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# Supporting Growth and Stability of the Microfinance Industry in Sub-Saharan Africa

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A Shifting Role for Development Agencies

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## Background

Over the course of the past two decades, the global microfinance industry has seen an explosion of growth. From its humble beginnings in Latin America and South Asia during the mid-1970's, the industry has since expanded to serve over 200 million people across nearly every geographical region in the world. The African experience has been no exception. Sub-Saharan African MFIs currently serve nearly 7 million borrowers and 17 million voluntary savers, through a gross loan portfolio of an estimated US\$3.2 billion and gross savings of US\$2.8 billion<sup>1</sup>. The region experienced annual growth of 25% in borrower volumes and 31% in saver volumes from 2003 to 2007, and gross loan portfolio and savings growth of 69% and 60% respectively<sup>2</sup>.

Although funding continues to be dominated by donors and development finance institutions, the industry's continued success has piqued the interest of international investors, particularly socially responsible investors with an eye for double bottom line returns. A proven track record, impressive growth rates, and the opportunity for portfolio diversification have combined to drive investors' recognition of microfinance as a new commercial asset class. According to Deutsche Bank, between 2004 and 2006 international public and private-sector investors more than doubled their commitments to microfinance to over \$4.4 billion<sup>3</sup>. A number of recent deals confirm the trend towards commercial funding sources. In March 2007, private-equity giant Sequoia Capital invested \$11.5 million in SKS Microfinance, the fastest growing MFI in India. Due to Sequoia's status as a commercial venture capital fund with prior investments in the likes of Yahoo! and Google, the deal was heralded as the first purely for-profit private equity play in the microfinance industry. As a true indication of its commercial viability, SKS has since announced plans to list its shares on the Indian stock exchange during 2010. To date, there have been several successful initial public offerings by pure microfinance institutions, including: Bank Rakyat Indonesia (Indonesia) in 2003, Equity Bank Limited (Kenya) in 2006, and Banco Compartamos (Mexico) in 2007. All three of these offerings generated significant returns for shareholders and have continued to trade well on the secondary markets. Additionally, numerous successful securitizations of microfinance loan portfolios have taken place, providing much needed capital for expansion to the participating MFIs<sup>4</sup>. Due to the success of these early ventures, the trend towards commercial funding in the microfinance industry is sure to accelerate over the course of the next several years.

Much of the credit for the microfinance industry's successful development should be granted to international donors and development finance institutions (DFIs). These organizations played a critical role in the development of the nascent industry by providing capital for expansion to microfinance institutions when investments in the sector were viewed as too risky by traditional private-sector investors. DFIs have been instrumental in developing a market for microfinance investment. As the pioneer investors in the sector, they demonstrated the viability of a double bottom line approach to investment in microfinance, proving that MFIs are capable of accomplishing social goals while also generating financial returns competitive with those of more traditional commercial investments.

Despite their success— or rather due to it – it is appropriate at this stage to reevaluate the role that donors and development finance institutions should play in the continuing development of financial systems for

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<sup>1</sup> MIX Market, December 2009

<sup>2</sup> Mecene Investment calculations

<sup>3</sup> Dieckmann, December 2007

<sup>4</sup> In 2006, BRAC of Bangladesh completed a AAA-rated \$180 million private-placement securitization with advisory and support provided by Citigroup and the German development bank, KfW. Additional microfinance loan portfolio securitizations have been conducted with the involvement of numerous players including: ICICI, BlueOrchard, Developing World Markets, ProCredit, and Grameen Bank, and OPIC.

Africa's poor. Donors and DFIs are ideally suited to provide funding for projects that are considered by private-sector investors as too risky, too complex, or having unacceptably long durations relative to their investment horizons. The involvement of such organizations in development endeavors should never be permanent, but should instead serve as an early-stage catalyst to promote the involvement of sustainable private sector players. In this respect, it is important that DFIs recognize the trend towards commercial, private-sector funding sources in microfinance, and adjust their investment priorities accordingly. Indeed, the problems and opportunities presented in African microfinance are great, dwarfing the sums available to development agencies looking to support the industry's development. As such, any contributions offered by these funders must be both incisive and catalytic, capable of yielding effects that are proportionally greater than the initial investments.

The authors of this paper recommend that donors and DFIs focus on supporting the development of financial infrastructure on the African continent, with a specific emphasis on four distinct areas: financial intermediaries, credit bureaus and information sharing, information technology and branchless banking strategies, and management capacity building programs. These recommendations are based on the specific experiences and combined knowledge of the management of Mecene Investment, the exclusive investment advisor to the pioneering AfriCap Microfinance Fund. Mecene's core investment team has over 15 years of combined experience in supporting the development of the African microfinance sector, serving as an active investor and engaged management partner to early-stage microfinance institutions on the continent. This concept paper also follows a rigorous examination of the state of the microfinance industry and a review of the existing academic literature on the effects of each proposed intervention.

Support for the development of financial infrastructure is especially critical in Africa, where governments often lack the resources to sponsor such projects and private capital is not available due to a perception of excessive risk. Both Mecene's experience and the existing academic literature confirm that investments in improving Africa's financial infrastructure can lower the barriers to microfinance investment on the continent, helping to unlock private capital from domestic and international investors. In doing so, these investments will spur the development of sustainable local financial systems that create a platform for entrepreneurship and economic growth.

### **The State of Microfinance in Africa**

The African environment is ripe with opportunity for microfinance. As a continent where well over half the population lives on less than US\$2 per day, the need and potential for small-scale financial services to promote development is substantial. The informal sector makes up 70-80% of most African economies, presenting a huge opportunity for microfinance providers and investors in the sector<sup>5</sup>. Microfinance institutions target a market that traditional financial institutions are unable or unwilling to serve, namely providing uncollateralized loans and other small-scale financial services to the low-income community. The informal market presents a direct opportunity for MFIs capable of capturing the sector's growth, due to the traditional banking system's aversion to this 'unofficial' market.

#### ***Demand for microfinance in Africa is substantial..***

Although it is difficult to estimate market size in any nascent industry, numerous institutions have attempted to estimate the potential demand for microfinance in Africa, each with widely varying results. According to a 2008 RMB/Morgan Stanley report, the total potential loan portfolio for MFIs in the region

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<sup>5</sup> A 2002 study conducted by the International Labour Organization estimated the size of the informal economy in five African countries, including: South Africa, Chad, Benin, Guinea, and Kenya. The average informal employment rate across these countries was 72%. This is despite the inclusion of South Africa's 52% estimate, which can be considered an outlier.

is approximately US\$5.5 billion. This very conservative estimate results from Morgan Stanley's assumption that a microcredit penetration rate of 10% in Africa would represent a saturated market. In contrast, Mecene Investment has developed its own methodology to estimate the potential demand for microfinance in Africa, assuming the 80% credit penetration rate observed in certain areas of Bangladesh as representative of a saturated market. According to Mecene's estimates, the total market for microcredit on the continent is roughly US\$30 billion, representing nearly 50 million individuals<sup>6</sup>. This market is expected to grow to nearly \$39 billion by 2015, due in large part to rapid projected growth of the African labor force. Additionally, the total market for savings is estimated at US\$38 billion and is expected to grow to nearly US\$43 billion by 2015<sup>7</sup>. These figures are in-line with the demand estimates provided in studies conducted by CGAP and Social Enterprise Associates, which project the total global microfinance market at US\$100 billion and US\$300 billion respectively<sup>8</sup>. By weighting these global estimates in accordance with sub-Saharan Africa's share of the emerging market population<sup>9</sup>, we can infer a potential sub-Saharan African market size of between US\$15 billion and US\$45 billion.

