the industry overshoot the net settlements by 21% .

- the creation within the CBOS of an autonomous unit specialised in microfinance, known as the Microfinance Unit (March 2007). It was also simultaneously set up in the Bank of South Sudan.
 - the organisation, with the support of the ...of the first consultative⁵⁸ forum on microfinance, to ensure the sensitization and acceptance of the strategic vision (November 2007);
 - the declaration by government of the year 2008 as the best Year of microfinance in Sudan;
 - the publication of the regulatory framework on microfinance⁵⁹ (July 2008)
 - the first assessment⁶⁰ of the progress achieved in the implementation of the strategy was carried out in November 2008.
- *Provision of micro finance services*

260. By the end of December 2007⁶¹:

- the total assets of the banking sector (including South Sudan) stood at approximately SDG 26.1 billion (USD 10.4 billion) by the end of 2007;
- total deposits stood at SDG 13.9 billion (USD 5.5 billion), of which 88% came from the private sector. Of these deposits, SDG 5.6 billion was mobilised through current accounts.
- 93% of these deposits were used for loans as follows:
 - 20 % for imports,
 - 17 % for local commercial activity,
 - 10 % for industrial activity,
 - 7 % for agriculture and
 - only **3%** for ‘social development’ including microfinance.
- Out of these loans, 58 % were *Mourabaha*⁶² contracts.

⁵⁷ See CBOS & UNICONS: A Vision for the Development and Expansion of the Microfinance Sector in Sudan, July 2006

⁵⁸ See Forum Report on First National Consultative Forum on Microfinance: Microfinance Best Practices in Conflict-affected Countries – Challenges and Opportunities for Sudan, November 2007.

⁵⁹ See CBOS : Microfinance Regulatory Framework July 2008

⁶⁰ See UNICONS: Evaluation of Implementation of the Strategy for The Expansion and Development of the Microfinance Sector in Sudan, Nov 2008.

⁶¹ CBOS: Annual report 2007,

⁶² The most widely used contract in Islamic financing is used for financing corporal immobilisations and goods. The buyer must specify his needs, and the financier will then be required to obtain the object from the market and to resell it to the buyer at the cost price, adding a fixed service cost, mutually agreed upon before the signing of the contract and with no option for re-buying (to avoid speculation). The change of ownership takes place when the buyer takes possession of the asset (whether he has been paid or not). But the amount is generally deposited in the bank in equal monthly instalments. Before that, the financier (the bank) is the owner of the assets and the attendant risks. Current Sudanese regulations limit the use of this type of contract to a maximum of 30 % of the bank’s holdings in North Sudan.

261. The operators in the sector are:

- *The Government*, which, in 2008, through the Central Bank Of Sudan (BOS), started a pilot project known as the Sudan Pilot Microfinance Project, by injecting SDG 115 million for inciting the commercial banks to provide micro financing to small enterprises and the poor⁶³
- *The Commercial Banks*, which, in conformity with the regulations of the CBOS and with the modalities of financing fixed by the Central Bank, must commit 12 % of the ceiling of annual loans to microfinance (in the form of loans allotted to craftsmen, small producers, etc ...) The majority of the banks concentrated on the provision of micro finance services in the State of Khartoum, which, in addition to being the country's capital city and the main business and financial centre, is equipped with an appropriate infrastructure. As a result of this, microfinance operations are more readily available and better developed in the capital than in the other regions of the country⁶⁴.
- *The FAMILY BANK*⁶⁵ was the first microfinance institution to have been registered in Sudan, in accordance with the regulation of July 2008.
 - A private initiative of the 'Businesswomen's Association of Khartoum State', the bank was registered as a Society emanating from the partnership between the Association and the Government. Its main shareholders are: The Central Bank of Sudan (CBOS), Khartoum State, the National Social Insurance Fund and Zakat Chamber.
 - Its main objectives are: to assist the poor to become full time members of the financial sector; to create employment opportunities for target groups; assist the target groups to improve their living conditions; to encourage the growth of the small and medium enterprises sector.
 - The targeted groups are: the poor but active members of the population with work experience, but who do not find employment; graduates looking for employment, but who are capable of start up a business; small time producers and farmers.
 - Its activities started in August 2008 and as of 31 December 2009, its loans portfolio was standing at SDG 6 million (USD 2.4 million), for a total number of about 12,000 clients.

The initial deposit by buyers is limited to a maximum of 10% for the purchases of goods destined for agricultural use, manufacturing, medicine and exports; and to 25% for buyers of any other merchandise.

⁶³ Nine banks were beneficiaries of this fund. They are : Agricultural Bank of Sudan (ABS), Farmer's Commercial Bank, the Savings and Social Development Bank and the Real Estate Commercial Bank received the lion's share of the financing and the ABS alone took close to 30% of the amount. Information received during consultations with Mr. Yassir Ahmed Hassan Jamie, Deputy Director Microfinance Unit CBOS

⁶⁴ The geographical distribution of the branches of the banking network stands as follows: 34% in the State of Khartoum, 20 % in the Central States ; 14 % in the Eastern States , 11 % in the Northern States, 10 % in the State of Kordofan; 8 % in the State of Darfur, and the rest, that is, 3 % in the States of the South.

⁶⁵ Information obtained during consultations with Dr. Abdulrahman DIRAR General Manager of the Bank

The demand is very high and the market to be covered is quite vast across the entire country. Unfortunately, however, the resources for financing the loans are rare and would be expensive if the bank was to seek refinancing from foreign sources.

- The products offered are totally Islamic products, which do not necessitate the transfer of cash to the beneficiaries of the loans. The rate of reimbursement stands at 95 %. The bank is trying its best to incorporate in its offer of services, products of insurance, money transfer and savings.

262. The SOCIAL DEVELOPMENT FOUNDATION (SDF)⁶⁶ is another structure that is well implanted in the sector since 1997, with the objective of poverty reduction in the State of Khartoum, following the policy for liberalizing the economy, which brought about a high rate of poor people. At the moment, this Foundation offers two lines of products: - social development and microfinance.

- Its main activities consist of: financing small income generating activities with the objective of creating a nucleus for the creation of SME; to form Community Based Organisations by bringing together the inhabitants of poor residential areas in accordance with their activities, with a view to assisting them to take care of themselves.
- It started its microfinance activities in 2006, in partnership with the State of Khartoum, with a portfolio of 2,000 members. In 2009, thanks to the partnership with CBOS and the State of Khartoum, its loan portfolio rose from SDG 7 million (USD 2.8 millions) to SDG 26 million (USD 10.4 million) and to 15,000 clients. Currently, the activities are carried out through 7 branches based in various localities.
- The rate of recovery is around 97 % and a significant part of the activity is devoted to training and to the training of the beneficiaries before they receive the money.

