A photograph of a man and a woman in a rural setting. The man, on the left, wears a wide-brimmed grey hat and a patterned sweater. The woman, on the right, wears a wide-brimmed straw hat with a white band and a purple cardigan over a blue and white checkered shirt. They are both looking down at a large blue sack filled with green and red peppers. The background shows lush green foliage.

How do microfinance member based organizations successfully serve rural areas?

Brief No.3

The Role of Governance and Strategic Alliances

prepared by A. Perilleux, A. Vanroose and F. Bédécarrat in collaboration with the e-MFP Rural Outreach & Innovation Action Group

October 2012

EUROPEAN MICROFINANCE PLATFORM

The European Microfinance Platform [e-MFP] was founded formally in 2006. e-MFP is a growing network of over 140 organisations and individuals active in the area of microfinance. Its principal objective is to promote co-operation amongst European microfinance bodies working in developing countries, by facilitating communication and the exchange of information. It is a multi-stakeholder organisation representative of the European microfinance community. e-MFP members include banks, financial institutions, government agencies, NGOs, consultancy firms, researchers and universities.

e-MFP's vision is to become the microfinance focal point in Europe linking with the South through its members.

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FOREWORD

Created in 2008, the Rural Outreach & Innovation (ROI) Action Group of the European Microfinance Platform (e-MFP) gathers practitioners and experts involved in rural microfinance.

After developing in 2009-2010 the topic of value chain finance, the group has worked on “member based organizations” (MBO). Microfinance institutions relying on self-management and members’ participation seem to have a strong competitive advantage to sustainably reach out to rural areas. Echoing with the United Nations’ International Year of Cooperatives in 2012, this analysis shows that financial MBOs, and cooperatives in particular, pioneered developing institutional and social models that are subject to expansion and replication in several parts of the world.

Our observations have been centered on the study of five MBOs from South America and West Africa, and completed with examples from other partner institutions. Our focus has been drawn to governance mechanisms and strategic alliances. Representatives of the MFIs under scrutiny were invited to debate about these two issues with the ROI group members at the 2011 European Microfinance Week. The discussions and an in-depth analysis gave birth to the present publication. We hope it will be useful for MBO leaders and practitioners, as well as researchers and donors willing to understand and support these types of institutions.

During 2011-2012, the ROI Action Group has been very active and a lively working dynamic has flourished among its members. The Brief draws from the inputs from Florent Bédécarrats from CERISE, Dominique Morel from CTB (Belgian Technical Cooperation), Josien Sluijs from NPM, Platform for Inclusive Finance, John Bliet from TRIAS and François Legac from SOS Faim. Additionally, the Action Group wants to acknowledge the e-MFP Secretariat and Board for their facilitation of its activities and their help in disseminating throughout their international network.

The representatives of the five MBOs are thanked for their availability and their contribution to the study: Victor Chati (Los Andes), Maira Gonzales (Jardin Azuayo), Luis Panzer (Cresol), Alou Sidibe (Kafo Jiginew) and Lamarana Diallo (CR Guinée).

This work is built on a rich collaboration between MFI leaders, European practitioners and academics: CERMi has been extensively involved and the group wants to thank Anaïs Périlleux and Annabel Vanroose for their work on these five case studies and the presentation of in-depth research on the subject.

Laurent Biot & Bernard Ornilla

The Rural Outreach & Innovation Action Group is coordinated by Bernard Ornilla, Alterfin and Laurent Biot, SOS Faim.

EXECUTIVE SUMMARY

Rural areas are still lacking access to financial services. Nevertheless, we observe that microfinance institutions involved in rural and agricultural lending often involve client participation in their operations or their decision making processes. This work, conducted by the European Microfinance Platform (e-MFP) Rural Outreach & Innovation Action Group analyses the main strategic issues Member Based Organizations (MBOs) have to face to expand their outreach in rural areas.

The main issues analyzed here refer to key strategic decisions that rural MBOs have to make during their growth process. As they grow, MBOs face some major trade-offs regarding governance and strategic alliances. Although there is no magic solution for such dilemmas, the ways MBOs deal with them have a crucial impact on their development and their ability to serve rural areas. In this publication we learn about these strategic decisions and their consequences from the practice of several financial MBOs: Jardín Azuayo (Ecuador), Los Andes (Peru), Cresol (Brasil), Crédit Rural de Guinée –CRG– (Guinea) and Kafo Jiginew (Mali).

From the experience, specificities compared to other MFIs, and key challenges of those organizations, we see that governance is a major issue MBOs need to address during their expansion process. While generating economies of scale, growth undermines their initial mechanisms of decision making, internal control, as well as checks and balances between stakeholders. Drawing from the literature and the five case studies, three dilemmas arose as essential to tackle in order to expand successfully. From a practitioner perspective, the first strategic question on governance is: in order to serve rural poor people, should MBOs grow locally or nationally? By growing locally, MBOs' penetration is usually deeper while growing nationally means risks are more diversified. On one hand, the case of Los Andes (Peru) shows how an MBO may want to focus on one specific region and grow locally in order to reach out to poor communities and help local communities to grow. On the other hand, the cases of Crédit Rural de Guinée –CRG– (Guinea) and Kafo Jiginew (Mali), demonstrate that it is sometimes necessary

to expand nationally in order to diversify risk. This is especially true when the MBO's environment is strongly dependent on a single crop.

A second strategic question on governance has to do with fostering social participation versus professionalization within an MBO. In order to increase rural outreach, should MBOs work more with members or with employees? The cases under study show different opinions. Jardín Azuayo (Ecuador), CRESOL (Brazil) and Los Andes (Peru) have invested significantly in providing their members with relevant education and training so they can be further involved in leading the development of the organization. Additionally, Jardín Azuayo and Los Andes have designed original recruitment policies that encourage hiring people from the community to conserve corporate culture. However Kafo Jiginew decided to professionalize the institution and improve risk analysis by relying more on technicians. The regulatory environment, which is increasingly pushing for professionalization, has influenced this strategic choice. However, Kafo Jiginew stresses the importance of creating new mechanisms to ensure members' involvement in the organization. Interestingly, in its earliest stages, CRG has experienced the opposite trend. Starting out as a pure employee-managed institution, it then sought to involve its clients in the credit allocation process to encourage mutual control and reduce opportunistic behavior.

The third and last major governance issue under study is the optimal level of centralization of the governance structure. This leads to the following question: in order to improve rural outreach, should MBOs centralize or decentralize their decision-making process? Here, again, results show that different paths are possible. Kafo Jiginew is currently undergoing a major restructuring process towards the concentration of decision making. This will enable the institution to achieve economies of scale and streamline management processes, which had become slow due to the large size of its network. CRG has also stressed the need to restructure its organization by merging some of its local branches in the near future. On the other

hand, Los Andes, CRESOL and Jardín Azuayo are still highly decentralized, a choice they consider essential to maintain local embeddedness and provide their members with tailored services.

Another key issue investigated in this publication is the capacity of MBOs to build strategic alliances. Based on analysis of the diversity and systematic linkages built by the MBOs, it was judged important to understand how these partnerships provide MBOs with different types of support, including in capacity building, training and management. Networking also allows these organizations to grow and reach the scale they require. Besides, by pulling together with organizations involved in complementary activities, MBOs diversify their services and strengthen their sustainability.

We have outlined three types of alliances that play a crucial role in sustaining MBOs' viable development. First, we studied how international donors can help MBOs to develop and serve rural areas in a sustainable way, for example by providing technical or financial support. Second, we analyzed how networking with peer organizations allows for example to reach scale and foster institutional learning. Finally we showed how alliances with farmers and local organizations help MBOs to achieve sustainable development and reach out to rural areas, by strengthening embeddedness in local society.