Regardless of the methodology and assumptions used, it is clear that the opportunities for microfinance in Africa are substantial. The African microfinance landscape has experienced a transformation over the course of the past decade, moving from a market dominated by non-governmental organizations and informal suppliers to a rapidly growing and profitable industry composed of hundreds of regulated MFIs, commercial banks, and other institutions. Concurrently, the global microfinance market has evolved from a nearly exclusive focus on the provision of credit to an industry that offers a diverse range of financial services to the poor, including deposit accounts, insurance, housing finance, and money transfers. Descriptions of the players and products involved in the African microfinance industry are provided in the Appendix. Aside from the substantial commercial opportunities, the successful scaling of microfinance services across the African continent has the potential to further develop local economies and to lift millions of individuals out of poverty.

### ***The market remains underserved and MFIs in sub-Saharan Africa lag their global peers...***

Unfortunately, despite the initial success of microfinance providers in Africa, the industry remains drastically underserved. Analysts at Mecene Investment estimate that penetration rates for credit and savings services currently stand at 10.7% and 7.4% respectively, indicating that there remains considerable room for growth<sup>10</sup>. Additionally, African MFIs continue to lag institutions in other regions of the world in terms of size, sustainability, efficiency, asset quality, and growth. The following table displays a summary of selected performance metrics for microfinance institutions globally.

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<sup>6</sup> Credit Market Size = (Population Size) x (% Pop. Aged 15-64) x (Labor Force Participation Rate) x (% Informal Economy) / (Household Size) x (80% Market Saturation Rate)

<sup>7</sup> Savings Market Size = (Population Size) x (% Population Aged 15-64) x (Labor Force Participation Rate) x (% Informal Economy) x (Avg. Deposit Balance Per Customer at African MFIs)

<sup>8</sup> Nelson, November 2007

<sup>9</sup> SSA's population makes up 15% of the combined total populations of the following regions: SSA, MENA, LAC, EAP, ECA, & SA – based on WDI 2009 Database

<sup>10</sup> Credit Penetration Rate = (MIX Market Estimates for Total Africa Loan Portfolio) / (Mecene Estimates for Total Credit Market), Savings Penetration Rate = (MIX Market Estimates for Total Africa Deposit Book) / (Mecene Estimates for Total Savings Market)

Select Microfinance Performance Metrics - A Regional Comparison					
	SSA	MENA	LAC	ECA	Asia
Average Total Assets (USD)	11,057,916	12,438,017	15,317,249	20,592,720	11,758,189
Financial Self-Sufficiency (%)	99.3	108.9	112.1	111.0	107.7
Operating Expenses / Assets (%)	15.8	15.0	14.4	13.2	11.3
Portfolio at Risk > 30 Days (%)	4.0	1.4	3.2	1.0	2.1
Return on Assets (%)	-0.6	2.0	2.1	1.1	0.6
Return on Equity (%)	0.5	7.9	9.3	6.2	5.0

Source: MicroBanking Bulletin, Spring 2009

The fact that African MFIs lag behind their global peers in each of these categories is particularly troubling because it indicates that they may struggle to compete for private funding in an increasingly globalized investment climate.

***Donors and public partners should address the industry's barriers to development...***

Much work has yet to be done to improve the state of the African microfinance industry in terms of its efficiency, profitability, and overall outreach. There is an important role for donors and public funders to play in this process. However, before suggesting a path forward, it is important to understand the reasons why African microfinance institutions lag their global counterparts, and to identify the barriers to the industry's continued growth and scaling. The key barriers to microfinance industry development, as identified by the African Development Bank<sup>11</sup>, include: high residency in rural areas, poor physical infrastructure, inappropriate government regulations, low transparency in lending activities, poor utilization of new technologies, a shortage of strong managers, and a lack of early-stage funding.

- *Large rural populations and poor physical infrastructure:* Despite high urbanization rates across the continent, the percentage of Africa's population that lives in rural areas is the highest among all emerging markets. This fact, combined with the poor physical infrastructure inherent in many regions of Africa, makes it costly and difficult for microfinance institutions to operate outside of concentrated urban areas.
- *Inappropriate government regulations:* Although progress has been made among African policymakers, many governments still exhibit difficulties in drafting effective microfinance legal frameworks. Currently, a total of 30 countries in sub-Saharan Africa have drafted specialized microfinance laws or are in the process of doing so<sup>12</sup>. These laws range from those that are overly restrictive, stifling industry growth and innovation, to those that are too lenient, creating environments that enable weak or undercapitalized institutions to continue operating. One of the most prevalent regulatory issues facing the microfinance industry globally is that of interest rate ceilings, or usury laws. Eleven countries in sub-Saharan Africa currently impose some form of ceiling on interest rates<sup>13</sup>.
- *Poor utilization of new technologies:* Underinvestment in technology is a chronic problem among microfinance institutions in sub-Saharan Africa, often due to constrained resources of MFIs or to management's failure to recognize its importance. The absence of management information systems forces some MFIs to manage their loan-processing and record keeping using paper or spreadsheet-based solutions, severely limiting their growth potential and profitability.
- *Lack of transparency and consistency in lending activities:* Microfinance institutions operating in sub-Saharan Africa display relatively poor asset quality, with higher portfolio at risk metrics than MFIs in any other region of the world. The absence of consistent credit scoring methodologies

<sup>11</sup> Mokaddem, June 2009

<sup>12</sup> Isern, December 2008

<sup>13</sup> *Ibid*

among African MFIs also results in inefficiencies and poor transparency in their lending procedures, ultimately increasing the cost of funding for the institutions.

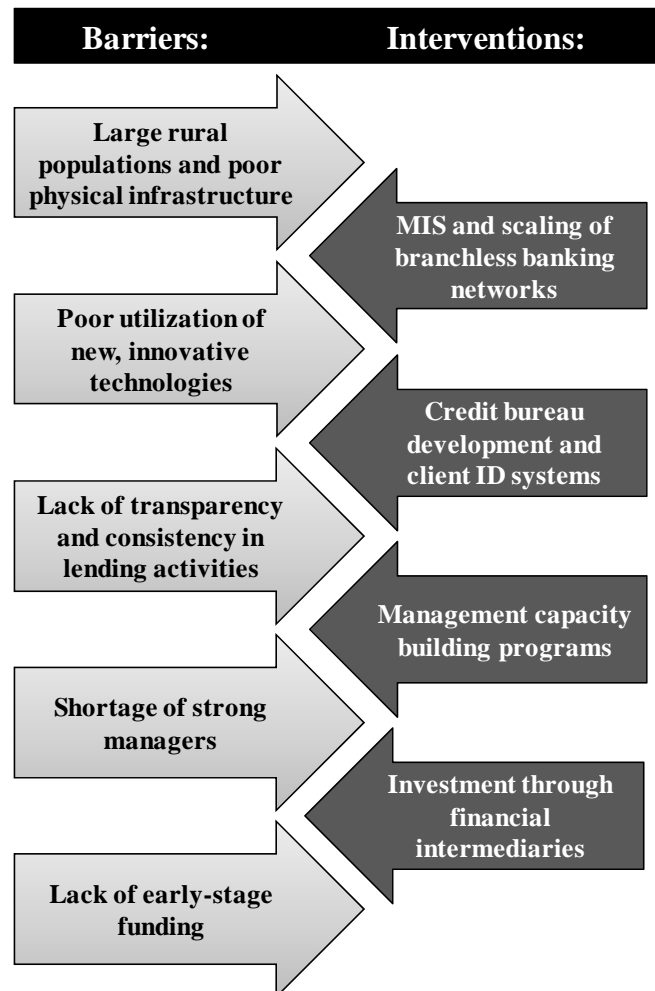
- *Shortage of strong managers:* Management quality is consistently listed as one of the global microfinance industry’s primary risks. In fact, the CSFI Microfinance Banana Skins Report revealed management quality as first and fourth highest on the list of concerns by industry practitioners in 2008 and 2009 respectively. The problem in sub-Saharan Africa is magnified due to the persistent difficulty of recruiting and retaining top staff members in regions with poor infrastructure and generally lower standards of living relative to other emerging markets.
- *Lack of early-stage funding:* Despite increasing investor recognition of the commercial viability of microfinance, funding for the growth of early-stage companies in Africa remains limited. Investment in African MFIs is highly concentrated in a few leading institutions, while small emerging institutions still generally lack access to affordable financing.