263. Apart from these two major actors, there are also some other service providers who are active in the field of micro finance services. These are:

- NGOs
- Rural development projects: financed by foreign development partners;

⁶⁶ Information obtained during consultations with Mr. Muhamed KHIDIR BELEY, General Director

- *Demand for financial products and services*

264. There is a very high demand for microfinance services in Sudan and it is not yet satisfied. The studies⁶⁷ carried out respectively in 2006 (UNICONS), in 2007 (PLANET FINANCE), in 2009 (CBOS – UNHCR – UNDP), revealed unsatisfied demand in terms of savings and loan products in the urban areas, and specifically for the SME.

- The needs in financing were expressed mainly for: extension of activities (66 %), revolving fund (35 %), financing for start up of activities (23 %), financing of assets (23 %), and financing for security reasons (8 %).
- 71 % of the micro entrepreneurs also expressed demand for savings services.
- There was also expression of demand for insurance products for 79 % of the micro entrepreneurs: health insurance (79%); social insurance (59 %), insurance for assets (42 %) and retirement and pension funds (23 %).

- *The Technical Service Providers*

265. There is a heavy presence of service providers who contribute through their actions in assisting the micro finance sector in Sudan to develop:

- *The Frankfurt School of Finance and Management*, which, in collaboration with a local consultancy firm, developed modules for bank training to be administered over 5 days for the benefit of bank personnel. These modules were introduced with success in the programme of the Sudanese Higher Academy for Finance and Banking.
- The Sudan Microfinance Development Facility (SMDF), a joint venture between the Sudanese government and the World Bank (Multi-Donor Trust Fund) to the tune of USD 10 million, injected by each party for financing and capacity building for the actors in the industry and of microfinance in development. This fund is managed by the Frankfurt School of Finance and Management.
- UNDP, UNHCR and FIDA, which approved the preparation of the interventions in microfinance and subsistence activities respectively, in certain development projects and for refugees, and in rural development projects.
- Unfortunately, however, all the service providers in microfinance have not yet taken steps to form an association that should play the role of facilitating the sharing of experience and good practices in microfinance and as a key actor with the government.

⁶⁷ These studies were carried out either for the preparation of the document of the CBOS on the vision on microfinance in the Sudan, or for the extension of microfinance in some regions.

- UNICONS : Situational Analysis of the Status of Microfinance in Sudan, March 2006
- PLANET FINANCE : Market Research report Khartoum state, May 2007
- CBOS, UNHCR & UNDP : Microfinance Consultancy to Eastern Sudan , November 2009

There were some efforts made at the level of the Social Development Foundation to bring together the cooperative societies which act as intermediaries within the framework of social development, but the commercial banks, and those specialised in providing microfinance services, have not yet taken any steps into this direction.

7.2.2. Analysis of the current situation at the intermediate level: *the market infrastructure and financial transparency*

- *State of E-money system and of financial transparency*

266. The telecommunications sector is undergoing rapid expansion in the Sudan and a number of key services are being prepared for use in the banking sector. However, although the country enjoys an excellent cellular network, mobile telephone banking has not yet gone deep into the Sudanese interior. But the regulatory structure for transfers by mobile telephone is in the process of being approved.
267. Whereas the Information Technology industry is booming, the micro finance institutions do not seem to have taken computerisation seriously with regard to computerising their accounts, information and management systems, and for transmission of statistical data between them and the banking institutions and private sector service providers.
268. There also seems to be insufficient auditing for the financial information disclosed by the service providers, probably because the inspectors of the Central Bank of Sudan carry out audits in the banks.

7.2.3. Analysis of the present situation at the macro level: current regulation in the micro finance sector

269. The regulatory and supervisory framework that was put in place in July 2008 covers several aspects and internationally recognised good practices; and comprises the following important points:
- The definition of microfinance and the criteria for being considered as a microfinance client or poor (salary not exceeding the double of the average salary of a Sudanese or poor), as well as the maximum amount of micro financing⁶⁸ ;
 - Categories of institutions:
 - o *Deposit Microfinance Banks and Finance Institutions*: can take deposits and must take a specific legal form;
 - o *Non Deposit Microfinance Banks and Finance Institutions*: not allowed to take deposits from the public
 - The requirements of the minimum capital needed for exercising a microfinance activity, which are fixed in accordance with the location:
 - o SDG 10 million (USD 4 million) in the Federal Capital or in the capital of a State;
 - o SDG 5 million (USD 2 millions) in the up-country areas.
 - The internal and external control requirements in conformity with Bâle I; and in matters of governance.
 - The prudential ratios covering the different aspects of risk management;
 - The authorised activities (22) and prohibited activities (9) ;

7.3. SWOT Analysis of the micro finance Sector in Sudan

7.3.1. Strengths and Opportunities

270. The serious commitment to social development by the governments of North Sudan and South Sudan, which identified microfinance as an essential component of the financing strategy for poverty reduction in 2006.
271. The Government of National Unity is the most important source of funds for microfinance in Sudan. Through various joint-ventures, using revenue from the oil industry, it participates as an equal share holder with the foreign partners.

⁶⁸ - Microfinance clients are defined as a person with a monthly income not exceeding twice the minimum salary of a Sudanese and whose productive assets with the exclusion of land, do not exceed a value of SDG 10,000 (USD 4,000), and who proves that s/he is not a regular employee of any organisation, and aged not below 18 years or more than 60 years.

- The poor is that one whose annual income is lower than the minimum amount taxable by the law
- Micro-financing is limited to a maximum of SDG 10,000 per contract (USD 4,000).

272. The good strategic vision of the Central Bank for facilitating the development of the microfinance industry through good practices in the country on the one hand and, on the other, the requirement for the commercial banks to allocate 12 % of their holdings to microfinance, while adhering to restrictive profit margins.
273. The existence of a regulatory and supervision framework with several aspects and internationally recognised good practices.

7.3.2: Weaknesses, constraints and challenges to be overcome

274. From the discussion with the various operators⁶⁹ met, the following weaknesses, constraints and/or challenges have been listed:

- Lack of capacity building in many service providers who, in most of the cases, without sufficient training and without the capacity to adapt bank products to micro financing, were provided with capital for encouraging the development of the sector. With this situation, there is a risk of failure of the pilot project.
- A strong concentration of bank branches and of the supply of microfinance products in the urban areas.
- The embargo imposed on banking operations in the Sudan has demobilised certain donor organizations that are committed to assisting the development of the microfinance sector.
- Although the commercial banks are under obligation to commit 12 % of their holdings to microfinance, these banks are not sufficiently equipped to carry out this type of activity, which calls for a lot of technical assistance.
- The fear that the Government, in its capacity as the financier, can interfere in the granting of credit, which could lead to high risk holdings, the collapse of some MFIs, and subsequently, creating a bad image of MFIs in the eyes of the public.
- Absence of impact studies for assessing the effects of this craze to reduce poverty; lack of risk data bases for exchange of information on delinquent clients.
- The difficulty expressed by some service providers to put in place automated information and management systems, which are expensive and which are not adapted to the management of the target populations.
- Implementation of mechanisms to counter money laundering and prevent the circulation in the system of monies obtained from terrorism and dubious activities may not be appropriate and is beyond the competences of the MFIs.
- Lack of a coordinated network of service providers, which calls for assistance from a similar regional organisation to have it constituted. This situation deprives the service providers of the opportunity to share experience, which is crucial in exchanging good practices in the sector.