INTRODUCTION

Microfinance has experienced an important development over the last two decades. But it expanded mostly in the cities and their surroundings. The proportion of adults living in rural areas that have an account in a formal financial institution is only 35% in Latin America and the Caribbean and 21% in Sub-Saharan Africa (Demirgüç-Kunt and Klapper, 2012, p.18). The countryside is under several constraints that tend to discourage traditional MFIs (Lapenu, 2008). These constraints are geographical, due to population dispersion, as well as long distances and lack of infrastructure. Considering the increasing complexity of operations and the importance of information technologies, obstacles are also arising from the deficit of trained local human resources and scarce electricity or internet connections. Rural areas are moreover characterized by their dependence on agricultural activities, which suffer from high vulnerability, resulting from climatic uncertainty, price volatility, low profitability, etc. Furthermore, due to fuzzy land entitlements and lack of assets, farmers generally lack collateral to access credit, and they often refrain from formal savings, while favoring traditional forms of accumulation (cash hoarding or cattle fattening). For all these reasons, reaching rural areas remains today one of the main challenges for microfinance (Wampfler and Mercoiret, 2002; Christen and Pearce, 2005).

In this respect, member-based organizations (MBOs), like cooperatives, village banks or self-help groups, hold an unequaled potential to provide sustainable financial services to "the hard to reach" (Hirschland et al., 2008). Indeed, MBOs are often rooted in areas where commercial financial institutions are unwilling or unable to operate (Campion, 2007). While NGOs are seldom allowed to collect savings, MBOs are generally offering this service, which often appears to be more adapted than credit to the needs of vulnerable livelihoods (Allen, 2007). Besides, MBOs largely rely on the voluntary work of their members, which reduces operating costs and information asymmetries (Johnson and Sharma, 2007). Finally, MBOs are based on self-help dynamics, meaning that contributing to

local development is part of their founding principles (Soulama, 2007). It seems that the specificities of their governance structure can be a strategic issue to reach rural areas.

Despite these strengths, MBOs also face critical challenges to establish viable microfinance institutions. First of all, widespread failures in this regard point out a series of pitfalls related to governance. MBOs' governance rests upon members, who often lack the educational levels required to fulfill such responsibility and, in particular, to ensure sound control over the employees (Branch and Baker, 1998). This induces risks of inefficiencies, mismanagement and even frauds, which appear to be frequent causes for cooperatives' failure (Cuevas and Fischer, 2006). Moreover, participatory structures may also reproduce the social relations that prevail within the community. Therefore, MBOs operating in hierarchical communities can suffer from elite-capture¹, (Hirschland et al., 2008), clientelism or nepotism (Rock, Otero and Saltzman, 1998; Cornforth, 2004).

Growth entails additional governance issues for MBOs. Extension of membership and activities modifies bargaining power within these organizations, weakening their initial check and balance mechanisms (Périlleux, 2008). In particular, it disperses their ownership, favoring free-riding behavior (CGAP, 2005; Desrochers et al., 2005). Larger structures also rely for decision making on more sophisticated management information systems (MIS) and complex technical considerations. Size undermines the capacity of MBOs' elected members to fulfill their leading functions. It also restrains their ability to supervise the hired managers and to counterbalance their power (Hirschland et al., 2008). Moreover, rapid growth may require massive recruitment that may weaken the corporate culture (Cerise and Iram, 2005). This issue is important for any MFI, but it is even more crucial for MBOs, because their sustainability depends upon a fragile equilibrium between staff and elected members. Finally, growth makes MBOs' affiliates more heterogeneous, weakening their "common bond". This can hamper the social cohesion within the

¹ The expression "elite capture" refers to situations where a few notables or community leaders concentrate all the decision power of the organization.

organization and alter its primary mission, should the new members be urban or better-off populations (Fournier and Ouédraogo, 1996). In order to run a viable scaling-up process, any MBO has to manage the following key parameters: power sharing among stakeholders, efficiency of mutual control and appropriateness of ruling mechanisms (Périlleux, 2011).

Besides governance, strategic alliances also play a significant role in MBOs' development and outreach to rural areas. MBOs demonstrate a great capacity to build partnerships with external entities, be they international funders and technical assistants that support their growth, or local organizations that foster their embeddedness in the society. Moreover, alliances with peer organizations can help MBOs address and overcome economies of scale problems. Indeed, joint investment

in expensive services, such as acquiring a new MIS, may reduce costs significantly. Additionally, networks give MBOs the opportunity to learn from each other. Yet, these partnerships are generally built on a case-by-case basis and, while several are long lasting and mutually fruitful, many fade out after a short period of time.

The present Brief will first very shortly present the five MBOs studied and then identify the key challenges that they faced first regarding governance mechanisms and then strategic alliances. Additionally, five other short cases will be included in the analysis (see the boxes). More detailed presentations of the 5 MBOs are available online on the e-MFP website². The objective is to understand in which conditions governance and strategic alliances can reinforce the MBOs and facilitate outreach to rural areas.

CASE STUDIES ON PARTNERS OF e-MFP MEMBERS

Kafo Jiginew, is a savings and credit cooperative (SACCO). It was established in 1987 in Mali. Kafo Jiginew is nowadays the largest MFI in Mali. As of December 2010, it was representing 26% of the domestic sector's affiliates, 28% of its savings and 24% of its loan portfolio. But new challenges are rising for this MBO. The regulatory framework has been revised. It was originally favoring cooperatives but from now on, it will also foster competition with for-profit entities. Recent political turbulence will probably put a strain on its robustness. SOS Faim offers assistance to Kafo Jiginew and SIDI (Solidarité Internationale pour le Développement et l'Investissement), another e-MFP member, provides it with funding.

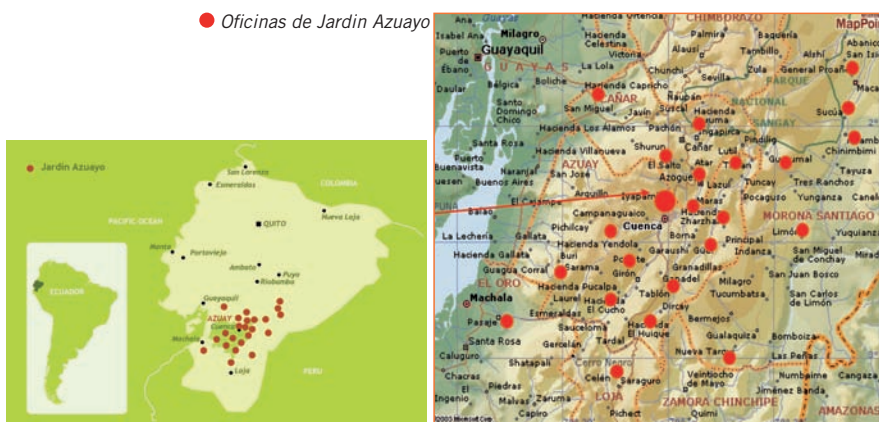


Source: MicroFinanza (2011) with update



Source: Zoom Microfinance 2009

● Oficinas de Jardín Azuayo



Source: Microfinanza 2004

COAC³ Los Andes is a SACCO created in 2001 in Peru. While the commercial microfinance sector in Peru is one of the fastest growing in the world, credit and savings cooperatives have experienced more difficulties in achieving similar growth. But some of them, including Los Andes, seem to be particularly successful in reaching out to the rural poor. While it began with a small range of services, COAC Los Andes now offers more than 23 products directed towards farmers, with differentiated repayment schedules and interest rates depending on the kind of agricultural production to be financed. Repayment rates are high and the interest rates offered are competitive for the region, which partly accounts for the cooperative's success and popularity. SOS Faim offers assistance to Los Andes.