**Recommendations to governments, donors, and development finance institutions...**

The African microfinance landscape is at a crossroads, having caught the eye of the international community as a shining beacon of the positive effects of financial services in the depths of a global economic crisis caused largely by financial imprudence. Investors are increasingly recognizing the commercial viability of microfinance and private sector funding has begun to flow towards the industry. The question now becomes: How can governments, international donors and development finance institutions continue to invest in the development of inclusive financial systems in Africa, without crowding out the valuable and delicate support that is beginning to flow from the private sector? We must also recognize that, in addition to investment, there remains a positive role for grant capital to play, as many important projects may not present the opportunity for commercial returns.

Considering the current landscape of microfinance in Africa and the barriers that continue to impede the industry’s development, the authors of this paper recommend that donors and public funders focus on the following initiatives:

1. *Investment in early-stage MFIs through specialized financial intermediaries*
2. *Credit bureau development and information sharing among microfinance institutions*
3. *Management information systems and scaling of branchless banking networks*
4. *Training and capacity building programs for upper management of MFIs*



## 1. Investment through Financial Intermediaries

The importance of investing in microfinance through focused financial intermediaries should not be understated. While private equity investment in the developed world is often associated with over-leveraging and financial manipulation in the pursuit of short-term gain, the role played by private equity investors in microfinance is vastly different. These intermediaries perform a critical function in the development and scaling of the African microfinance industry through the provision of long-term risk-capital to promising early stage companies. In addition to injecting capital for expansion, private equity firms also contribute guidance and expertise to the management of young microfinance institutions, encouraging product innovation, financial prudence, and proper corporate governance. In fact, between 2005 and 2009, private equity backed firms in South Africa outperformed their counterparts on the JSE in terms of growth in sales, pre-tax profit, and overall employment. Additionally, nearly 70% of investees in South Africa report introducing new products or services in the two years following private equity investment, demonstrating the catalytic effect that private equity players have on innovation in small companies. The ability to properly manage the risks of investing in African microfinance combined with a commitment to serving as a long-term management and governance partner enables private equity intermediaries to spur the development of strong local and regional companies. In turn, the creation of strong microfinance companies has a transformational effect of African economies by encouraging local investment, creating employment and exponentially increasing economic activity.

### *Direct investment in African microfinance by governments and DFIs presents major challenges...*

Sub-Saharan Africa presents one of the most challenging investment climates in the world, characterized by rapidly changing political and macroeconomic circumstances, complex regulatory regimes, and culturally influenced business practices. Historically, efforts by public funders to invest directly in development initiatives in the region have been plagued by difficulties. Paul Collier, former director of the Development Research Group at the World Bank, notes that in the past, both the identification and implementation of projects in poor countries has been managed very poorly by donors and DFIs<sup>14</sup>. Challenges in identifying suitable investments in Africa arise for a number of reasons. First and foremost, intelligent investment decisions require an in-depth knowledge and understanding of local markets, which is difficult to achieve without a local presence in Africa due to nuanced cultural factors and generally poor transparency. Additionally, public funders are often ill equipped to manage the process of conducting necessary research and due diligence on potential projects, which can be quite resource intensive. Finally, international donors and DFIs have broad mandates that focus on influencing macroeconomic factors of development. However, experience has shown that these macro-objectives are exceedingly difficult to influence directly, suggesting the need for a more targeted and incisive approach. Consequently, development experts have begun to embrace a model of public-private investment partnerships, focusing on micro interventions that have the potential to produce macroeconomic results.

### *Private equity intermediaries serve as ideal conduits for investment in African microfinance...*

Professionally managed microfinance investment vehicles have been proven as the most effective means for development agencies to invest in the microfinance sector. These financial intermediaries serve as invaluable partners by contributing their in-depth knowledge of local markets in evaluating investment decisions and managing risk. Specifically, focused private equity intermediaries provide considerable advantages to investors looking to support the development of Africa's emerging microfinance industry. The primary benefits to investing through private equity intermediaries include: risk diversification,

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<sup>14</sup> Paul Collier, June 2009

flexible instruments, financial discipline, improved governance, and effective public-private partnership<sup>15</sup>.

- *Risk diversification*: Direct investment in microfinance institutions poses considerably higher risk to development agencies than indirect investment through financial intermediaries. By spreading their sizable resources across a group of diversified microfinance investment funds, these agencies can effectively reduce their risk while supporting a broader range of MFIs.
- *Flexible instruments*: The operations of donors and public funders are often characterized by bureaucracy and slow decision making processes. Private equity funds are considerably more flexible and efficient in evaluating microfinance investments due to their lighter management structures and less restrictive operating procedures. Professional financial intermediaries are also far more likely to explore innovative funding options, such as convertible loans and other quasi-equity structures.
- *Financial discipline*: The quasi-public role of development agencies inevitably softens the forces inherent to private markets that promote financial discipline. Conversely, many microfinance investment funds operate along commercial lines and must compete with other investment managers for funding<sup>16</sup>. As the industry develops further, this competition is likely to accelerate, driving improved performance and greater efficiency among microfinance fund managers.
- *Improved governance*: Investment in microfinance through financial intermediaries has positive effects on governance at both the investor and investee levels. By investing alongside other development agencies, investors and donors are better able to coordinate their efforts in support of microfinance industry development. In turn, delegates from these organizations form the boards for microfinance investment vehicles, which provide oversight of the appointed fund managers. Most importantly, though, this structure enables private equity fund managers to appoint investment officers to the boards of their investee companies, greatly improving their governance which is often a major concern among early-stage MFIs.
- *Effective public-private partnership*: Perhaps the most important advantage to development agencies of supporting private equity intermediaries is that they can effectively provide a catalyst for future private sector involvement in microfinance investment. Contributions by DFIs can help to provide critical mass for microfinance investment funds and can even provide first-loss guarantees to stimulate private investors' appetites to enter the sector. This is especially important considering the sizable gap between the funding needs of African MFIs and the limited resources available to donors and DFIs.

### ***Microfinance institutions in sub-Saharan Africa require early-stage risk-capital...***

Microfinance institutions in Africa rely heavily on international debt and local deposit mobilization to fund their operations, revealing a sizeable gap for equity financing. While commercial investment funds have recently begun to take equity stakes in microfinance, these investments have gone almost exclusively to established and profitable MFIs. Also, many development agencies continue to fund mature institutions, essentially taking the role of permanent shareholders rather than stimulating private sector participation. For example, EcoBank is one of Africa's largest and most successful financial institutions. It is publically listed on three separate exchanges and produced over US\$826 million in revenues in 2008 from its operations across 27 countries in Africa. Despite the company's obvious commercial success, however, development finance institutions continue to fund over 90% of the company's long-term debt<sup>17</sup>. Meanwhile, equity financing for young MFIs and start-up projects is largely

<sup>15</sup> Goodman, April 2006

<sup>16</sup> Some commercially-oriented microfinance investment funds include AfriCap, ProCredit Holding, ShoreCap, BlueOrchard, Gray Ghost, MicroVest, responsAbility, and Triodos

<sup>17</sup> EcoBank Annual Report, 2008

unavailable, as these investments are still considered too risky by mainstream commercial investors and venture capital firms. As a result, early-stage microfinance institutions in Africa are typically undercapitalized and are forced to rely on expensive borrowed funds from commercial banks to finance their growth.