⁶⁹ Mrs : Yassir Ahmed Hassan Jamie Deputy Director Microfinance Unit CBOS; . Muhamed KHIDIR BELEY General Director SDF , Dr. Abdulrahman DIRAR General Manager FAMILY Bank; Mansur KHAN Team Leader Sudanese Microfinance Development Facility

- Developing and dissemination of other Islamic financial products, as well as coming up with other types of guarantees for covering the loans, calls for the assistance of those countries that have gained experience in this field.

COUNTRY 8: TANZANIA

8.1. *General Presentation and some socio economic indicators*

275. Tanzania has a surface area of 945,203 km², and it is situated to the eastern confines of Central Africa. Its neighbours: Kenya and Uganda to the North, Rwanda, Burundi and the Democratic Republic of Congo to the West, and Zambia, Malawi and Mozambique to the South. Its eastern border is on the shores of the Indian Ocean. Its population is estimated (2009) at 43,739,000 inhabitants, with an annual population growth rate of 2 %. More than 80 % of the population is rural.
276. The country's economy is mainly based on agriculture, which contributes to more than half of the country's GDP, caters for approximately 85 % of its exports, and employs 80 % of the country's labour force. Industry is mainly limited to the transformation of agricultural products and light consumption goods, although the country possesses enormous quantities of natural resources, dozens of superb national parks which generate revenue with a huge tourism sector which also plays a vital role in the economy.

Table 8.1. : Overview of some socio-economics indicators in TANZANIA

Population (Estimate 2009)	43 739 000 habitants
Surface area	945 203 km ²
Density (Year 2009)	46,3 inhab. /km ²
PIB /habitant (in parity with purchasing power 2007)	1208 US \$ (157 th /181)
Ranking HPI (2007)	30 % (93 rd /135)
Overall literacy rate (Estimate 2007)	57.3% (143 rd /177)
Life expectancy at birth (Estimate 2007)	55 years (150 th /176)
Ranking IDH (2007)	151 st Rank / 182
Population with no access to potable water (Estimate 2007)	45 % (137 th / 150)
Adult literacy (Estimate 2007)	72.3 % (111 th /151)

Source: Various Compilations and UNDP (2009) *Human Development Report*

277. The reforms in the public sector and banking, as well as a review of the legal framework, all contributed to the growth of the private sector and investment.

8.2. General Overview of the Microfinance Sector in Tanzania

8.2.1. State of progress of the sector and analysis of the current situation at the micro level

278. The trend is linked to the implementation of the reforms in the finance sector in the 1990s, when the government disengaged itself from the sector, privatising several public banks after observing that the increase in the number of banks and in efficiency in the banking sector had not resulted into an increase in the rural population's access to financial services. In order to find a remedy to the fracture of access to financial services between the rural and the urban populations, the Government:

- Enacted in 1991, the *Cooperative Societies Act*, which allowed the Savings and Credit Cooperative Societies (SACCOS) to register as private societies providing intermediary financial services to the rural communities;
- Decided to promote microfinance with a view to developing an integrated and wider financial system financier, which would cater for the needs of the various strata of the low income population.
- Thus, between 2000 and 2005, Tanzania undertook to put in place the legal, regulatory and supervision framework for the microfinance sector. The National Microfinance Policy was approved by the Government in May 2000 and officially launched in February 2001. Three subsequent legislations were published and made operational in 2005.

- *Supply and demand of micro finance services*

279. The provision of microfinance services in Tanzania is the work of various actors, registered and/or supervised by different legislations: Currently, there are 13 commercial and community banks with microfinance portfolios, and 2 banks specialised in microfinance and in the provision of services specific to the PLE; almost 100 financial NGOs, 60 financial societies and more than 4,000 SACCOS. These actors provide a wide range of financial products: loans, savings, micro-insurance, microfinance leasing, microfinance housing, banking services by mobile telephone, financing to SMEs, etc....

280. *Savings and Credit Cooperative Societies (SACCOS) (Sacco Societies)*: They form the most widespread network across the country. According to the cooperatives directory established in May 2009, the following statistical data can be noted⁷⁰ :

- 5,332 Saccos, out of which 2,228 are in the urban areas, 2,820 in the rural areas and 284 were newly created;
- The total membership was 820,670; composed as follows: 478,368 men 317,024 women, and 25,280 groups;
- Total fixed deposits stood at TZS 133.1 billion
- Share capital was TZS 33.5 billion
- Loan holdings were TZS. 172.6 billion

⁷⁰ Received from Deogratias P. MACHA & Ms Nangi Moses MASSAWE: Real Sector and Microfinance Department, Bank of Tanzania. Since no single institution had been registered according to requirements of the regulation of 2005, it was difficult to find any figures on MFI in the Central Bank.

281. With regard to the demand for financial services, the last survey was published by FINSCOPE in 2006 and it showed that out of the 21 million active persons in Tanzania:
- Only 9 % had access to financial services rendered by formal institutions ;
 - 2 % were served by semi-official institutions, such as SACCOS , financial societies and NGOs, while 54 % were excluded from any form of financial services, both formal and informal.
 - The access gap is even worse in the rural areas, with only 5% being served by the formal financial system, and 57% completely excluded.
 - This situation denoted a lack of improvement compared to the previous years and in spite of the implementation of the Microfinance National Policy.
 - *The Technical Service Providers*

282. A number of service providers contribute to the development of the microfinance sector in Tanzania. Some of them are:
- *The Financial Sector Deepening Trust:* It is a young joint-venture of € 21 million, established in 2004 by five bilateral donors, namely SIDA, DFID, CIDA, DANIDA and the Embassy of the Netherlands. Its objective is to provide increased access for the population to the country's financial system, through:
 - Increasing the variety of financial services provided to the poor ;
 - Increasing the diversity of institutions serving the poor;
 - Increasing the funds injected in the financial sector by the poor and the small enterprises;
 - *The Network of the Associations of Institutions:* This includes the Tanzania Association of Microfinance Institutions (TAMFI), the Coalition of Tanzania Microfinance Practitioners and Service Providers, and the Savings and Credit Union League of Tanzania (SCCULT).
 - TAMFI was set up in 2001, but wound up its activities in 2005, owing to management and financial problems. It is now in the process of restructuring itself after a long period of stoppage. In January 2010, it had 18 members (as against 42 in 2001) who accepted to rejoin the association, and steps were under way for harmonising opinions and the creation of a single association unique with the *Coalition of Tanzania Microfinance Practitioners and Service Providers*, which had been spontaneously set up during the period when TAMFI was inactive. The challenges to be overcome by the association for the years to come are, therefore: the search for financing for its strategic plan; putting in place a strategy for progressive self-financing; the registration of other members and restoration of confidence among the members; contribution lobbying for a more flexible and less restrictive regulative.⁷¹
 - SCCULT is an association composed of 717 member cooperative societies (in 2007)
 - In addition to this association, there are different providers of services in the field of training and capacity building, who issue both certificates and post graduate programmes in microfinance, namely: K-REP Advisory Services, SIDO, Moshi University College of Cooperatives and Business Studies, University of Dar es Salaam / Entrepreneurship Centre ; Bank of Tanzania Training Institute, etc..