COAC Jardín Azuayo is a SACCO that operates in Ecuador. It was founded in 1996, in Paute, in the province Azuay, after a landslide wiped out half of this village. The reconstruction was made possible through local savings, which led the inhabitants to conceive an original way to support the development of their own community. During its growth process, the cooperative sought support from international development organizations, enabling it to begin operations in other locations. It expanded mainly in the poor Andes region and more than 60% of its members live in rural areas. According to Coady Institute (Hirschland et al., 2008), Jardín Azuayo is one of the largest and most successful cooperatives in Ecuador, thanks to a highly decentralized structure and a strong involvement of members in its governance, management and operations. Alterfin and Oikocredit, members of e-MFP, are funding Jardín Azuayo.



Source: Cresol 2011

Cresol is a credit and savings cooperative founded in 1995 in the South of Brazil. Private microfinance is much less consolidated in Brazil than in other Latin American countries due to macroeconomic and regulatory issues, as well as public interventionism in the provision of subsidized credit (Nichter et al., 2002). Leveraging its role as partner of public development banks for farmer loans programs, Cresol became the largest non-state MFI in the country. Its roots lie in farmers' and agricultural organizations, social movements, NGOs and church communities. It gathered Rotating Credit and Savings Associations (ROSCAs) that formalized into cooperatives and came together as a network. Currently there are 79 cooperatives in the network. In 2005, Christen and Pearce stated that 85% of Cresol's members had never had access to a loan before they joined the cooperative, Trias, Rabobank Foundation and BRS, all e-MFP members, are giving them support.

³ Stands for Cooperativa de Ahorro y Crédito, i.e. SACCO

Crédit Rural de Guinée (CRG) was founded in 1989 in Guinea by IRAM and with the support of Agence Française de Développement (AFD). While the other cases presented here are cooperatives, CRG is a non-bank financial institution (NBFI), but its clients are involved in its ownership structure and decision-making process. Unlike the other MBOs in the study, CRG started offering credit, rather than savings, through the Grameen methodology (i.e. lending to groups of five to six people from ten to twelve months with monthly payments). Such loans appeared mostly suited to finance non-agricultural rural activities, so modalities have progressively been adapted to farmers. Guinea suffered a substantial amount of political turbulences. Its transport, energy and telecommunication infrastructures are extremely limited and inflation often reaches two-digit numbers. Despite this adverse environment, CRG demonstrates extremely strong resilience. SIDI offers them funding and IRAM is part of their board of directors. Both of these institutions are e-MFP members.



Source: Levard, Diop and Marronnier (2006)

IDENTIFYING KEY CHALLENGES

To go beyond the existing literature, this study aims to add new arguments to the discussion surrounding governance and strategic alliances of MBOs. The wealth of experience encapsulated in the five cases selected, as well as some complementary examples from other organizations used on specific issues, offers an opportunity to identify the key factors that led to their success in reaching rural areas. It should help practitioners, decision makers and funders to better intervene in this sector. It is also meant to support other MBOs in designing efficient strategies to strengthen their growth and sustainability.

Managing sound growth is crucial for MBOs sustainability. While allowing economies of scale and making liquidity management easier, growth also generates important challenges. This study analyses two major issues for MBOs' expansion: a sound and efficient governance system and the establishment of strategic alliances with organizations that support this process.

MBOs are characterized by their specific governance system, which involves members. Members are at the same time clients and owners of the organization. They elect representatives who govern the organization. This system favors a strong sense of belonging among the population

and a high embeddedness in the local society. It enables MBOs to keep operating costs low and to reduce information asymmetries⁴ thanks to the good knowledge members have about each other. Credit risk is mitigated through social monitoring and peer pressure. This bottom-up approach facilitates MBOs' growth and makes some of them preeminent financial actors in rural areas.

However, when MBOs become larger, their internal cohesion tends to decline and the members' control over the organization decreases. Processes get more complex, products more sophisticated and employees need to be more qualified. Due to their education levels, members often lack the adequate skills to supervise the institution. Consequently, new mechanisms have to be developed which include qualified internal inspectors and modern information systems, while at the same time preserve member involvement and engagement. At this stage, an organization faces important challenges and it has to make strategic choices and seek external support.

This study analyzes three major trade-offs influencing the governance of the organization and three types of strategic alliances that can help MBOs to sustainably serve rural areas.

⁴ Information asymmetry refers in economics to a situation where one party has more information than the other, which flaws transactions and causes market failures. This is a particularly sensitive issue in credit matters, as the lender tends to have less information than the borrowers on the latter's solvency and trustworthiness. Microfinance emerged from innovations which rely on social bond, proximity and technology to overcome such asymmetries.

GOVERNANCE ISSUES

SHOULD MBOs GROW BY DEEPENING LOCALLY OR EXTENDING NATIONALLY?

The different cases studied here followed their own growth strategy, depending on their mission and environmental factors. Deepening locally and extending nationally are two distinct options that both have pros and cons.

Taking advantage of the strong bond they established with village communities and the relative diversification of their local economies, the Latin American cases under scrutiny have remained mainly focused in their initial intervention area. By deepening their roots in a delimited region, these organizations fostered a strong attachment with their members. They also explicitly engage in their local environments, by making strategic alliances with local partners as will be shown later. In all this the Latin American cooperatives are following a certain type of territorial development logic, where not only the development of the organization, but also and more importantly the development of their members and the environment in which these live, develops. Los Andes for example was created with five branches and progressively extended. It now operates through 42 points of service in 7 provinces. Nevertheless, all of them are located in the cooperative's department of origin, Apurimac, which is the second poorest of the country, and most of the points of service operate in localities where no other access to formal financial services is available. A branch has been opened in Lima, but it serves mostly people from Apurimac who settled there or temporarily travel to the city. This demonstrates one of the main objectives of the cooperative: to answer the needs of the people of Apurimac and to help facilitate their daily lives. Such concentration in a deprived region raises challenges to attain sustainability and finance growth. However, despite the institution has been initiated with external funding, since 2005 savings are its main source of liquidity (Mees and Biot, 2009). It demonstrates that the lack of resources can - at least partially - be compensated by the growing trust of the population and the cooperative's embeddedness in the local community.

To overcome the risks induced by such regional concentration, Los Andes, Jardín Azuayo and Cresol promoted member involvement and training, hired employees coming from the same communities and diversified the range of activities they finance. Hence, information asymmetries have been substantially reduced, risks are mitigated and default rates remain low. However, economies of scale remain harder to reach for these organizations. Alliances with peer or local partners, such as producer organizations, are therefore essential to maintain low operating costs and reach more remote areas (see "strategic alliances" section below). These MBOs show a high potential for impact on the development of their operating areas. However they remain more prone to local economic shocks than nationwide institutions.

The African cases, on the other hand, have followed a broader expansion strategy. Initially focused on rural areas, CRG expanded into cities when it took over the activities of the Credit Mutuel de Guinée. This sister institution was bankrupted in 2000, due to governance issues, poor management and fraud. Through this merging, CRG became, by far, the largest microfinance institution in Guinea. In the neighbouring country, Kafo Jiginew was first established in the cotton-growing area and was totally identified with the farmers of this region. Nevertheless, the cooperative undertook a geographic diversification in 2001, after the prices of the "white gold" began to fall. It then opened branches in the capital city Bamako and in the rice crop region (Office du Niger). It is now the leader of the Malian microfinance sector.

Such nationwide institutions are more inclined to influence their domestic regulations and public policies, as well as their peers. Scale enabled them to reduce costs and mitigate risks. Both have also expanded to urban areas, where they benefit from more profitable lending activities and easier savings collection. This move was initiated as a means to better finance the rural areas, but there is a clear risk that it may result, in the end, in a drift from the

original mission. Moreover, while offering access to a broader range of people, it also tends to weaken the members' sense of belonging and owning to the institution.

Opting for expansion enables MBOs to become major players in the national microfinance sector. It helped them to diversify risks by financing various types of activities in areas not affected by the same kind of shocks and it fosters a more efficient

management of liquidities. The challenge is then to maintain the rural dimension of the MBO's and avoid mission drift. To do so, CRG has for example incorporated civil servants in the membership very progressively in order to avoid monopolization by privileged social categories. Additionally, it has set a limited loan amount to ensure that financial services suit poorer members' needs and not wealthier ones.