There is an important role for development agencies to play in providing equity capital to young microfinance institutions, through investment in financial intermediaries. Specialized private equity and venture capital firms are ideally positioned to provide risk-capital to early-stage microfinance institutions in sub-Saharan Africa. As professional managers with knowledge of local markets, they are better able to identify promising investments and manage risk than international donors and development agencies. Additionally, these institutions provide critical strategic guidance to the management of young microfinance institutions, improving their financial controls, governance processes, and growth prospects.

***Recommendations for investment in financial intermediaries to support Africa's microfinance sector...***

While it is important for donors and development finance institutions to continue to fund MFIs in sub-Saharan Africa, it is critical that their investments serve a catalytic, rather than permanent, role and that they avoid crowding out potential private sector investors. Therefore, the authors of this paper recommend that development agencies shift their focus towards providing risk capital to early-stage microfinance institutions in the region. This risk capital is best provided through financial intermediaries, which provide numerous advantages including risk diversification, flexibility, financial discipline, and improved governance. Particularly, specialized private equity investors with knowledge of local markets are ideal actors due to their ability to identify projects, manage risk, and provide strategic support. The ability to properly manage the risks of investing in African microfinance combined with a commitment to serving as a long-term management and governance partner enables private equity intermediaries to spur the development of strong local and regional companies. In turn, the creation of strong microfinance companies has a transformational effect of African economies by encouraging local investment, creating employment and exponentially increasing economic activity.

**2. Credit Bureau Development in Sub-Saharan Africa**

The development of credit bureaus is essential to the efficient functioning of a country's financial system. Through aggregating and storing information on client histories and outstanding loans, credit bureaus help to address the problem of asymmetric information, which is inherent to credit markets. Asymmetric information is a condition that occurs when one party to a transaction (ie. the borrower) has more information than the other party (ie. the lender). In financial transactions, this market failure can take two distinct forms: moral hazard, in which a borrower's intention to repay changes after receiving a loan disbursement, and adverse selection, in which a borrower approaches a lender because they are unable to obtain a loan from other institutions due to previous defaults. By making client histories broadly available, credit bureaus enable banks to screen good and bad borrowers, thus reducing the level of information asymmetry between borrowers and lenders and decreasing the risks of moral hazard and adverse selection in financial transactions.

***Private sector credit bureaus are generally more effective than public options...***

The role of aggregating and sharing client information among numerous competing players in the financial industry can justifiably be viewed as a government responsibility. Indeed, credit bureaus are characterized by significant network externalities, which can ultimately lead to natural monopoly and mandate the involvement of the state. Where they exist, public credit bureaus are typically operated by a central bank and serve as a tool for regulators to monitor systemic risk within the country's financial system. Thanks to their positions as government entities, public credit registries need not wait for legislation to commence their operations, and are thus able to begin more quickly and with broader levels

of participation than private bureaus. However, due to their primary focus on systemic risk, public registries typically ignore small players like microfinance institutions and are often limited in the scope of information collected. Indeed, according to the IFC, nearly 60 percent of all public credit registries employ loan cutoff sizes that are at least twice the country's GNI per capita, necessarily ruling out the participation of MFIs and other small lenders<sup>18</sup>.

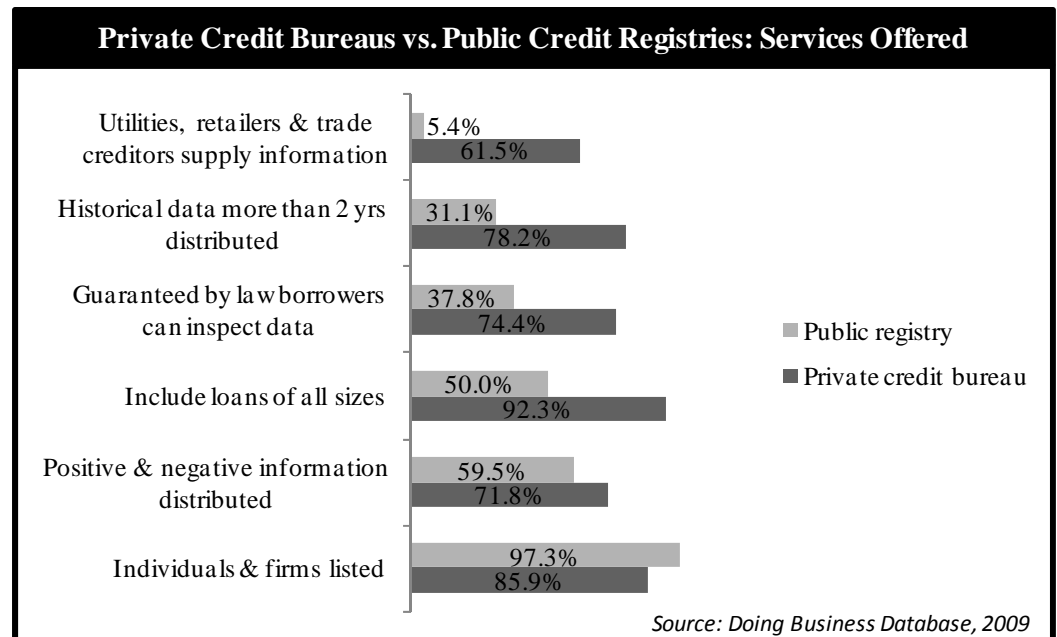
Private credit bureaus, on the other hand, are capable of collecting information from a wide variety of sources, including large banks, MFIs, informal credit providers, and even retailers providing consumer credit. Because they must rely on voluntary participation and compete with other players, private

bureaus often provide a wider range of value-added services than public registries and are more likely to include both positive and negative information on borrowers. In fact, the World Bank's Doing Business database reports that 90 percent of private bureaus currently offer credit scoring services to members, compared with a mere 14 percent by public registries. Specifically, the ability of private credit bureaus to include information on informal market participants and to report on smaller loans makes them better suited to serve the needs of the microfinance industry than public credit registries.

### *Africa has the least developed credit reporting on the planet...*

Financial markets in sub-Saharan Africa are characterized by the least developed credit bureaus in the world. The penetration rate of private bureaus, measured as a percentage of adults registered, stands at 4.5% in sub-Saharan Africa, compared with rates of 14.4%, 33.2%, and 59.6% in East Asia, Latin America, and the OECD respectively<sup>19</sup>. According to a 2009 study conducted by the International Finance Corporation, a mere seven countries in the region currently have fully functioning private credit bureaus. It should be noted that several other countries have recently instituted reforms to support the development of private bureaus, including Rwanda, Ghana, Uganda, Tanzania, and Zambia<sup>20</sup>. The severe lack of credit reporting systems in sub-Saharan Africa is a result of several significant obstacles that continue to hinder their development and proper functioning. The primary barriers to development of private credit bureaus in Africa include:

- *Economic viability:* Private credit bureaus typically rely on economies of scale in order to lower their marginal operating costs, thus reducing the fees charged to each customer. However, due to



<sup>18</sup> Credit Bureau Knowledge Guide, IFC 2006

<sup>19</sup> Calculated from data in the World Bank's Doing Business Database, December 2009

<sup>20</sup> Mylenko, March 2008 - Also noted that new initiatives to develop better credit reporting have been proposed in Mozambique, Angola, Madagascar, and Mauritius.

the fact that credit markets in sub-Saharan Africa are severely underdeveloped, the potential for credit bureaus to reach significant scale in any one country is quite limited. Indeed, the IFC reports that while credit bureaus in developed markets receive millions of enquiries each month, their peers in developing economies may only receive 10,000-50,000 enquiries, greatly increasing their marginal cost per transaction<sup>21</sup>. Increased costs, in turn, significantly reduce demand for credit reporting services among microfinance institutions.