⁷¹ Consultations with the Administrative Secretary of TAMFI

- It is also worth noting that there are government programmes and projects for the promotion of capacity building, granting of loans or the creation of SMEs, namely: the Rural Financial Services Programme (RFSP), Women and Youth Development funds, Small Enterprises Loan Facility (SELF) and Small Industries Development Organization (SIDO). National Economic Empowerment and Job Creation Programme for Tanzania Mainland, Presidential Trust Fund (PTF).

8.2.2. Analysis of the current situation at the intermediate level: *Market infrastructure and financial transparency*

- *State of the E-payment System*

283. There is a widespread use of the mobile telephone in Tanzania, and VODACOM, one of the operators, developed the M PESA product for the transfer of money. Its competitor, TIGO, is also in the process of introducing a similar service.

- *Financial Transparency*

284. The provision of services destined to Microfinance institutions in the field of accounting and audit de microfinance do exist. Sixteen firms have been listed and registered with the Bank of Tanzania for auditing banks and other financial institutions⁷². There is also the Cooperative Audit and Supervision Corporation (COASCO), which audits the annual accounts of cooperative societies to ensure that the financial information disclosed is accurate and sincere.

1. 8.2.3. Analysis of the current situation at the macro level: *Current regulation in the micro finance sector*

285. The regulatory and supervisory framework prepared in 2005, after the introduction of the National Microfinance Policy, is anchored on the following basic texts:

- *Microfinance Companies and Micro-Credit Activities Regulation , 2005*
- *Financial Cooperatives (FICOS) Regulation, 2005*
- *Internal Control and Internal Audit Regulation, 2005*
- *SACCOS Regulations*
- *Amendments to Tanzanian Financial Accounting Standards (TFAS) and Public Finance Regulation to regulate NGOs*
- *Amendments to Independent Auditors Regulation, 2000*
- *Guidelines for evaluation of NGO Engaged in Micro-Credit Business.*

286. It should be noted that the regulatory framework conforms very well with the other regulations issued, which pursue parallel objectives, but with a connection to microfinance :

- *Small and Medium Enterprise Development Policy 2002*
- *Rural Development Strategy 2001*

⁷² See Directorate of Banking Supervision : Annual Report 2008 , Appendix 5

287. From this regulatory framework, the following important elements can be drawn:
- The regulation applies to financial institutions agreed by the Bank of Tanzania, namely: *Microfinance Companies (MFCs)* and *Financial Cooperatives Societies (FICOs)*, which may be set up for purposes of carrying out banking operations principally with individuals, groups and micro-enterprises in the urban or rural areas.
 - The main requirements for carrying out these activities are: -
288. For the *Microfinance Companies (MFCs)* :
- Minimum Capital of TZS 800 million to operate with a wide network of branches across the country; or TZS 200 million for operating in a single entity.
 - No single shareholder owning more than 66% of the total number of shares.
289. For the *Financial Cooperatives*, these are savings and credit savings cooperatives (SACCOS) of medium size, which must be registered by the Bank of Tanzania, after having attained savings and deposits amounting to TZS 800 million. Below this ceiling, they remain under the supervision of the Registrar of Cooperatives.
290. The regulations also provide for the possibility for NGOs that only grant loans and not required to transform into *Deposit Taking Microfinance Companies*, which are regulated by the Bank of Tanzania.
291. As for the banks that carry out microfinance operations as a sector of activity, it is only their microfinance portfolios that are subjected to the microfinance regulation.
292. The MFIs that are not regulated are not authorised to take deposits from the public, but may take the deposits of compulsory savings, solely for the purpose of constituting a loan guarantee.
293. As of 31 December 2009, no MFI had been registered in accordance with the requirements of this regulation.

8.3. *SWOT Analysis of the Microfinance sector in Tanzania*

294. From the consultations with the various professionals and technical service providers⁷³ in the microfinance world, the following strengths, opportunities, weaknesses, threats and constraints can be drawn from the above:

8.3.1. Strengths and Opportunities

295. The political goodwill of the State and of the Central Bank to make micro finance an instrument for poverty reduction and a tool for achieving the Millennium Development Goals. This goodwill is seen through:
- existence of a regulatory structure;
 - the creation of a Cell responsible for monitoring the sector;
 - creation of a National Microfinance Committee;

⁷³ Mr : Julius E. MASOTA , Principal Bank Officer , Microfinance Institutions Department BoT ;
Deogratias P. MACHA & Ms Nangi Moses MASSAWE : Real Sector and Microfinance Department, Bank of Tanzania, Mrs Consolate C. LALIKA Chief finance Manager Dar es Salaam Community Bank Ltd

- the existence of a professional association which has achieved a number of goals and which receives the support of the PAE/SFI;

296. A wide market and high demand, which constitute an opportunity that should be capitalised on.

8.3.2. Weaknesses, constraints and challenges

297. The low level of savings collected, in the face of the high demand for loans brings about obvious needs for financing, which is currently obtained at the going market rate from pension funds. The challenge to overcome here is to see how to lower the interest rate and to access cheap sources of financing.
298. Lack of a strong microfinance association which can establish collaborative links with the Central Bank and other operators, and which can assist the vast number of institutions which are not regulated, particularly in the dissemination and sharing of good practices and standards of good management that have to be adhered to.
299. Some microfinance operators consider the regulatory structure to be too rigorous, and believe that they are being treated as commercial banks, particularly with regard to the refunding of dubious debts.
300. Lack of incentives in the regulatory structure for attracting investors to join the sector. The fact that since 2005, no MFI was registered following the requirements of the regulations is sufficient proof that there is need to have them revisited.
301. A section of the populations that still lacks access to financial services, yet several cooperatives are should be expected to open up their operations in the rural areas, shows a lack of professionalism on the part of the leaders, who fail to create new products that are adapted to the needs of the populations.