Choice ⁵	Strengths	Weaknesses	Opportunities	Risks
Grow locally Los Andes, Jardín Azuayo, CRESOL	<ul style="list-style-type: none"> • Embeddedness • Members know each other well: less information asymmetries • Social control as enforcement mechanism • Stick to the mission • Keep focused on rural 	<ul style="list-style-type: none"> • Lower financial leverage • Lower risk diversification: strongly affected if the area experiences a bad shock • Less influence in national policies 	<ul style="list-style-type: none"> • Construct alliances to benefit from economies of scale • Being a player in local development in partnership with other organizations • Be the benchmark MFI in the region 	<ul style="list-style-type: none"> • Vulnerability to local economic or agricultural crisis • Low sectorial diversification • More difficulties to be sustainable
National expansion Kafo Jiginew, CRG	<ul style="list-style-type: none"> • Exploit economy of scale: enlarge scope of products • Diversification: reduce risk linked to rural areas • Better visibility due to national size 	<ul style="list-style-type: none"> • Weaker member involvement • Higher information asymmetries • Less local embeddedness 	<ul style="list-style-type: none"> • Higher capacity to attract external funds - Reach a significant number of rural poor • Possibility to use savings from urban areas to provide credits to rural members 	<ul style="list-style-type: none"> • Loose cooperative, democratic nature • Focus on profits and therefore neglecting riskier rural areas (possible mission drift) • Spread of resources in multiple objectives: less focus on rural members

TO WHICH EXTENT SHOULD GROWING MBOs REASSIGN MEMBERS' RESPONSIBILITIES TO STAFF?

The respective roles of elected officials and managers, although laid out legally, are not easy to define in practice and subtle power plays are needed to bring together the skills of different stakeholders. The different organizations under study have all started by relying intensively on members for strategic planning, administration, service promotion, credit screening, decision and attribution, savings and loan transactions, as well as debt collection. However, in the process of growth, these tasks become more complex and prone to fraud or mismanagement. To

handle them with more consistency, MBOs often opted for specializing these functions, standardizing procedures and assigning them to more qualified staff. This process, known as "professionalization", goes beyond merely technical aspects and tends to diminish the influence that elected members had over the institutional decision making. It can therefore erode affiliates' attachment to their organizations, threatening the checks and balance between democratic control and technical management.

BOX 1. THE BAORÉ TRADITION D'ÉPARGNE ET DE CRÉDIT NETWORK (UBTEC) IN BURKINA FASO: A NECESSARY MOVE TOWARDS HIGHER PROFESSIONALIZATION

Origin: UBTEC is inspired by the traditional community-based village bank set up by the National Federation of Naam Groups (FNGN) in 1992, one of the main farmers' organizations in West Africa. Local village banks had been struggling for 15 years before a recovery plan was launched in 2008.

Basis of a new dynamism:

Various factors have contributed to re-launch the network: quite intensive external technical assistance (30 days per year over 3 missions) and a training plan (elected leaders and employees). But there has also been a clarification at the institutional level: the governance and management of the UBTEC network have been clearly separated from the FO (farmers' organizations) FNGN, while retaining many collaborative relationships and synergies.

Moreover, the network now offers fairly diversified financial services:

- Crop credits, fixed-asset loans, education credits and housing loans. Rates vary between 8 and 11% per year; with an additional 2% of fees and administrative expenses.
- Deposits, savings (4.5%) and also education and housing savings (4%).

Finally, the UBTEC has been able to negotiate loans with social investors thanks to its capitalization strategy implemented to develop its activities.

The UBTEC participatory methodology supports the appropriation of the MFI by the farmers of Naam groups and their representatives. However, professionalizing rural credit and saving facilities and attracting social investors result in the FOs fear of losing their financial instruments. The challenge of UBTEC now is to keep its farmer basis while being enough attractive for investors.



Credit process organization gives a typical example of the trade-off between social participation and professionalization. When the MBO is small, credit delivery is generally defined by the members through elected bodies. The credit committee knows all the members well and takes into account the credibility of the members and their capacities to repay the loan. This mechanism often becomes less efficient when the MBOs grow and merge with others. Then, the network generally hires qualified credit officers to perform technical analyses, control more strictly the credit risks and standardize processes. However, it strongly reduces the role of the members in the credit allocation process and can highly damage the local population's sense of belonging to the MBOs.

The CRG case demonstrates that members' participation is instrumental for internal control. CRG suffered several frauds. This pitfall has been overcome by designing an ownership structure that involves all main stakeholders. In 2001, CRG was institutionalized with a hybrid status, being a private company, owned by its employees, donors and clients, each one

being represented in CRG's governance bodies. Among the twelve members of its board of directors, five are members elected by the local branches, four are employees elected by all the staff members and three represent the external partners⁶. This shareholding configuration favors a "common management", involving all the main stakeholders. At a local level, the branches work under associative principles: free adhesion, solidarity and the "one member, one vote" rule⁷. By attributing capital shares to clients, it allowed them to participate in all institutional decisions, thus counterbalancing employees' power and placing staff activities under the supervision of clients' representatives. Of course, a challenge in such cases is to avoid "elite capture", when only certain kinds of members get to leading positions, in particular the better educated ones, like lawyers or teachers. Such cases can be prone to fraud, if a few representative members collude with managers against the rest of the affiliates. Good democratic control with balance of power and opposing forces therefore seems crucial to ensure good governance of MBOs.

⁶ IRAM, SIDI (Solidarité Internationale pour le Développement et l'Investissement) and the Guinean State.

⁷ However, two types of membership give different voting rights: associate-members, who pay subscription of about 22 €, can benefit from credit and saving services; and saver-members, who pay a 1000 GNF (0.1 €) entry fee and have access to saving products. Associate-members have a vote in the decision-making process whereas saver-members have only a consultative role.

On the contrary, the experience of Kafo Jiginew shows that some circumstances make it inevitable to professionalize credit activities to protect the institution from itself. Until 2005, elected members were playing a preeminent role in credit committees, validating the information of the loan requests and analyzing it. But when the cotton crisis hit most of the cooperative members, their representatives kept on vouching for people who wouldn't be able to repay. Driven by solidarity, peer pressure and sometimes clientalism, this cooptation mechanism put the institution at risk, deteriorating its portfolio quality. In order to safeguard savings, hired technicians have been made responsible for lending decisions and stringent criteria have been established for attributions. Hence, elected members' role in the credit process is now restricted to arrears collection. Elected members only countersign and validate credit officers' analyses of credit demand. Their role in the credit process is now more oriented towards arrears collection.

In the case of Los Andes, by-laws limit member involvement in credit allocation decisions, although the MBO works with members to obtain sufficient information about the credibility of the potential borrowers. Contrastingly, CRESOL gave decisive power to members, as elected farmers were the directors of every local cooperative. However, even in this case, increasing growth has recently pushed some of CRESOL's local MBOs to put professional managers in charge, showing the limits of members' directors.

These examples confirm that, when activities become more complex and technical, members' control reaches its limits and power increasingly goes into the hands of professional managers. Professionalization enables an MBO to offer more sophisticated products and safely administer additional funds. However, the result is more costly than relying on members' voluntary work. Such expenses can hinder an MBO from reaching remote or low density areas and incentivize the institution to shift up market and induce a drift from the original institutional mission.