- *Reluctance to participate:* Despite the fact that empirical evidence consistently shows that lenders benefit from sharing information about their clients' repayment histories and indebtedness, many microfinance institutions remain hesitant to participate in private credit reporting schemes. Oftentimes, their reluctance to participate is driven by a concern that by sharing information, they will expose their best clients to poaching by other competing lenders. This common concern represents a misunderstanding of the role of credit bureaus, as they are generally required to keep client information confidential until a customer has asked for a loan.
- *Legal and regulatory framework:* In many developing countries, regulations continue to prohibit private sector players from engaging in the business of credit reporting. Specifically, laws that restrict the ability of companies to collect and sell historical repayment information on private individuals make credit reporting impossible. In addition, particular laws are necessary to promote the healthy development of the credit reporting industry, such as laws regulating the type of data that can be collected and the circumstances under which it can be shared.

Existing Private Credit Bureaus in Sub-Saharan Africa	
Country	Bureaus
<b>Botswana</b>	TransUnion ITC
<b>Kenya</b>	Credit Reference Bureau Africa Limited Metropol East Africa Ltd TransUnion Kenya
<b>Namibia</b>	TransUnion ITC
<b>Nigeria</b>	CreditRegistry Corporation, USA; CR Services Ltd, Nigeria Credit Reference Company
<b>South Africa</b>	Compuscan TransUnion ITC XDS
<b>Zambia</b>	Credit Reference Bureau Africa Ltd., Zambia – Lusaka
<b>Zimbabwe</b>	TransUnion ITC

*Source: International Finance Corporation, March 2009*

### ***Microfinance institutions in Africa would benefit greatly from credit bureaus...***

In the absence of reliable historical information on borrowers, microfinance institutions around the world have developed innovative methods to screen potential clients. For example, many MFIs empower their loan officers to examine clients through the use of subjective judgment or behavioral screening methodologies. Others reduce their lending risks by allowing borrowing groups to self-select their members, or by staggering loan sizes in accordance with a client's repayment history. While these techniques have been quite successful in limiting default rates, they are generally costly and inefficient relative to the use of more quantitative scoring services provided by credit bureaus. Additionally, as the availability of microcredit expands and competition within the microfinance sector heats up, the risk of client over-indebtedness increases substantially.

Credit information bureaus have the potential to provide numerous benefits to both microfinance institutions and their clients. A study published in 2003 revealed that, when given access to credit histories, a majority of lenders was able to reduce ex-ante loan processing time, overall operating

<sup>21</sup> *Ibid*

expenses, and ex-post default rates by more than 25 percent<sup>22</sup>. A summary of the benefits provided by credit information bureaus is given below:

- *Improve asset quality and reduce risk:* In credit markets, historical data is extremely useful in predicting a borrower's future behavior, and thus his likelihood of default. By making this data available to MFIs, credit bureaus enable them to improve their portfolio quality and reduce risk by vetting customers with previous histories of default or outstanding loans at other banks.
- *Increase operating efficiency:* By creating an easily accessible credit scoring database, credit information bureaus enable MFIs to streamline and automate their loan approval and disbursement processes. This leads to reductions in both the costs and processing time associated with lending, which substantially improves overall efficiency within the industry.
- *Lower interest rates charged:* High interest rates in microfinance are a feature of concern among many practitioners. Although industry experts assert that clients are more concerned with access than cost, regular interest rates in excess of 45-60% annually are disconcerting to many. Credit information bureaus can help to reduce interest rates charged to clients in a number of ways. First, by reducing the level of information asymmetry between borrower and lender, credit bureaus enable MFIs to better assess the risks associated with specific loans, which removes the "uncertainty premium" and allows them to price loans more accurately. By reducing the transaction and processing costs associated with distributing each loan, credit bureaus also allow MFIs to reduce interest rates without decreasing their profit margins. Finally, credit bureaus have been proven to increase the level of competition within the financial services industry, leading inevitably to reductions in rates charged to clients.
- *Reduce client over-indebtedness:* Client over-indebtedness is an increasingly important issue among microfinance institutions in many regions of the world. Although problems with access to finance persist among poor rural communities, many people in better-served urban areas now have access to loans from a variety of competing sources. Due to a lack of information sharing between MFIs, clients are often able to borrow indiscriminately from numerous sources, using new debt to repay outstanding balances. The microfinance crises in Bolivia in 2001 and Nigeria in 2009 are useful as cautionary tales of the risks of client over-indebtedness<sup>23</sup>.
- *Improve "graduation" of borrowers:* One of the stated end-game objectives of microfinance is to facilitate the inclusion of the low-income population into the formal economic sector, making it possible for businesses to interact with them to offer goods, services, and employment. Through the collection of client payment histories, credit bureaus enable microfinance clients to develop formal track-records which can assist them in obtaining loans and other contracts from traditional banks and businesses.

### ***Recommendations for development of credit bureaus to support Africa's microfinance sector...***

The authors of this paper recommend that governments, donors, and development finance institutions support the development of credit information bureaus in sub-Saharan Africa. The creation of functioning credit bureaus has far-reaching effects on a country's financial system, increasing competitiveness, bolstering stability, and creating a platform to leverage private capital from both local and international sources.

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<sup>22</sup> Miller, 2003

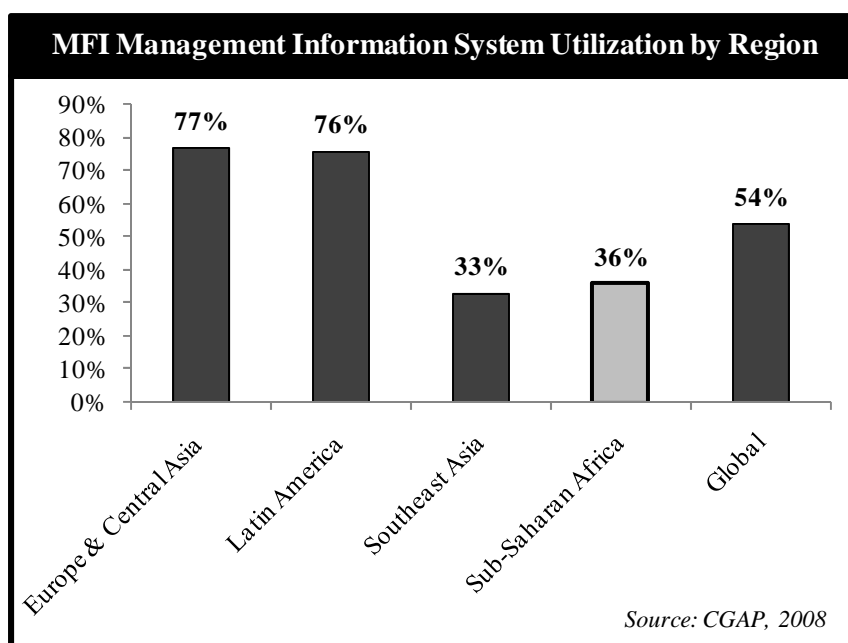
<sup>23</sup> Overlapping client bases and increased competition between MFIs and consumer lenders in Bolivia during the late 1990's led to over-indebtedness among clients and a sharp rise in defaults at lending institutions. This eventually produced a debt crisis that culminated in social unrest, rioting, and the kidnapping of Bolivia's Superintendency of Banks. For more information, refer to "Crisis in Bolivian Microfinance," authored by Elisabeth Rhyne in 2001

Particular emphasis should be placed on supporting private credit bureaus rather than public solutions, as private bureaus are better suited to serve the needs of microfinance institutions and informal sector participants. Additionally, funders should aim to establish regional “hub and spoke” credit bureaus in order to attain economies of scale and achieve financial viability. For example, TransUnion, the largest private credit bureau in sub-Saharan Africa, currently has operations in South Africa, Botswana, Namibia, and Zimbabwe. Finally, governments and public funders should aim to achieve a degree of positive regulatory reform to create a supportive operating environment for private credit bureaus in countries where they invest. For instance, the Inter-American Development Bank succeeded in influencing the regulation of a risk information sharing system in Peru through technical cooperation and the extension of a conditional credit line to the country in 1996<sup>24</sup>. In this regard, emphasis should be placed on the inclusion of both positive and negative credit histories, and on influencing/mandating the broad-scale participation of credit providers.