COUNTRY 9: UGANDA

302. The microfinance sector in Uganda has been growing rapidly and dynamically between 1998 and 2008, owing to a combination of substantial amounts of financing obtained from the donor community and a common vision of the stakeholders in the sector. There has also been active support by the government, coupled with qualified human resources and intensive collaboration between the major partners (the service providers, donors' organisations and governmental organisations).
303. This intensive collaboration has resulted in the building of consensus on microfinance, preparation of the guiding principles and the sharing of good practices in force in the sector. Additionally, the availability of national specialists on the ground has continued to attract international experts in microfinance to this country. The result of the combination of all the above has been the creation of several formal collaboration mechanisms and forums that regularly bring together all the actors to exchange views on sectoral issues and key issues such as capacity building for members, the financing of MFIs, the issue of regulation, as well as lobbying. The central institution for all these activities is the Association of Micro Finance Institutions of Uganda⁷⁴ (AMFIU).
304. In 2003, the Ugandan Parliament passed a law entitled "*The Micro Finance Deposit-Taking Institutions Act*", which law established the conditions for the regulation and supervision of Micro Finance Institutions.
305. Micro finance services are provided by various institutions falling within four categories⁷⁵:
- Tier 1: The 19 commercial banks which may run micro finance activities as a line of activity, but which are governed by the Financial Institution Act of 2004;
 - Tier 2: The 7 credit institutions which are also governed by the Financial Institution Act of 2004;
 - Tier 3: The 4 micro finance institutions authorised to collect deposits from the public and which are governed by the Micro Finance Deposit Taking Institutions Act;
 - Tier 4: Other micro finance institutions registered as commercial companies, savings and credit cooperatives, as well as NGOs involved in offering micro loans. These four categories make up the formal and semi-formal institutions working in the finance sector.
306. It should be pointed out here that the last category, which is not subjected to the regulation and supervision of the Central Bank accounts for more than 1,000 actors. In addition to these, there another one thousand informal institutions like tontines, village savings and credit associations, money lenders, etc.

⁷⁴ In its annual Report for 2007, it can be observed that the AMFIU had, as of 31/12/2007: 84 ordinary members (1 bank, 1 credit institution, the 4 MFIs collecting deposits, and 78 other members either cooperative societies, NGOs or microfinance commercial societies); 33 associate members (consultants in micro finance, technical service providers, NGOs and other institutions); 3 individual in their personal capacity.

⁷⁵ It will be noted that in Tier 1 and Tier 2, only one bank, the Centenary Bank and one microfinance commercial credit institution, which are exclusively involved in microfinance and are members of the AMFIU:

307. As will be noted, the majority of the micro finance institutions fall within the fourth category, which is not subjected to regulation or supervision, but some of whose members are affiliated to the Association of Micro Finance Institutions. These institutions provide the Association with financial information on a voluntary basis, which information is centrally compiled and used for calculating and analysing performance indicators.
308. The institutions in the first three categories, which are subjected to regulation and belong to the Association of Micro Finance Institutions of Uganda, AMFIU, serve approximately three quarters of the market, that is, over 1.2 million savers and 340,000 active borrowers as of 31/12/2007⁷⁶.
309. In terms of coverage and access to financial services in Uganda, a study by *FinScope* 2007⁷⁷ on the country established that 62% of Ugandans have no access to financial services, and that the remaining 38% receive financial services as follows: 16% from commercial banks, 2% from micro finance institutions that collect deposits, 2% from credit and savings cooperatives, 1% from MFIs, and remaining 17% from informal micro finance institutions (tontines, village associations, etc....).
310. From an analysis of the figures of the consolidated situation from the four 4 MFIs that collect deposits and are supervised by the Central Bank, the following observations can be made:
- The collected savings are insufficient for the institutions to offer sustained credit;
 - The four micro finance institutions that collect deposits in Uganda have to resort to short term and long term debt obtained at market rates and to own funds, to be able to finance the granting of micro loans;
 - They do not have short term and long term debts obtained at concessional rates, but collect a compulsory saving equivalent to 62% of the voluntary savings and which they cannot use for granting loans.
 - There is therefore need for obtaining financing at reduced lending rates if they are to continue playing the role of financing the activities of the low income population.

⁷⁶ AMFIU (2008): “Understanding the Microfinance Industry in Uganda » AMFIU publication, p.6.

⁷⁷ FinScope Uganda (2007). This report can be found at: finscopeuganda@fsdu.or.ug

Consolidated situation of assets and liabilities of MFIs as of 30 June 2008
(in million of Uganda shillings, 1\$ = 1,800 Ushs)

	ASSETS	LIABILITIES
Total Assets = Total Liabilities	193.642	
Out of which: Loans	120.374	
Voluntary Savings		27.461
Compulsory Savings*		16.949
Short term debts (at market rates)		21.843
Long term debts (at market rates)		44.095
Short and Long term debts (at concessional rates)		0
Own Funds		38.099

Source: Bank Of Uganda: Quarterly Review NBFi Supervision Department

311. Although the micro finance sector in Uganda has reached a critical stage⁷⁸ in its development process and it has to continue with its progress in the dynamics of a market that integrates it fully in the country's financial system, by providing a wide range of products to the majority of the population, there still exists some loopholes owing to a number of challenges⁷⁹ that must be overcome. Among these challenges, one can mention:

- The need to come up with a coherent strategy for financing the rural world and the question of the non-use of compulsory savings when MFIs offer loans to their clients. As a matter of fact, a binding and strict regulation from the Central Bank in matters of extension of agencies limits the registered MFIs in their efforts to cover the areas that have not yet been reached, particularly the rural areas, and forbids the use of compulsory savings in granting loans;
- There is no sufficient protection for the poor populations whose economies and savings are kept in the savings and credit cooperatives (SACCOs). The cooperative societies fall under the responsibility of the Ministry of Commerce with regard to registration, control and supervision. This Ministry lacks the competent human resources to accomplish its task of control and supervision, while the management of most of the cooperative societies is also incompetent. The Central Bank does not want to take up this sector in its field of supervision because of the high number of the institutions involved and of lack of sufficient human resources for controlling them.

⁷⁸ Performance indicators for the sector may be found in the Supervision Report of the Central Bank. BANK of UGANDA (2007) *Annual Supervision Report*, December, pp. 30-33.

⁷⁹ Meeting with Mrs Grace KASISIRA, Deputy Director NBFi Supervision Department and Mr. David BAGUMA, Executive Director, AMFIU.

COUNTRY 10: ZAMBIA

312. Zambia is one of the countries belonging to the International Conference on the Great Lakes Countries, with 64% of the population living on less than US\$1.00 per day, and with unemployment reaching 50% and 85% of the working population is engaged in agriculture. The majority of those working in industries are mainly employed in the countries copper mines. Today, 70% of the population depends on the informal sector for their subsistence. More than one third of the country's adult population is active.
313. A survey carried on Zambia's financial sector by FinScope Zambia⁸⁰ and published in 2006 concluded that 66% of the country's adult population did not have access to financial services. The range of financial services offered in the country was deemed inadequate, as they concentrate on offering credit facilities to small scale traders and mainly in the urban areas, because of lack of the basic infrastructure in the rural⁸¹ areas. Banks and agencies of other financial institutions are concentrated along the Zambian Railway line and, in most cases, in urban and semi urban areas. Services to the rural areas are quite limited.
314. Much as it was provided for in the Plan for the Development of the Finance Sector produced in May 2004, for the period 2004-2009, the Microfinance sector in Zambia is still at its initial stages of development. It was not until 2006 that the law governing microfinance was elaborated and put into force. It was entitled: "*The Banking and Financial Service (Micro finance) Regulation*". This regulation comprises 8 parts, the most important of them relate to the following aspects:
- Conditions for registration of microfinance institutions;
 - Categories of microfinance institutions;
 - The management of the microfinance institutions;
 - The operations to be carried out by microfinance institutions;
 - Supervision of the institutions, with a number of prudential standards to be respected by the institutions.
315. The regulation recognises two categories of MFIs:
- those that may collect savings from the public and offer credit; and
 - those that are only authorised to offer credit. The Central Bank supervises only those MFIs that fall in the first category and those in the second category that have attained a level of capital of 25 million Kwacha⁸².
316. Through our discussions with the Division of supervision of financial institutions and banks, and with the Executive Secretary of the Association of Microfinance Institutions of Zambia (AMIZ), the following observations can be made:
- As of 30 June 2008, a total of 19 MFIs had been formally registered by the Central Bank to operate as microfinance institutions and were subjected to the control of the Bank.