Choice	Strengths	Weaknesses	Opportunities	Risks
Favor member participation CRESOL, Jardín Azuayo, CRG	<ul style="list-style-type: none"> Increases member involvement in credit allocation process More socially oriented Reduces costs through voluntary work – less costly to reach remote areas Embeddedness Stick to mission 	<ul style="list-style-type: none"> Weak management capacities of members (especially in rural areas) Time-consuming for members Significant cost of investment in education 	<ul style="list-style-type: none"> Empowerment of members and possible impact on local development 	<ul style="list-style-type: none"> Nepotism Fraud and/or elite capture
Prioritize professionalization Los Andes, Kafo Jiginew	<ul style="list-style-type: none"> Stronger capacities to analyze risk Reinforces the institution and therefore its capacities to attract new funds and expand 	<ul style="list-style-type: none"> Increases operational costs (especially in rural areas) 	<ul style="list-style-type: none"> Possibilities to manage more complex products which better fit member needs (e.g. insurance products) 	<ul style="list-style-type: none"> Reduces member involvement

When professionalizing activities, MBOs need to reinvent a way to involve its members in the organization again. Hiring members and relatives can help to keep this link. Originally, in Jardín Azuayo, every employee was a member, and often also the son or daughter of a member. Members are involved in each step of the decision-making process through different committees and elected directors. In this Ecuadorian case, it clearly encouraged a strong level of commitment to the cooperative by its employees and ordinary members. It is obvious that to continue successfully with this choice, substantial investments in training for members and employees are required, as well as the design of a real capacity building policy.

However, this human resources policy is not possible in all kind of environments, depending on local offer of education

services and therefore of the skills of the workforce. Training programs can reinforce member involvement and also raise staff awareness about the cooperative democratic principles. In all cases, a fair equilibrium between elected members and employees is instrumental to maintain checks and balances which is key for the viability of MBOs. For instance, CRG is intervening in a context of harsh political and social tensions. The fair equilibrium between the main ethnic groups within the organizations' staff members is also another important factor that accounts for its durability. This aspect is informally taken into account during the recruitment process. Despite the turmoil that Guinea went through, CRG kept on functioning throughout the last decade, while most of the other institutions (MFIs but also public services, private companies, etc.) frequently had to suspend their activities.

BOX 2. LEGISLATION IN MEXICO: LEGAL INNOVATIONS TO ESTABLISH NEW TYPES OF MBOs ADAPTED TO OPERATE IN REMOTE RURAL AREAS

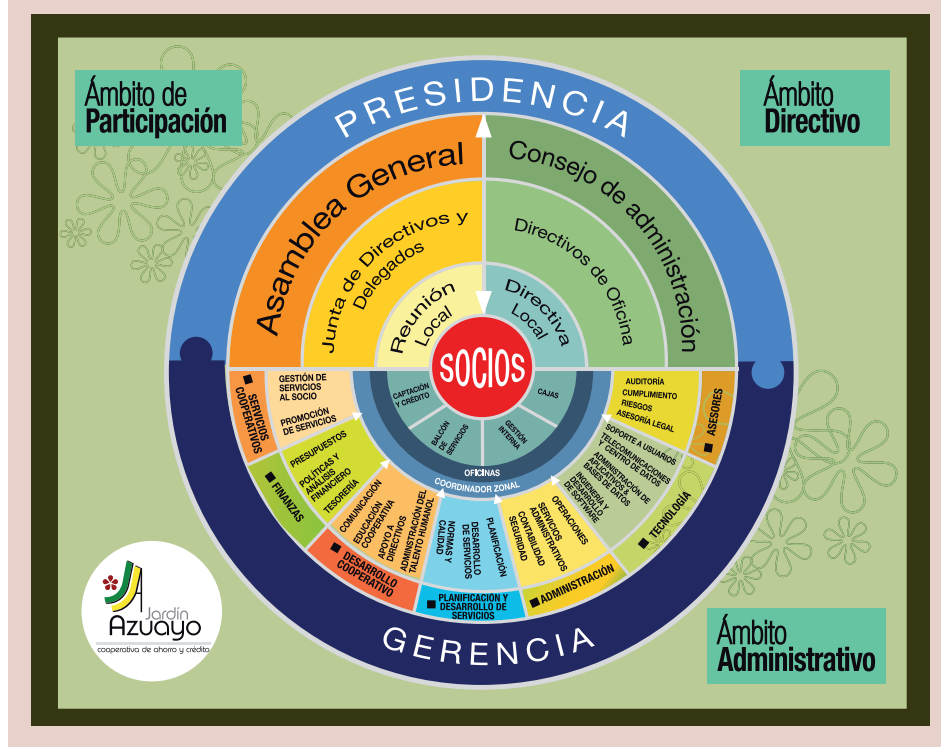
Several factors hamper members' control over the institutional strategy, favouring staff leadership: the disparity in terms of technical training, the knowledge of complex organizational functioning and the access to information.

Facing the trade-off between growth and local participation, the "Asociación Mexicana de Uniones de Crédito del Sector Social" promoted the design of a new legal status : the "Sociedades Financieras Comunitarias" (SOFINCO). Such institutions are private limited companies that can associate individuals as well as corporate bodies. The concentration of capital is restricted, but nonprofit organizations can own 51% of the shares. This way, local communities or producer organizations can create their own financial institution. SOFINCOs are allowed to offer some services to non members, avoiding the dissemination of the power that would result from a great number of money transfer recipients for instance.

In order to get external funding, SOFINCOs can merge into an "Organismo de Integración Financiera Rural" (OIFR). The latter is allowed to receive funds from the national development bank in order to transfer it to the SOFINCOs, to manage liquidity surplus, to lend to its constituent SOFINCOs, as well as to provide other financial services and support (accounting, human resources management, etc.). Moreover, the national regulator delegates most of the supervisory responsibilities regarding SOFINCOs to their OIFRs.

This legal status was created by the Law of Popular Savings and Credits n° 13-08-2009 and to date, 5 SOFINCOs were founded and AMUCSS plans to establish the first OIFR in 2012.

BOX 3. THE 3 LEVEL ORGANIZATION IN JARDÍN AZUAYO



SHOULD MBOs CENTRALIZE THE DECISION-MAKING PROCESS TO IMPROVE RURAL OUTREACH?

The cases under study have followed different strategies regarding the level of centralization of management and decision-making. However, most of them can be considered as integrated networks, as their central structures take most of the strategic decisions. Consequently, standardization of human resources policies, interest rates and other products' characteristics as well as credit processes are common. For instance, a local MBO cannot create a specific product if the central governance bodies have not deliberated and given their approval, which generally applies for all the affiliates. In the more decentralized cases, local members are represented at central level and may contribute to the definition of new products. Conversely, in highly decentralized cases, like the REMEC in Senegal (See Box 5), the central level does not influence the internal policy of local MBOs, which define their products individually.

Latin American cases under study have maintained a relatively decentralized structure with small grass-root organizations keeping significant autonomy. For example, binding to the general policies of the MBO, credit committee decisions can be taken locally.

Cresol's high level of decentralization is one of the organization's main characteristics. Cresol is a rural cooperative umbrella system with local credit & savings cooperatives at municipal level, microregional platforms for coordination with all cooperative chains and a central cooperative service centre with representations from all microregions. Rural families form each of the 79 cooperatives. An average cooperative represents 500 to 2000 families. The elected president represents the other members of the local cooperative at the General Assembly of the regional cooperative. The cooperatives are independent and can be defined as local MBOs, but have to fulfill and comply with the rules of the overall cooperative network. They are supported by the staff of the central cooperative that gives them specific technical support. There are two regional cooperatives that provide support to the local ones in their region.

In Jardín Azuayo (see box 3), each of the 27 local cooperatives elects a local committee that plays a crucial role in decision making. The local committee establishes its own operational programming and budget, planning meetings, travel, field visits and exchanges, participation to local celebrations, introduction to new

members, cultural activities, etc. Each local cooperative also elects a director who participates to the General Assembly that decides on the major orientations of the cooperative's social and financial activities. The director supervises a management team made of one loan officer, two cashiers and one outreach worker, who prospects for new members. These employees report directly to the director who remains a voluntary (not paid) member.

