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**The Role of a Professional Association in Mutual Microfinance:
The Case of Madagascar**

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List of Acronyms

A.I.M.	Association des Institutions de Microfinance (non-mutual)
ADéFI	Action pour le Développement et le Financement des micro-entreprises
ADMMEC	Association de Développement du Mouvement Mutualiste d'Epargne et de Crédit
AECA	Associations d'Epargne et de Crédit Autogérés
AFRF	Association des Femmes Rurales de Farafangana
AGEPMF	Agence d'Exécution du Projet Micro Finance
APEM	Association pour la Promotion des Entreprises à Madagascar
APIFM	Association Professionnelle des Institutions Financières Mutualistes
BCEAO	Central Bank of West African States
BTM	Banky ny Tantsaha Mpamokatra
CAPAF/CGAP	Consultative Group to Assist the Poorest
CECAM	Caisse d'Epargne et de Crédit Agricole Mutuelle
CIDR	Centre International de Développement et de Recherche
CSBF	Commission de Supervision Bancaire et Financière
DID	Développement International Desjardins
EAM	Entreprendre à Madagascar
FERT	Fondation pour l'Epanouissement et le Renouveau de la Terre
GTZ	Gesellschaft für Technische Zusammenarbeit
IFAD	International Fund for Agricultural Development
ILO	International Labour Organization
IRAM	Institut de Recherche et d'Application des Méthodes de Développement
MFI	Microfinance Institutions

MGF	Franc Malgache
NGO	Non-governmental organization
OTIV	Ombona Tahiry Ifampisamborana Vola
PAIQ	Programme d'appui aux initiatives de quartier
PASMEC	Programme d'Appui aux Structures Mutualistes d'Epargne et de Crédit.
PATFR	Projet d'Assistance Technique en Finances Rurales
RMDM	Mission for the Regulation and the Development of Microfinance
SAF / FJKM	Sampan'Asa Fampandrosoana/Fiangonan'i Jesosy Kristy eto Madagasikara
SEEP	Small Enterprise Education and Promotion
SFP	Social Finance Programme
SIDI France	Société d'Investissement pour le Développement International
SIPEM	Société d'Investissement pour la Promotion des Entreprises à Madagascar
TIAVO	Tahiry Ifamonjena Amin'ny Vola
UNDP	United Nations Development Program
UNEF	United Nations Equipment Fund
URCECAMS	Union des Réseaux CECAM
USAID	United States Agency for International Development
VAT	Value Added Tax
VM	Vola Mahasoa
WOCCU	World Council of Credit Unions

Executive summary

This paper describes the creation and evolution of a professional association of mutual financial institutions, A.P.I.F.M., in Madagascar. It analyses the challenges faced by the association and its role in the national microfinance sector.

In Madagascar, microfinance activities started in the late eighties and early nineties. In 1991, in order to make financial services available in rural areas, the national government decided to initiate a policy on mutual financial institutions, thus supporting savings-led financial organizations rather than credit-led ones.

By the mid-nineties, several donors had launched microfinance initiatives. Although mutual financial institutions were the majority, non-mutual activities were also established. At present, mutual financial institutions dominate the microfinance sector in Madagascar (over 80% of the microfinance market in 2001). Non-mutual financial institutions make up a small proportion and are rather new compared to mutual microfinance systems.

In 1996, with the adoption of law 96-020, the mutual microfinance sector was regulated. *Inter alia*, the law required the establishment of a professional association of mutual financial institutions. The law saw the mission of the association to promote collaboration between different savings/credit organizations in rural areas, to provide technical support in the creation of mutual financial institutions, and to represent and defend the mutual movement.

With funding by the German government, the ILO Social Finance Programme helped establish the professional association in March 1998. Within a short time, five mutual financial institutions became members: ADEFI, AECA, CECAM, OTIV and TIAVO. In 1998, the initial membership was 47,472 clients/members and by the end of 2002, the total reached 140,157.

At first, it was hard for the internal bodies of the association to make decisions. Member MFIs tended to seek the association's support for their individual interests instead of finding those that were shared by all members. Mediating between collective and individual interests was not easy for A.P.I.F.M., but within a few years, internal cohesion was achieved.