⁸⁰ BANK OF ZAMBIA (2006), *Measuring Financial Access in Zambia* , FinScope Zambia 2005: Summary of Topline Findings, November

⁸¹ Meeting with Mr. PHIRI, Branch Manager, FINCA Lusaka

⁸² 1 \$ = 4.000 kwacha on average

- The Association of MFIs has 25 members that regularly supply it with information that enable it to calculate some performance indicators and to carry out comparative studies vis-à-vis the MFIs from other countries. As of 31 March 2008, the Association's records were that the number of active clients of MFIs was 84,781 and that 59% of them were women, with average loans of 1,412,600 Kwacha.

317. From the consolidated situation of the MFIs registered at the Central Bank, an analysis of the figures there shows that there is need for the microfinance institutions to mobilize public opinion in order to raise sufficient voluntary savings necessary for facilitating the granting of loans on a durable basis. At the moment, most of the micro finance institutions in Zambia are not yet self-sufficient with regard to sources of financing, and some of them have to resort to other sources other than savings. There is therefore need to obtain financing at reduced rates if the microfinance institutions are to continue playing their role of funding the low-income⁸³ population.

Table 10.1. Consolidated situation as of 30 June 2008 of assets and liabilities of MFIs
(in million kwacha)

	ASSETS	LIABILITIES
Total Assets = Total liabilities	351.724	
Out of which: Loans	347.071	
Voluntary Savings		27.461
Short term debts		166.371
Long term debts		86.935
Own funds		98.000

Source: Bank of Zambia: Quarterly Review NBFi Supervision department

318. The commercial banks in Zambia are not yet fully involved in the activities of the microfinance sector, either as actors or less still as sources of financing for the microfinance institutions. The relations between the actors in the finance sector are limited to the fact that some MFIs have opened fixed deposit accounts with the commercial banks. Nevertheless, one bank, Barclays Bank, openly manifested its intention to join the microfinance sector.
319. In order to redistribute the fruits of the economic growth enjoyed by Zambia over the past years, the government set up a structure named **Citizens Economic Empowerment Commission**, whose assignment is manage a fund allocated to it for granting financing to citizens who wish to undertake investment projects, and to assist those who wish to acquire shares in companies participating in the bourse of Lusaka.
320. Also, in order to address the needs of the women and of people living with handicaps, the International Labour Organization, Sub-Regional Office for Zambia, Malawi and Mozambique, in collaboration with a network of associations of women entrepreneurs in Zambia, organises capacity building training sessions for women entrepreneurs to enable them to better organise their income-generating activities.

⁸³ Webby Mate, Executive Secretary, Association of MFIs, notes that certain institutions that are not authorised to collect savings from clients use forced savings raised as guarantee for loans to meet the demands for loans, which is contrary to good practices.

During these training sessions during which micro loans are discussed, the ILO helps to link the women entrepreneurs with MFIs and other banking institutions that may wish to finance the women.

Partie 2: Comparative Analysis and Recommendations

10.1.1. Comparative analysis

321. For purposes of a comparative analysis, two benchmark countries, namely Zambia and Uganda, were selected. Their experience in the field of micro financing would then be used by the other countries in the Great Lakes Region in formulating the way forward. We shall start with a brief presentation of the situation pertaining in these two countries, before identifying the strengths and weaknesses in the microfinance networks in those two sample countries.

▪ ***Comparison and identification of similarities, and of strengths and weaknesses in the networks of the selected countries***

322. After the country analyses of three sample countries in the first chapter, and after a presentation of the situation in two of the countries of the International Conference on the Great Lakes which served as the benchmark, we will now go ahead and examine all the five countries together, making a comparison of the existing situation in each country, and drawing pertinent lessons that would ultimately be used in coming up with appropriate recommendations. The comparison will be with regard to:

- Supply and demand of the services in the five countries of the International Conference on the Great Lakes ;
- The action of the service renderers;
- Market infrastructure and financial transparency;
- Regulation and sectoral policies in support of micro finance.

▪ ***From the supply and demand point of view***

323. Access to financial services and, subsequently to micro loans still remains a major problem to resolve comparing the poor population and the rate of coverage by the micro finance institutions. There is substantial demand, therefore, that only has to be reached and served. For example, it is noted that:

- In the RD Congo: Population living below the poverty line is 70%; number of people owning a bank account: 0.01% of the population.
- In Rwanda: Population living below the poverty line is 60%; number of people owning a bank account: 10% of the population. In addition, there is need for complementary financing in spite of the existence of a refinancing fund for micro finance institutions in the *Bank Rwandaise de Development*. The fund is not very much solicited by the MFIs as the required conditions exclude most of them⁸⁴.

⁸⁴ Discussion with E. SINZABAKWIRA, Research & Product Development Specialist, AMIR (Association of Microfinance Institutions in Rwanda)

- In Burundi: Population living below the poverty line is 75%; People with bank accounts: 4% of the population. Estimated needs in refinancing by the MFIs which are members of the (Network of Micro finance institutions) over the coming three years to make up for the insufficient deposits collected: 2,530,000 Euros.
- In Zambia: 66% of the population do not have access to financial services and current deposits collected by MFIs are insufficient to meet the demand.
- In Uganda: 62% have no access to financial services; voluntary deposits are not enough to cover the loans given; MFIs resort to funds borrowed at market rates and would wish to use both compulsory savings obtained in guarantee for the loans given and to borrow at concessional rates in order to widen the services they offer.
- The geographical coverage and location of MFIs are not sufficiently spread out to allow them reach the population in the rural areas.

324. The loans offered mainly concentrate on products for which the beneficiaries of the loans use for purchase of consumer goods and for petty trading activities and craftsmanship. Owing to the small amounts and short term of the loans given, it has been observed that in almost all the countries, rural and agricultural loans, as well as construction loans, have been rather delinquent. Apart from Uganda, loans to small scale entrepreneurs are still underdeveloped.
325. With regard to the management and governance of micro finance institutions, there is lack of professionalism and proven technical competences among some of the leaders of a number of micro finance institutions, lack of innovation in the conception of financial products adapted to the targeted clientele, and use of often obsolete information and management systems.
326. The micro finance institutions do not have sufficient financial resources. The MFIs that do not collect savings depend most of the time on subventions and may totally disappear either in case of suspension of the subventions or in case of strong degradation of holdings. Absence of synergies and collaboration between the actors in the micro finance sector and the banking sector deprives the MFIs of sources of refinancing. And given the variances seen when comparing the amounts of loans granted and the savings collected, it becomes clear that there is need for cheap sources of financing to ensure that the MFIs, through the micro loans they offer, can play a role poverty reduction.