In COAC Los Andes, members are involved in the decision-making process through different committees at the local level, influencing in particular the creation of new financial products and the adaptation of existing ones that finally is decided at the central level.

In these three cases, decentralization has resulted in strong attachment to the cooperative and a highly democratic structure. However, a decentralized structure is relatively costly and it is difficult to control the local offices if in each one there is a central manager who takes independent decisions. Therefore, a good relationship between local office managers, the central management and the local representatives seems necessary.

Contrarily, the African MBOs considered in this study tend to restructure their networks to further centralize their decision making. Encouraged by the new legislation adopted in 2007 for microfinance in the WAEMU (West African Economic and Monetary Union), Kafo Jiginew has drastically reduced the number of local MBOs by merging them. Local points of service remained, in particular in remote rural areas, but they no longer have their own governance bodies. Following a sharp rise of default rate caused by the cotton crisis, credit demands are now analyzed by hired credit officers, strongly reducing the implication of elected

members in the credit allocation process (see the previous section). These reforms contributed to reducing costs, as the number of meetings decreased, to accelerate the decision-making process and to set more stringent credit procedures. Nevertheless, they may also undermine the members' identification with their cooperative, which has been a pivotal feature of Kafo Jiginew and a key factor of its success. Such a trend is still hypothetical, but it could translate into a rise of repayment defaults or frauds. To prevent it, Kafo Jiginew has planned specific awareness and training sessions for its members.

CRG established a three level participation: district, local branches, central CRG-SA. Local branches hold an Annual General Meeting with the members from the districts to elect a Management Committee composed of at least five representatives, including a president. Local branch presidents then elect the members' representatives to the central CRG-SA board of directors. Finally, there is also a governance body at the district level, which is a smaller area (a branch gathers several districts). Members elect a Credit Committee of at least three representatives, whose main role is to select the borrowers in the district. Consequently, member's information and opinions are channeled from the bottom to the top. Conversely, technically speaking, the organization is much more centralized. Indeed, the CRG-SA delegates technical tasks to its local managers following a top-down process. The combination of these two processes - bottom-up regarding member participation and top-down regarding technical aspects - is apparently a crucial aspect in explaining the sustainability of CRG. Nevertheless, to decrease operating costs, CRG is considering following Kafo Jiginew's example and to reduce the number of local committees.

Choice	Strengths	Weaknesses	Opportunities	Risks
Centralize Kafo Jiginew, CRG	<ul style="list-style-type: none"> • Reduces operational costs: less meetings • Speed up decision-making process, less time costly 	<ul style="list-style-type: none"> • Reduces member involvement • Credit committee less efficient – Less likely to know the borrowers • Small rural MBOs absorbed by larger ones 	<ul style="list-style-type: none"> • Comply with the regulation rules • Possibility to maintain access through service points in very remote areas 	<ul style="list-style-type: none"> • Reduces rural MBOs' representation in the network • Reduces cooperative spirit • Can limit innovation on financial services needed by rural MBOs
Decentralize Los Andes, CRESOL Jardín Azuayo	<ul style="list-style-type: none"> • Increases member involvement • More democratic: All small MBO branches are represented at central level 	<ul style="list-style-type: none"> • Costly • Time-consuming • More complex to control at the central level 	<ul style="list-style-type: none"> • Products and services adapted to local reality • Keep cooperative spirit while growing 	<ul style="list-style-type: none"> • Difficult to comply with legislation if there are strict rules regarding financial reporting

Designing good network architecture is instrumental in increasing the social and economic efficiency of MBOs while preserving the cooperative or associative nature and spirit. Integration enables cross-subsidization and solidarity mechanisms helping MBOs to reach remote rural areas. The degree of centralization or decentralization of tasks and decisions in the network influences member involvement in the decision-making process.

A high degree of centralization enables a high standardization of products and procedures, which makes management and internal control more efficient and favors economies of scale. It also leads to a strong solidarity between local MBOs, which pool all their resources. However, it reduces member involvement at the local level and makes credit committees even more unlikely to know the members who apply for a loan. Their members continue to supervise

the credit allocation, but their added value in screening decreases strongly. Moreover, in the case of merging several smaller local branches, members no longer know all elected members of their local MBO, which hampers the effectiveness of democratic representation. The central body can even be perceived as a burden for the network's affiliates, resulting in a complex structure and high costs with few benefits in terms of service quality from the member standpoint.

More decentralized structures result in a stronger embeddedness in the local environment, a higher sense of belonging among members and a more dynamic democratic life. However, it generates more costs and makes meetings of bodies at the central level more complicated. But several MBOs under study have opted for a decentralized network, while centralizing key services, such as human resources management and IT.

STRATEGIC ALLIANCES

In order to support their growth, the MBOs under study have built strong strategic alliances with different partners and organizations. Three types of long-term alliances are especially important to serve

rural areas in a sustainable way: alliances with (international) external partners and donor organizations, alliances with peers, and finally alliances with local and producers' organizations.

ALLIANCES WITH INTERNATIONAL PARTNERS

BOX 4. EXTERNAL SUPPORT IN THE CREATION OF MBOs - AN EXAMPLE FROM MALAWI: VILLAGE SAVINGS AND LOANS ASSOCIATIONS SUPPORTED BY CARE INTERNATIONAL

Malawi is an agricultural-based economy with a population of 13 million. This case study on CARE Malawi focuses on the role of savings-led groups in boosting access to these services.

In 1991 CARE Malawi introduced Village Savings and Loans Associations (VSLAs). In adopting the VSLA methodology, significant improvements were made in food security, asset provisioning and education investment. This led to the Save-Up Project, running from 2008 to 2012. The project is intended to reach 120,000 people. Six partner organizations are involved and are supported both technically and financially. These partner organizations are cheaper than direct implementation by CARE Malawi and offer a greater reach in rural areas.

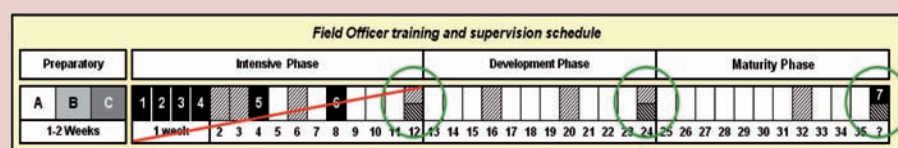
Fundamental features of VSLAs

- The primary purpose is to provide simple savings and loans;
- Members of a self-selected group form a VSLA and save money in the form of shares. The savings are invested in a loan fund from which members can borrow money and repay with interest;
- VSLAs are comprised of 15-25 members, enabling the group to strike a balance between creating a useful pool of capital and keeping regular meetings manageable;
- Associations are autonomous and self-managing in order to reach their goal of being institutionally and financially independent;
- All members have an individual passbook and all transactions are carried out at meetings in front of all members, promoting transparency and accountability;
- The cycle of savings and lending is time-bound. At the end of an agreed period, the accumulated savings and service charge earnings are shared among members.

Methodology

VSLAs are trained over a period of 36 weeks by field officers (FOs) or village agents (VAs). VAs are community-based trainers who originate from existing VSLA groups, and continue to train VSLAs at an agreed fee paid by VSLA members.

Experience shows that in two years one FO can train and supervise 12 VSLAs and 12 VAs, and one VA can train and supervise 15 VSLA groups, leading to a total of 192 VSLAs, comprising 3,840 people (average group size of 20 members). A FO spends 6 months developing initial groups and 18 months coaching and supervising VAs. A field supervisor can supervise 6-8 FOs.