Although private credit bureaus are capable of operating profitably, establishing them within a country’s regulatory framework can be exceedingly complex and typically requires between 5-7 years before operations can fully commence<sup>25</sup>. As such, private investors are generally unwilling to provide start-up capital for this purpose. Development finance institutions, on the other hand, are ideally positioned to support the early-stage development of private credit bureaus in sub-Saharan Africa, due in part to their quasi-public status and long-term investment horizons. After successfully supporting this initial development, it is likely that DFIs would be able to exit their investments by selling to private commercial investors, thus fulfilling their roles as facilitators rather than permanent shareholders.

### 3. Management Information Systems and Branchless Banking Platforms

In the developed world, information technology has revolutionized the financial services industry by enabling numerous improvements in efficiency, resulting in lower costs and better quality of services for consumers. Management information systems (MIS) are critically important to the proper functioning of any financial institution, as they allow banks to store information on client histories, monitor outstanding loans, and appropriately manage risk. Recent improvements in connectivity combined with innovative new technologies have opened the door for branchless and mobile banking platforms that have the potential to revolutionize the financial services industry.



*Microfinance institutions in sub-Saharan Africa are technologically constrained...*

Unfortunately, microfinance institutions in sub-Saharan Africa often fail to invest adequately in information technology, both in the form of management information systems and branchless banking platforms, despite the importance and promise offered by both. In fact, the CSFI Microfinance Banana Skins report, which presents the

risks affecting the growth and viability of the microfinance industry, ranked lack of technology among the top risk factors in both 2008 and 2009<sup>26</sup>. It is important to recognize the reasons why MFIs in Africa fail to invest in information technology.

First and foremost, many microfinance institutions are undercapitalized and lack the resources necessary to purchase IT systems and mobile banking devices. This problem is particularly acute in sub-Saharan Africa, because MFIs in the region are less profitable than their global counterparts and have correspondingly fewer resources to devote to investment in technology. However, even when MFIs are capable of affording these technologies, they often refrain from purchasing them, instead using any free cash flow to expand their loan portfolios and product offerings. This behavior occurs because many microfinance managers do not believe that the technology will pay dividends for their institutions. In fact, failed MIS implementations occur frequently in Africa due to insufficient IT knowledge within the MFIs and inadequate support from IT providers. If not addressed, lack of appropriate and robust management information systems can lead to high operational costs, inadequate risk management, and even to institutional failure as MFIs grow to face greater competition. Additionally, by neglecting to take advantage of innovative branchless banking technologies, MFIs will risk missing out on potentially transformational new business models. Technology is a long-term strategic investment that helps address two key issues: efficiency and outreach.

***Management information systems improve the stability and efficiency of microfinance institutions...***

Many microfinance institutions in sub-Saharan Africa lack effective management information systems, and are thus forced to keep their client records and monitor loan balances through the use of paper or spreadsheet-based solutions. Besides being inefficient and unreliable, these methods also make it nearly impossible to manage institutional risk, as determining provisioning requirements and portfolio at risk metrics becomes exceedingly labor-intensive. This issue becomes increasingly troublesome as MFIs grow their portfolios, revealing technology as a scale-limiting barrier to microfinance industry growth. Additionally, MFIs may lack the technical expertise to take advantage of modern cost and risk management systems, even when they are available.

Although programs to support MIS utilization among African MFIs exist, the most visible efforts remain largely private and dependent on individual organizations. A few collaborative programs exist among regional networks. For example, the Africa Microfinance Network (AFMIN) recently developed recommendations for new policies in West African nations and periodically holds thematic workshops and virtual conferences to facilitate IT training and information sharing.<sup>27</sup> Another promising program is being pursued through a collaborative effort between IBM and Care International. These organizations have partnered to build an “African Financial Grid” to provide outsourced information technology solutions to microfinance institutions across the continent<sup>28</sup>. Despite these laudable efforts, collaboration between funders, technology providers, and MFIs remains generally unfocused and does not address the specific needs of the industry. Particularly absent is a road-mapping program for microfinance management information systems, a vital but challenging area given the central role and substantial costs of data collection and processing, and of managerial and regulatory reporting. For many MFIs, developing and implementing the necessary technologies and their complementary human resource skills remains problematic. More broadly, the industry lacks well-established standards for microfinance MIS in terms of workflow processes, architecture, and reporting requirements. Existing approaches are expensive and their diversity is wide, indications that the industry remains immature in applying information technologies. Management information systems can effectively stimulate growth and stability within the

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<sup>26</sup> CSFI, March 2008 & June 2009

<sup>27</sup> Watkins, 2009

<sup>28</sup> Hendricks, 2008

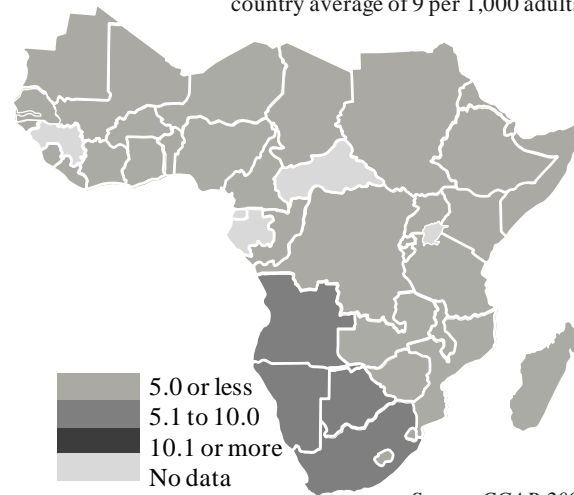
African microfinance industry, but the costs and technical skills demanded by available systems are untenable for all but the very largest MFIs and remain significant barriers to industry growth.

***Branchless banking platforms have the potential to accelerate expansion and improve outreach...***

In expanding their distribution outlets, MFIs need to take advantage of innovative new communications technologies. The proliferation of new technologies, such as radio frequency identification tags, smartcards, biometrics, traditional ATMs, mobile phone banking, and point of sale (POS) devices, offer MFIs an unprecedented variety of communication access networks. Branchless banking is especially important for microfinance institutions operating in sub-Saharan Africa. Large rural populations combined with extremely limited physical infrastructure create considerable barriers to industry growth. Through the use of branchless banking channels, MFIs are able to reach new clients in remote areas cost-effectively, without needing to establish physical bank branches.

**Bank Branches per 1,000 Adults**

Sub-Saharan Africa average of 3 vs. developing country average of 9 per 1,000 adults.