▪ ***From the point of view of the action by the technical service providers***

327. On the one hand, one can observe dynamism and an understanding by the governments and donors of the importance of micro finance in the fight against poverty and, on the other, during the preparation of national laws on micro finance, obvious interest by the MFIs in working together as networks. The Association of Micro Finance Institutions of Uganda, AMFIU, appears to be a good organisation model which has managed to play a very important role in the development of the micro finance sector in the countries analysed. The Réseau des Institutions de Micro finance, RIM, in Burundi, is also a motive force in strengthening the competences of the institutions. With regard to the DRC, in view of the country's territorial expanse, there is need to federate the several groups involved in this field into one body in order to have coordinated action.

In Rwanda, after the failure of the first network of micro finance institutions, the Association of Micro Finance Institutions in Rwanda, which has hardly been in action for six months, is already doing a remarkable job that may transform the micro finance industry into a better organised structure.

328. However, this dynamism and this good will are unfortunately obscured by two shadows: weakness of information systems and surveillance systems for the sector, given that the supervision frameworks are suffering from lack of competent and sufficient human resources, and from lack of material resources that would enable them to take charge of the sector, foresee its fragility and cover the entire mass of micro finance institutions scattered all over the region, in order to ensure prudential controls.

- *From the point of view of market infrastructure and financial transparency*

329. With the support and assistance of some donors (who are often the same ones), the governments have put in place the legal and regulatory infrastructure, as well as information structures for facilitating entry into the financial sector of dependable intermediaries, both national and external.

- *From the point of view of current regulation and the sectoral strategies and policies in support of micro finance*

330. The legal and regulatory frameworks are not homogenous in all the countries. This may make it difficult for solid micro finance institutions from other countries in the region to do business in another country, and thereby prevent the transfer of experience from one country to another.

POSSIBILITIES OF COMPLEMENTARITY AND SYNERGIES BETWEEN DECENTRALISED FINANCIAL SYSTEMS IN THE REGION

331. This point is a summary of the different observations and identifies possibilities of complementarity and synergies between the decentralised financial systems in the region, and ends with a number of pertinent recommendations.

10.2 Summary of observations and possibilities of improvement at country level

SUMMARY OF SIMILARITIES RESULTING FROM THE COMPARATIVE AND COUNTRY ANALYSIS

LEVEL	OPPORTUNITIES IN THE COUNTRIES	CURRENT OBSTACLES IN THE COUNTRIES	SUGGESTIONS AT COUNTRY LEVEL
<p>MICRO <i>Demand and target clients</i></p>	<ul style="list-style-type: none"> - Existence of need for financial services among the poor population - Entrepreneurial spirit in some segments of the population - Many income generating activities and many micro and small enterprises 	<ul style="list-style-type: none"> - Culture of assistance, leading to non-reimbursement of loans among most of the populations emerging from conflicts, having been accustomed to handouts from NGOs. - Absence of support institutions and organisations to assist up-coming micro entrepreneurs 	<ul style="list-style-type: none"> - Sensitization and information programme for the populations on the importance of micro loans and of reimbursing loans - Create, at national and regional levels, agencies for financial and non financial support in the development of entrepreneurship (Start up and existing enterprises) for various categories of the population, especially for: women, the youth, and vulnerable persons living with HIV/AIDS for instance. - Come up with innovations on the ways and means of obtaining financial resources for developing long lasting production and employment-generating projects for improving the quality of life of the populations.
<p>MICRO <i>Institutions and provision of services</i></p>	<ul style="list-style-type: none"> - Opening of banking systems in foreign banks. - Over-liquidity of some commercial banks. - Various types of actors in the provision of financial services to the poor. 	<ul style="list-style-type: none"> - Insufficient human and managerial capacity in the MFIs - Unavailability of studies on new risks, clients' preferences and lack of conception of new products. - Limited geographical coverage by the registered MFIs. 	<ul style="list-style-type: none"> - Come up with measures that will incite the commercial banks into being interested in micro finance. - Set up mechanisms that will enable the MFIs to refinance themselves from commercial banks (guarantee fund). - Assist in evaluating the markets and clarifying the preferences of customers in order to come up with competitive and adapted products.

			<ul style="list-style-type: none"> - Work out measures that will incite the MFIs to carry their services to areas otherwise considered to be very poor (e.g. assisting the MFIs in building initial capital, tax exemptions, etc..).
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OPPORTUNITIES IN THE COUNTRIES		CURRENT OBSTACLES IN THE COUNTRIES	SUGGESTIONS AT COUNTRY LEVEL
<p>INTERMEDIATE</p> <p><i>Technical service providers</i></p> <p><i>Financial transparency</i></p> <p><i>Various infrastructure</i></p>	<ul style="list-style-type: none"> - Growing activity of MFI networks. - Several donors interested in supporting the development of micro finance. - Existence of a technology that can enable the poor to have access to financial services 	<ul style="list-style-type: none"> - Weakness and archaism of some accounting systems and systems for the disclosure of information. - Poor quality of available and disclosed financial and accounting information. 	<ul style="list-style-type: none"> - Explore ways and means for enabling the MFIS have access to new technologies. - Invest in technical means for transmission of information. - Set up risk databases for the MFIs. - Encourage innovation and partnership between the national micro finance networks for the sharing of good practices and experience.
<p>MACRO</p> <p><i>Legal system</i></p> <p><i>Sectoral laws and regulations</i></p>	<ul style="list-style-type: none"> - Governments and supervisory organs should introduce laws and regulations to govern the sector. 	<ul style="list-style-type: none"> - Legal systems are not protective enough vis-à-vis the rights of the creditors. - Insufficient human resources in the supervisory organs that supervise the MFIs. - Lack of homogeneity in the laws across the countries. 	<ul style="list-style-type: none"> - Need to modernise and improve the legal and judicial framework. - Increase and strengthen the capacity of the personnel in charge of supervision.

332. Following the example of what was done in Burundi⁸⁵, it would be useful if the micro finance associations of the countries in the region carried out a detailed assessment of their members' needs, with regard to refinancing, infrastructure and equipment, technical assistance, as well as institutional and human resources capacity building.

Identification of possibilities of complementarity and synergies between the SFDs of the countries in the region and pertinent recommendations

333. In view of the situation as described above, especially the existence of needs for financing and capacity building, a series of recommendations are being proposed after identifying the possibilities for complementarity and synergies between the decentralised financial systems of the countries of the region.