VSLA training structure:

1. Preparatory phase: Raise awareness about the project amongst government officials and local leaders, as well as introducing VSLA methodology to communities and holding cluster meetings with potential group members;
2. Training phase: 7 training modules subdivided into three phases each lasting 12 weeks, namely the intensive phase (start and loan training sessions); the development phase (group passed performance assessment for intensive phase, regular visits); and the maturity phase (group passed assessment development phase, one follow-up session before assessment graduation);
3. Graduation phase: VSLAs share out all or part of the money; members are free to leave or join the group. Groups become independent and FOs stop visiting the group.

Because VSLA members have little business experience the program requires other related activities such as business management and financial education training. Mature VSLA groups also require links to formal financial institutions. It is estimated that \$36-40 per client would be required to train and adequately prepare VSLAs for all these activities.

Important lessons

1. Involving local community leaders during initial stage ensures community ownership;
2. Capacity building in the VSLA methodology leads to quality groups, which aids the sustainability and self-replication of the VSLA program;
3. The formation of committees both by VAs and VSLA groups helps to sustain the program even after the project is completed;
4. The provision of training and financial literacy helps maximize VSLA member benefits
5. MIS/MandE are key for monitoring and controlling the quality of programs.

While all MBOs under study received international support during their lifespan, it is worth noticing that the three Latin American cases were originally launched by local initiatives. Jardín Azuayo was set up by the victims of a natural disaster, Cooperativa Los Andes was formed out of 5 local peasant organizations and CRESOL is in fact a formalization of local ROSCA systems.

For the two African cases, on the other hand, international organizations have been involved since the beginning. Later on however, these organizations were released from this guidance. Kafo Jiginew in particular was initiated with strong external support, it gained substantial autonomy in 1994, when Malians elected members and middle management opposed the control of foreign technical assistants over the MBO governance. After the withdrawal of most of its initial donors and support organizations,

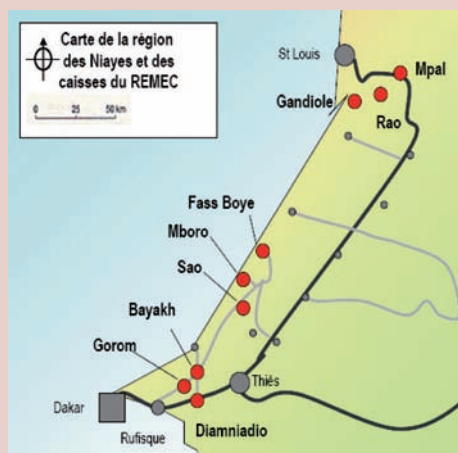
the Kafo Jiginew assembly decided to foster its financial strength and to prioritize sustainability.

External support seems especially important at certain stages or in certain processes. For example, the REMEC case (see box 5) has shown that external support can be crucial in the networking process. External financing and technical support have also helped some MBOs to extend to new areas, such as Kafo Jiginew who benefited from SOS Faim support to start activities in the Office du Niger area. International partners have also brought technical assistance to MBOs in the development of modern information system and internal auditing mechanisms. Los Andes and Jardín Azuayo, for example, benefited from the support of international NGOs to interconnect all their branches. Such systems were necessary to generate quality information while being able to deliver services in remote areas.

BOX 5. A LONG PATH TO THE CREATION OF A NETWORK OF LOCAL MBOs - AN EXAMPLE FROM SENEGAL: THE REMEC-NIAYES

The REMEC Niayes⁸ was created in 2005 following the intervention of a bilateral Belgian cooperation project (PPMEH)⁹, which aimed to promote vegetable farming in the north coast area of Senegal. One objective of the intervention was to help farmers to improve their access to financial services. Therefore, they identified three existing, albeit not formalized, local credit and saving cooperatives (MECs). Having obtained formal approval from the authorities, the project supported them with management tools and training before giving them a 50 million CFA franc¹⁰ credit line. Along the way, two other MECs were included in the project and three more were created with local promoters.

At the end of the PPMEH project, in 2004, the need for a network arose among some members and the Belgian project appeared to be the natural partner to help the local cooperatives create their network, which happened in 2005. However, the REMEC's early days were quite chaotic and challenging. Some of the MECs were already in a difficult financial position and the REMEC could no longer call on external support. From 2008 to 2010, the REMEC received further support from a Belgian cooperation, the PA-REMEC, specifically geared towards supporting the development of the cooperative network.



⁸ Réseau de Mutuelles d'Épargne et de Crédit des Niayes.

⁹ Vegetables farming promotion project.

¹⁰ 76,300 Euros.

In 2011, the REMEC - which was at this time composed of 9 MECs including 20,000 members - was in a very delicate situation. Two MECs together accounted for 40 % of the members - showing the imbalance between MECs - two MECs had a PAR30 of more than 12 %, the REMEC itself was unable to honor its repayments and the consolidated financial information coming from the MEC was inaccurate.

This crisis can be explained by the following elements, principally governance issues. Firstly, standards relating to representation and rotation on sector committees have not been respected by all the MECs, leading to the concentration of power in the hands of particular individuals. Secondly, highly decentralized decisions and confusion as to the roles of the members of the REMEC board and MEC directors¹¹ have led to a lack of decision-making: despite an audit report in 2009 raising concern, no strong decision or corrective measures were taken at any level. Thirdly, the importance of the Belgian project in the REMEC has probably created more confusion of roles and favored individual power. Finally, a lack of constant support from the donor partner since the beginning and conflicts of interests affecting crucial policymakers have prevented quick reactions from the national authorities and partners.

However, at the end of 2011, after more reported evidence on REMEC weaknesses, reactions from Senegalese and Belgian partners led to changes within the REMEC. The general assembly has removed a number of key individuals from elected bodies and managerial positions, the DRS (Direction of Regulation and Supervision) recommendations have been implemented, the information system is almost functioning and a recovery plan has been programmed. These changes may mark the beginning of a new period, with some MECs having understood that they won't survive in the new context without a strong network.

External partners have also encouraged the MBOs in the establishment of alliances with other MBO networks and they have financed some special joint programs, such as educational ones in the case of Jardín Azuayo. This support has been very

helpful in particular when external support organizations developed a coherent long-term partnership. But a crucial lesson is that such networking initiatives should be kept local, as this creates the highest level of attachment among the population.

ALLIANCES WITH PEERS

Networking with peers appears especially important for creating economies of scale and for developing or acquiring services that are too costly to develop or buy for small cooperatives. Peers can be used as learning examples, and experiences of partners in the network serve as a way to learn about difficulties and innovative products. However, networking is possible when peers share a common identity, and it requires investing a considerable amount of time in meetings to establish trust. This encourages relationships between organizations located close by and sharing clear common interests. The case of Los Andes who chose to grow locally is particularly significant: in order to avoid isolation (in terms of new technologies, additional financial resources and services and defense of its sector), it felt the need to create a second level savings and credit cooperative, Ciderural, with similar rural first level SACCOs, as well as to affiliate to a second national body, Fortalecer. The case of Jardín Azuayo is also interesting in this regard, they created in 2009 the "Red Transaccional de Cooperativas" that provides more than 40 cooperatives throughout Ecuador with services of remittances, shared financial services between the associates, and liquidity operations between the member cooperatives.

Additionally, if the network consists both of small and big cooperatives, it is important to

ensure a system that promotes fair financial contributions and representativeness – if not tensions may arise. The set up of an efficient internal communication system between the members is also crucial for the cohesion of the network.

Partnerships with peer organizations at a national or regional level generally imply weaker links between the members involved. They enable MBOs to exchange best practices, to capitalize on each other's experiences of successes and failures and to develop additional economies of scale, for example regarding IT systems. Through the CIF (Confédération des Institutions Financières), a network gathering six of the largest MBOs of West Africa, Kafo Jiginew benefited from the experience of a Senegalese peer organization (PAMECAS) when it decided to develop its outreach in urban areas, in terms of methodology and products implementation. Finally, these partnerships can help MBOs to increase their influence on national policies in order to stimulate the development of an adequate regulatory and supervisory environment. There are cases of regional alliances that have even more prominent objectives, such as the creation of an insurance company or a bank (case of the CIF).