Source: CGAP, 2009

***Point-of-sale (POS) devices and agent networks are preferable to fixed ATMs...***

A falling price of hardware and the increasing reliability of support infrastructure, such as electricity, in developing countries has made establishing and maintaining ATMs and point of sale devices cheaper and more reliable. Of course, both traditional fixed ATMs and point of sale devices are less costly to set up than physical bank branches. However, when comparing POS devices to fixed ATMs, fixed ATMs appear considerably more expensive because they require additional personnel to move cash to and from the machine. Point of sale devices are placed in outlets that have existing cash-on-hand, such as supermarkets and petrol stations. This strategy helps to reduce the costs and risks associated with cash handling, and makes use of the existing employees within that outlet rather than requiring additional staff. (Network agents are typically not bank employees, but employees of the business that hosts the POS device or mobile phone.) Furthermore, transaction costs are lower for POS and mobile devices than for fixed ATMs. In the United States, transaction costs through fixed ATM channels average about 30 cents per transaction, while those through internet and mobile channels have an average transaction cost of less than 5 cents<sup>29</sup>. Point of sale devices, coupled with network agents at host sites in the field, are capable of offering a wide variety of services, including: accessing current accounts, starting new accounts, money transfers, insurance payments, and distributing government benefits, pensions and pay bills. Brazil's banking industry has taken full advantage of the opportunities presented by branchless banking channels. Since 2000, an estimated 8 million new accounts, in both public and private financial institutions, have been created through this platform<sup>30</sup>.

<sup>29</sup> UNCTAD, 2009

<sup>30</sup> Ivatury, January 2006

***Mobile phone banking systems offer the potential to dramatically increase access to finance...***

Mobile transaction services are another option available to MFIs seeking to expand their outreach. Since 1997, the average cost of a mobile phone in Africa has fallen from US\$250 to approximately US\$20 per phone<sup>31</sup>. Due in large part to reductions in cost and the success of telecoms providers like Vodacom and MTN, mobile phone use in Africa has skyrocketed in recent years, with total subscriptions increasing 550% between 2003 – 2008<sup>32</sup>. The average penetration rate on the continent is nearly 40%, and a few countries, such as Gabon and South Africa, claimed almost 100% penetration in 2008<sup>33</sup>. These trends indicate that for African MFIs that plan to pursue branchless banking strategies, the ubiquity of mobile phones could make mobile banking a cost-effective method for expansion, since clients already own the hardware necessary to access their accounts. Although mobile phones are often owned by an individual, the ability to use phones as branches through a network of field agents makes it possible for a single phone to reach hundreds of clients a day.

Development agencies can play a constructive role in developing and scaling these technologies. In fact, the most successful mobile banking provider on the continent, Kenya's M-PESA, was initially funded by the UK's Department for International Development (DFID), through its Financial Deepening Challenge Fund. Currently, over seven million people use M-PESA's services, representing approximately one quarter of the Kenyan population.

***Interaction between mobile technologies and credit bureaus offers promise...***

The increasing popularity of mobile banking also offers another great opportunity for the improvement and promotion of financial services in sub-Saharan Africa. Providers such as M-PESA do more than just facilitate cash transactions; they also accumulate a considerable amount of financial data about users who are typically unbanked by the traditional financial sector. These transaction records, especially those pertaining to loan repayments, help to develop a reliable credit history for those who have none. Furthermore, the data could have predictive value to help MFIs mitigate risk. Although existing credit bureaus and branchless banking platforms are currently too under-developed to pursue these strategies, policymakers and practitioners should remain cognizant of opportunities for future interaction between them.

***Biometric identification and smart card technology should be employed for clients in rural areas...***

Biometric technologies are able to identify individual people through an unchanging physical characteristic, such as fingerprint identification or retina scans. Similarly, smartcards, which

<sup>31</sup> Standage, September 2009

<sup>32</sup> Ivatury, January 2006

<sup>33</sup> UNCTAD. October 2009

**Branchless Banking at Jamii Bora**

Jamii Bora, a multifaceted MFI in Kenya, is an excellent example of the successful use of biometrics and branchless banking technology. The MFI employs POS machines at the heart of its business model, allowing its staff to connect clients to services at branch locations and in the field with the use of hand-held POS devices. Each of the organization's members is issued an identity card embedded with a biometric reading of their fingerprint. To deposit or withdraw funds, Jamii Bora staff simply swipe the biometric card on the POS, open the member's account, and log the transaction. To confirm and authorize the transaction, the Jamii Bora member must only press their thumb to the POS machine and a receipt is printed for the member's records. All POS transactions are logged by a central server and reconciliation takes place at the close of each and every business day. The implications are considerable: there is no need to remember PIN numbers or to be fully literate. The POS model also allows for real-time transaction processing and overall cost-savings, both of which are pivotal to the organization achieving financial sustainability and growth.

*Source: Jamii Bora, November 2009*

function like an ATM card, utilize micro-chip technology to store financial information, allowing the bank's field agents to instantly view a client's deposit account status, loan balance, and repayment history. This dramatically decreases the cost of doing business by increasing the efficiency and outreach capacity of the MFI while simultaneously providing clients with enhanced security and service. These technologies are ideal for branchless banking in rural regions, as they produce unique and accurate data sets remotely and uniformly, without having to rely on documents that can be lost or passwords that can be forgotten. For an example of the transformative power of these technologies, refer to the Jamii Bora anecdote on branchless banking in the adjacent text box.

Yet significant drawbacks to these technologies remain. If institutions fail to collaborate and create interoperable platforms, there will be significantly less opportunity for the interchange that could expand access among the poor to financial services. If numerous MFIs use different front-end identification techniques (e.g. some use magnetic stripe cards while others use biometrics), clients may be unable to use another MFI's technology to access their accounts. Biometric fingerprint databases remain largely unshared and personalized for specific MFIs, while smartcards differ in functionality and the type of data they support. Such inoperability remains a serious hurdle to increasing financial inclusion through branchless banking.

### ***Recommendations for support of management information systems and branchless banking networks...***

Several donors and development agencies have already begun to support MIS and branchless banking programs for MFIs in sub-Saharan Africa, as evidenced by the involvement of Care International and DFID. The authors of this paper recommend that donors and development finance institutions continue to support such initiatives, but that they increase their commitments and strive to achieve a more systemic and coordinated approach. In regards to management information systems, the most appropriate role for development agencies to play is in providing subsidies for their purchase by microfinance institutions. Any funds committed for this purpose should be administered by intermediaries with in-depth knowledge of both the MIS platforms and the specific needs of the selected MFIs. These intermediaries play a crucial role in overseeing the installation of the systems, the data migration process, and in training MFI staff members. In doing so, they ensure that the beneficiary institutions take full advantage of the MIS capabilities and do not squander the donors' funds. Additionally, we recommend that development agencies avoid subsidizing the full cost of the MIS platforms, and instead aim to split the costs with the MFI<sup>34</sup>. For a microfinance institution to take full advantage of the technology, its upper management must view the IT platform as an investment, capable of generating future returns for the company through improved efficiency and growth. If donors subsidize the full amount, MFIs will fail to take full advantage of the technology. Finally, we commend the efforts of IBM and Care International to build a financial grid to provide outsourced information technology services to African MFIs. Such systemic, regionally-focused approaches are certainly worthy of continued support by development organizations.

In supporting the expansion of branchless banking platforms, donors and DFIs should focus their efforts on promoting collaboration between governments, technology providers and microfinance institutions. A supportive policy framework and regulatory environment will prove extremely important for the scaling of this innovative business model. Indeed, only 29% of countries in sub-Saharan Africa have passed laws that enable banks to use agents to distribute their products. It is also critical that governments and development agencies foster some level of cooperation between technology providers and microfinance institutions to ensure that branchless banking platforms are interoperable. Without this feature, the potential impact of these technologies will be considerably reduced.

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<sup>34</sup> Fintech Africa, a technical grant facility funded by EIB, FMO and the Gates Foundation, provides for 60% of the cost of each MIS platform, mandating that the beneficiary microfinance institutions cover the remaining 40%.