334. The possibilities of complementarity and the pertinent recommendations are listed here below:

- 1. It is evident that there is need for the MFIs in each country to come together and work as a network. These networks are supported by the same donors, both in terms of financing and of technical assistance and capacity building. To this effect, it is recommended that:
 - a. *The International Conference on the Great Lakes Region should set up a regional structure for coordinating donor assistance in favour of micro finance. This would ensure proper coordination of the countries' actions and consolidation of efforts. This regional structure, with the assistance of the technical service providers, should play the role of a single regional structure for enhancing professionalism in the MFIs in the region and building capacity so as to offer financial services adapted to the low income populations and to promote a commercial approach to micro financing.*
 - b. *The ECA, through its Sub Regional Office for East Africa, within the framework of the multi-annual programme, and in accordance with the Memorandum of Understanding signed with the International Conference on the Great Lakes Region, could play the role of lobbying with the various donors and technical service providers, who happen to be the same, who are operating in all the countries in the region. This would be in the interest of these donors and service providers, as they would be coordinating their assistance instead of dispersing it and it would help reduce the inequalities, which have been a source of rivalries and wars that have plagued the region.*
 - c. *The International Conference on the Great Lakes Region should quickly launch the feasibility study for the setting up of the structure in accordance with the terms of reference of the Project "3.1.1. Creation of a Regional Support Mechanism for Micro Finance Institutions", taking into account the amendments to the text and the road map agreed during the thematic workshop entitled "Economic Development and Regional Integration", which was held in Kigali from 09 to 12 September 2008.*

⁸⁵ In a document dated October 2008 published by the FORCE Fund, the needs of the MFIs in Burundi for a three year period were evaluated at 7,528,500 Euros, out of which 4,998,500 Euros was for capacity building and professionalizing the sector, while 2,530,000 Euros was for refinancing.

- d. *Within the framework of the Feasibility Study, the Consultant should complete this study by visiting the six other countries that have not been covered by this study. Already, the International Conference on the Great Lakes Region and the ECA should establish contact with National Coordinators of the ICGLR with a view to instructing the existing micro finance networks and/or associations de micro finance to obtain figures from their members for their needs over a minimum period of 3 years: in financing, capacity building and infrastructure, before the visit of the Consultant in charge of the Feasibility Study. This would help in establishing an approximate figure for the initial fund that would be needed for the activities of the mechanism, whose form and structure will be proposed by the Consultant in charge of the Feasibility Study.*

335. There will be no significant change in the growth of the MFIs and the development of micro loans, as long as a coherent policy linking them to the micro, small and medium scale enterprises, women and young up-coming entrepreneurs and vulnerable persons, will not have been put in place. Entry and consolidation of private actors in the banking industry in some countries is proof that the micro finance sector is capable of attracting investors; and the experience gained in some countries⁸⁶ in resolving issues of this nature and of support vulnerable populations should be shared. In view of the foregoing, it is recommended that:

- *The countries of the International Conference on the Great Lakes Region should consider how they can facilitate the setting up of micro finance banks in the region for supporting micro enterprises. They should also look into ways of how the performing MFIs in some countries in the region start operating in other countries and transferring their experience to them. One of the major targets should be the small and medium scale enterprises for which the MFIs should design appropriate products for the existing industries but also, and especially, for new ones that are being set up. To date, financial products for medium and long term lending are almost non-existent: leasing, leasing for movable and immovable property, risk capital (seed capital, start up capital, growth capital), micro insurance products, etc...*
- *In the structure to be put in place, it should be explicitly clear that among the conditions of eligibility to financing, the MFIs that will, as a priority, benefit from these facilities are those whose products will target: women, young debutant entrepreneurs with bankable projects, former soldiers and demobilised child soldiers.*

336. The sources of financing for the MFIs are mainly donors, rather than financing coming from funds internally generated or from commercial sources. As a result, it is recommended that:

- e. *The Central Banks and governments of the countries of the International Conference on the Great Lakes Region should endeavour to set up policies that encourage synergies between the commercial banks that usually have excess liquidity and the MFIs with excess demand, so that the banks cover the needs of the MFIs' clients.*

337. The contrast inherited from the colonial era between the law systems (Civil Law vis-à-vis Common Law) has brought about the existence of non-homogeneous legal and regulatory frameworks in the countries of the International Conference on the Great Lakes Region.

⁸⁶ See supra: in Zambia with ILO, in Uganda with AMFIU.

In view of this, it is recommended that:

- *During the implementation of rules and regulations on micro finance, the countries of the International Conference on the Great Lakes Region should adopt an inclusive approach that should enable the supervisors and regulation agencies in the micro finance sector to facilitate the emergence and growth of a wide range of different types of financial intermediaries, a structure for the sharing of capital and various types of services and products to be offered. This can be done through the harmonisation of some of the existing texts in commercial law.*
 - *The laws and regulations to be adopted should arouse the emergence and commitment of the national elite and businessmen from different countries to create partnerships for the creation of micro finance banks and banks for micro enterprises that are capable of collecting funds. The laws and regulations should also enable the use and dissemination of technologies that bring solutions to the challenges of access by the poor populations to financial services. Micro finance being a profitable activity, this specific partnership for the activities within the framework of the sector can be an alternative solution to war, and a source of reliable and long term income for all those that will be involved, namely: the partners for the profits made, the populations and the youth who will obtain employment or will create employment thanks to the loans they will obtain, rather than preferring to enlist with guerrillas and rebellions. However, the various heads of the networks of MFIs who were contacted think that before reaching this type of partnership, there is need to first have durable institutions in the respective countries, and which are run by seasoned managers, which, once again, stresses the need for capacity building.*
 - *Implementation of a homogeneous and harmonised regulatory framework across the countries of the International Conference on the Great Lakes Region must also be accompanied by the setting up of an information system that can be used to establish, in a relatively precise manner, the extent of micro finance services in the different countries.*
338. Because of lack of competent and sufficient human resources to supervise the micro finance sector, the major question is the manner in which the countries of the International Conference on the Great Lakes Region could collaborate with the existing borders and political divergences. In view of this, it is recommended that a regional or international solution be sought.
- *Because there is no wide base of competent supervisory personnel in matters of micro finance, the proposed regional⁸⁷ structure would be a potential solution, as it would help coordinate the competences from the various countries. These competences could be rapidly redeployed in case of a crisis in a particular country that may need them. This would increase confidence with regard to control, would make the structure more efficient, and would make it much more independent vis-à-vis the pressures from national policies. However, harmonisation of the legal framework for the supervision of MFIs would be a prerequisite in order to have a joint approach for supervising the MFI in the countries of the International Conference on the Great Lakes Region.*
339. The above are the recommendations that should guide the discussion aimed at ensuring that with micro finance and micro loans, the countries will be able to “transform the Great Lakes Region into an area of lasting peace and security for the States and the people, of political and social stability, of shared economic growth and development, and an area of cooperation based on convergent strategies and policies motivated by the same destiny”.

⁸⁷ The experiences of the two bank commissions (in the countries of the C.F.A) and of the only regional commission for the supervision of insurance companies in the CIMA countries (13 countries) may be used as an inspiration in the supervision of the micro finance sector at the level of the countries of the ICGLR.

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ANNEXES

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ANNEXE 2: BIBLIOGRAPY

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