However, partnerships with peers at national

¹¹ For example, MEC directors sign the procedures manual instead of the president of the REMEC board.

or regional level can also entail some weaknesses. They generally involve very slow dynamics because they require consensus. This takes time and can also undermine the democratic process if the representatives are not given enough time to consult their members. Furthermore, the members of the

alliance do not always have the same needs at the same time and they can have difficulties in agreeing on the priorities on the agenda. Therefore, it is important that networks with peers are well thought through and to try to assemble peers that have similar problems and needs.

ALLIANCES WITH LOCAL ORGANIZATIONS

Strategic alliances with local organizations arise from the very origins of most MBOs. For example, Jardín Azuayo started from the initiative of local organizations, just like Los Andes. Such alliances strengthen the MBOs local embeddedness, and give access to

numerous potential members. Additionally, they provide the MBO with accurate information on loan applicants' solvency and probity. They can also be used as a way of social pressure in case of non-repayment.

BOX 6. LOCAL PARTNERSHIP WITH FARMER ASSOCIATION IN UGANDA: ACCESS TO MARKET AND INCREASE OF OUTREACH

In 2007, EBO SACCO together with Mbarara district farmers' Association identified that access to financial services for smallholder farmers in their local districts, was the main constraint to increase investment in farming enterprises.

While the district farmers' association (DFA) had provided business development services (BDS) for the target group for over five years, farmers still faced challenges to invest. In 2007, they chose to forge a strategic alliance between two Ugandan organizations: DFA and EBO SACCO. The first one providing business development services to farmers in order to enable them to increase access to remunerative markets, and the second providing appropriate financial services. The Belgian NGO Trias facilitated this process.

The partnership has been a win-win situation. SACCO increased outreach by serving the farmer group organized by the DFA who in turn gained access to investment funds.

The following results were achieved:

- The number of members increased from 1,549 in 2007 to 5,461 by December 2011
- Loans outstanding increased from Euros 180,000 in 2007 to Euros 800,000 by December 2011
- Value of savings mobilized increased from Euros 100,000 in 2007 to Euros 350,000 by December 2011.
- The cumulative annual disbursements increased from Euros 350,000 for 2007 to Euros 1,406,000 during 2011.
- Two other specific loan products for farmers were developed; one for banana improvement and the other for growing beans.

What contributed to the success is the realization that both organizations need each other for the benefit of their members. They currently maintain a relationship based on mutual benefits since they target the same group through different services provision. Also, SACCO understands that dealing with groups supported by the DFA is less risky since they are well prepared.

In particular, partnering with producers' organizations (PO) often reveals to be an efficient way of reaching out in rural areas. Relationships can be of two main different types. First, an MBO can directly lend to POs considering them as individual members. Second, an MBO can build alliances with POs to facilitate loan distribution to individual members that are both members of the POs as well as members of the MBO. In the first case, MBOs generally have to limit the number of loans directly given to POs, because these loans imply a risk concentration, since these are much bigger in size. Actually, certain legislation such as the WAEMU Microfinance Law, explicitly limits the concentration risk to a certain percentage of the MBOs' total portfolio. To deal with that, Kafo Jiginew chose the second way. After having expanded from

the initial cotton dependant region to urban areas, it decided to enter new rural zones with different kinds of crops. With the facilitation of SOS Faim, it has built a long term alliance with the Union of rice producers of the Office du Niger region (Sexagon) to deliver short to long term productive loans to the farmers. Another kind of alliance is described in the box above. The case of Jardín Azuayo is also interesting: they have identified producer organizations in the regions that neighbor their area of action and have offered them financial services. At the same time, Jardín Azuayo attracts the PO members to associate with Jardín Azuayo and even helps them to create a new cooperative in their region that will be part of the Jardín Azuayo's structure. This way the cooperative is growing in new areas through strategic

partnership, facilitating financial services to rural areas, and helping the producers, some of them in need of intensive funding for crops such as the banana and cocoa.

All MBOs under study have stressed that it is easier to work in rural areas when farmers are structured through farmers' organizations and they often use these organizations as a way to access a new area (like in Kafo

Jiginew or Jardín Azuayo examples). For the MBO, this increases the reliability of the members and moderates MBOs' transaction costs. Indeed, POs reduce information asymmetries by helping MBOs to screen borrowers and to allocate loans. They also supervise the loans and help to recover them in case of late repayments. They thus create an additional social control.

CONCLUSION

The MBOs analyzed in this study successfully serve a large number of rural people. They are the only financial institutions present in many of the remote areas they intervene in and are then substantially contributing to the struggle to fill in the “rural and agricultural gap” of the microfinance sector. They became major financial actors in their country or region and they demonstrated their strong resilience, managing to advance despite adverse conditions: political turmoil, economic crisis, inflation, etc. To reach that level, MBOs must overcome several governance trade-offs and make wise strategic decisions regarding expansion and alliances. This study shows that there is no one-fit-all solution for such challenges and different options make sense depending on the MBO’s environment and its vision.

All the cases under study have found ways and made choices that were context specific and driven by their particular mission, but while some have stayed regionally concentrated, others decided to expand nationally. All of them saw the need of professionalizing their activities and management, either by hiring professional staff or by training their local employees or elected members to such a level that they meet the required needs. Moreover, innovative human resources policies have been developed in order to strengthen the sometimes tense collaboration between employees and members. The levels of centralization and membership involvement also differ. Indeed, all the cases are integrated MBO networks with a strong standardization of activities and a strong common identity. While some are more decentralized networks with a lot of small local MBOs maintaining a strong autonomy in the credit allocation process, others are engaged in a restructuring process merging some local MBOs with bigger ones in order to increase efficiency. Here again, the

mission endorsed by the MBO is a crucial factor as well as the regulatory environment.

To get support in their growth process and to reinforce their sustainability in the long term, all the cases under study have developed strategic alliances with external partners, peers and local organizations. While international partners are especially important in providing technical and financial support, local partnerships are principally used to get more embedded in society and to access or build new markets. Peers, finally, help an MBO to create economies of scale and channel learning experiences. The way they have built these alliances and the nature of the alliances differ from one case to another, but all of them highlight the crucial role of these strategic partnerships in serving rural areas in a sustainable way.

The cases chosen for this study represent successful experiences of serving the rural world. Apart from their considerable outreach, they all reached financial autonomy with good levels of efficiency and low arrears. They yield a wealth of useful lessons learned for other MBOs that are striving to expand their activities. They represent organizations with a bottom-up approach created in response to local problems and therefore faced key challenges to grow while preserving embeddedness and establishing alliances without altering their genuine local identification and autonomy.

While the document does not come up with final answers, it rather identifies the challenges that are crucial for scaling up viable institutions. By analyzing the different options available to overcome such trade-offs, we hope to have given some insights that will be useful for practitioners to design sound strategies to reach remote areas in a sustainable way.

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¹² A more comprehensive bibliography is available on the e-MFP web site, www.e-mfp.eu.

APPENDIX

1. KEY DATA OF THE MFIs STUDIED

MFI (2011)	Creation date	Members**	Active borrowers	Assets (Millions USD)	Portfolio at risk (30 days)	Operational self sufficiency
Kafo Jiginew	1987	306,321	46,425	67.5	1.29%	103.41%
Los Andes*	2001	28,251	12,374	25.8	1.80%	112.30%
Jardín Azuayo	1996	217,960	50,759	243	3.60%	128.62%
Cresol	1995	92,926	47,312	588.1	8.66%	107.17%
CRG	1989	208 640	63,414	10.7***	4.31%	109.07%

Source: Mix Market, date of access 17 September 2012

*Source: COAC Los Andes **Source: MFIs' reports ***Data for 2010

2. LIST OF CONTRIBUTORS

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