#### 4. Management Capacity Building Programs

Management is the most important factor in the success or failure of any institution. In his study of 1,435 Fortune 500 companies, *Good to Great* author Jim Collins found that management leadership was the single most important factor in sustained business success. The world's strongest and most profitable microfinance institutions are defined by their managers: Bangladesh's Grameen Bank led by Muhammad Yunus, India's SKS led by Vickram Akula, and Kenya's Equity Bank, led by James Mwangi. Without effective management, the other interventions discussed in this document will do little to drive growth among microfinance institutions in Africa.

##### *Microfinance institutions in Africa struggle to attract and retain quality managers...*

There is a global shortage of well-trained, qualified senior managers in microfinance. The CSFI Microfinance Banana Skins Report revealed management quality as first and fourth highest on the list of concerns by industry practitioners in 2008 and 2009 respectively. Corporate governance and staffing were also ranked highly, at second and fifth most concerning in 2008. Additionally, according to the Africa Microfinance Action Forum's (AMAF) Diagnostic to Action Report, human resource capacity is the largest obstacle to microfinance industry growth in Angola, Niger, and Ethiopia<sup>35</sup>.

Although the industry has achieved increasing profitability in recent years, most microfinance institutions remain unable to offer the same levels of compensation as traditional commercial banks. Difficulties with attracting and retaining qualified managers are particularly acute in sub-Saharan Africa, where quality of life is generally lower than most other regions of the world. In fact, out of the 24 countries classified as having "Low Human Development" in the 2009 UNDP Human Development Report, 22 are located in sub-Saharan Africa<sup>36</sup>. Poor infrastructure, endemic poverty, and civil strife all contribute to a less appealing work destination for top managers, who often have the ability to work in any region they choose in today's global business environment.

- *Internationally:* Microfinance institutions in sub-Saharan Africa have little success in recruiting top non-African managers to their posts. These individuals are more likely to take positions in Eastern Europe, Latin America, or South Asia, where compensation levels are higher and basic infrastructure and amenities are more abundant. Additionally, cultural issues in Africa strongly influence the business landscape, making it difficult for expatriates to adjust and perform in some regions.
- *Domestically:* Within Africa, MFIs struggle to locate and retain high quality managers for a number of reasons. Local talent pools in sub-Saharan Africa are very shallow. While poor education levels and a lack of formal employment opportunities contribute, the lack of local talent in sub-Saharan Africa is principally a result of decades of continual "brain drain." The UNDP estimates that since 1990, Africa has lost on average 20,000 skilled professionals per year and that the emigration of skilled workers costs the African continent US\$4 billion annually, as companies need to fill the human capacity gap with expatriate workers<sup>37</sup>.

To compound the difficulty of attracting and retaining capable professionals, microfinance institutions often lose their top managers to commercial banks, which are able to offer more lucrative compensation packages and benefits. This fact routinely prevents MFIs in Africa from adequately investing in their own branch managers and staff members, because in providing them training, they increase the likelihood that these employees will be poached by commercial banks.

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<sup>35</sup> AMAF, October 2008

<sup>36</sup> UNDP, 2009

<sup>37</sup> Girma, 2007

*Several existing programs provide valuable training services to microfinance managers and staff...*

Numerous organizations have initiated training programs for microfinance managers in the hopes of building human capacity and management expertise within the industry. Program courses typically focus on managing delinquency, setting interest rates, financial analysis, accounting, business planning, operational risk management, product development, and information systems. Brief summaries of several existing programs are outlined below:

- *CGAP Financial Management Training:* CGAP began its financial management training in 1997 with a pilot program in Africa, designed to improve the institutional viability of MFIs while enhancing the microfinance human resource base on the continent. Learning from its pilot initiative, CGAP was able to overcome its greatest challenge – developing the supply-side of the capacity-building market, including local training and service providers – to successfully replicate the program in other markets within and outside of Africa. CGAP handed off the training program to the Microfinance Management Institute in 2006 to create a global network of training institutions, MBA programs, and universities. Today, CGAP and its thirty-nine training partners have educated more than 12,000 people in fifty-two countries.
- *CAPAF & MFI Governance:* CAPAF, the Microfinance Capacity-Building Initiative in Francophone Africa (Programme de Renforcement des Capacités en Afrique Francophone), seeks to improve corporate governance at microfinance institutions. Working with USAID and other development agencies, CAPAF helps MFIs across sixteen countries to assess their governance challenges by analyzing three key factors: the stakeholders involved, their decision-making processes, and their crisis management capacities. With the training, MFIs are better able to assess their strategic options and address corporate governance issues. CAPAF held three successful trainings cycles in 2007 with participants from twelve countries. As a result of the training, participants have now begun to offer the governance course to MFIs in their local markets, with the first courses taking place in Guinea-Bissau, Mali and Senegal<sup>38</sup>.
- *HBS-ACCION Program on Strategic Leadership for Microfinance:* This six-day program offered through the Harvard Business School (HBS) and ACCION International provides high-level management and leadership training to microfinance industry executives and other key sector protagonists, including industry-related policymakers, investors, and leaders of financial institutions contemplating entry into microfinance. Participants and faculty members address issues such as product development, competitive market analysis, mission-drift, accessing the capital markets, and expansion into new business segments.
- *ACCION's Global Training Centers:* ACCION's Global Training Centers aim to break through the training and capacity-building bottlenecks by centralizing technical training programs. With centers in Ghana, India, China, and Brazil, their goal is to train 3,000 microfinance practitioners, managers, product specialists, and regulators over the next three years. The training modules available are focused on three levels: principles of consumer protection and social mission, financing and capital markets, and corporate governance.
- *The Boulder Institute of Microfinance:* Since its inception in 1995, the Boulder Microfinance Training Program (MFT) has graduated over 2,500 professionals from 131 countries. The three week program involves six core courses on financial analysis, internal control and fraud prevention, cost analysis, productivity and growth, risk management, and human resources. In addition participants select from a group of elective courses, which include topics such as agricultural microfinance, branchless banking, social performance measurement, human resource management, and many others.

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<sup>38</sup> Wessling, November 2007

Although these programs are generally quite effective and the involvement of development agencies is commendable, there remain shortcomings. Most significantly, nearly all of the existing management training programs are located in developed countries and are targeted towards high-level players in the industry. As such, they are largely inaccessible to the managers of small MFIs in Africa, who lack the resources to enroll. For example, without connections and sponsorship, it would be difficult for the CEO at small MFI in rural Niger to attend a training program at Harvard Business School. Affordable training programs for a small bank's branch managers and mid-level staff are essentially non-existent.

***Recommendations for support of management capacity building programs...***

Donors and development agencies have led the way in supporting the establishment of some of today's most successful microfinance training programs. However, their contributions towards building human capacity within Africa's microfinance industry must be increased. Interventions must also be planned and structured to ensure that they are affordable and accessible to the region's numerous young microfinance institutions.

The authors of this paper recommend that development agencies increase their commitments to building management capacity among microfinance institutions in sub-Saharan Africa. Specifically, their focus should be on providing training for the upper management figures of small and medium MFIs, as these individuals will have the greatest impact on the industry's future. New training programs should be established in central locations within sub-Saharan Africa, where they will be close to the markets and accessible to managers at local and regional MFIs. Tuition and fees for these programs must be kept at affordable levels. Additionally, subsidies given directly to microfinance institutions to help pay the salaries of top managers can be effective in preventing them from being poached by commercial banks. We suggest that these funds be administered through specialized intermediaries with in-depth knowledge of the beneficiary MFIs in order to ensure that the supported managers remain effective and the subsidies are not wasted or abused.

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