Although one of the main tasks that law 96-020 assigns to the association is recommending mutual financial institutions for licensing, a couple of years after its creation, A.P.I.F.M. acquired a greater status in the microfinance sector. Member MFIs, technical agencies, and donors no longer saw the professional association only as a means to obtain a license. They began to see that it served many other functions including: representation of member MFIs, lobbying, developing internal and external dialogues, providing information through trainings on microfinance, ensuring that member MFIs are aware of regulation, organizing microfinance events, organizing exchange visits between member MFIs, and strengthening the mutual movement.

Currently, A.P.I.F.M. is a solid and highly respected institution. Membership increases on average 25% per year. The professional association can financially support its basic structure through member fees and its activities through funding from donors.

The principal factor of success of this professional association is its ability to meet an emerging need, that of giving voice to farmers and micro-entrepreneurs who are members of mutual financial institutions and are part of the mutual movement. Despite the often differing approaches and methodologies adopted by donors and international technical agencies supporting MFIs, A.P.I.F.M. has managed to create a forum for discussion where conflicting national interests can be put forward. The professional association expresses the voice and the opinions of Malagassy clients/members of mutual financial institutions; it has become their instrument to be heard in the microfinance community.

1. Introduction

1.1. Objective and Purpose

This paper analyses the creation and evolution of a professional association representing mutual financial institutions in Madagascar, A.P.I.F.M.¹. The paper describes the history of the association including the challenges and problems it faced. It also discusses the issues the association continues to confront today.

The analysis is mainly based on the lessons learnt and the experiences acquired in the implementation of a successful technical cooperation project supporting the association. The project, Programme in Support of the Promotion and Development of Mutual Financial Institutions (MFI) in Madagascar,² was implemented in 1997 by the ILO Social Finance Programme and funded by the German Government. The project concluded at the end of 2003.

The paper also provides a general picture of the microfinance landscape in Madagascar in order to disseminate information on the sector in this country. The data contained in this document are meant to inform international players and interested parties who are active in the country.

Microfinance in Madagascar faces some challenges. Through the use of some relevant international examples, this paper attempts to suggest to national institutions and stakeholders in Madagascar alternative ways to cope with the issues. Though the international examples are not intended to describe best practices or better practices than those of Madagascar, they suggest solutions to current problems for the microfinance sector in the country and provide alternative models as references.

¹ Association Professionnelle des Institutions Financières Mutualistes. Mutual financial institutions are usually better known as credit unions. In this paper, we will continue to call them mutual financial institutions in order to keep the expression closer to the French one adopted in Madagascar.

² Programme d'appui à la promotion et au développement des Institutions Financières Mutualiste (IFM) de Madagascar

This paper draws mainly on information collected during the implementation of the project in support of A.P.I.F.M. Another source of information is the professional association, which has provided data on MFIs and microfinance in Madagascar. For some sections, including the international examples, the paper contains information acquired through Internet research and documents from institutions other than the ILO.

While international cases are mentioned throughout the paper, Chapter 2 focuses on the national microfinance sector and presents the characteristics of the principal microfinance institutions that are active in the country. Chapter 3 deals exclusively with the creation and the evolution of A.P.I.F.M. The final part of the paper contains conclusions and general recommendations drawn from experiences of the project that can be applied in different contexts to the establishment and development of national institutions.

1.2. Background³

In the late eighties and early nineties, traditional banks in Madagascar did not offer adequate financial services to microentrepreneurs particularly those in rural areas. A lack of formal jobs, a dynamic informal sector, and a decreasing flow of official aid made it necessary for Madagascar to create a policy aimed at savings mobilization to achieve economic and social goals. For both rural and urban microentrepreneurs in the informal sector who were denied access to credit from traditional banks, savings was the basis for access to financial services. Savings-led microfinance services were to become, at the same time, a major tool for poverty alleviation in Madagascar.

In 1991, in order to make financial services available in rural areas, the national government of Madagascar decided to initiate a policy on mutual financial institutions. A mutual financial institution is a,

financial enterprise constituted/composed of and controlled by a group of people who are its owners and users. Its objective is to provide the group of people with good-quality savings and credit services at a cost which is as low as possible, in order to satisfy their expectations and their needs.”⁴

³ The information mentioned in this section is drawn from the project document of Phase I of the ILO Social Finance Programme's project in support of A.P.I.F.M..

⁴ Definition from A.P.I.F.M. Also A.P.I.F.M. describes mutual financial institutions as “a non-profit enterprise whose principal activity is to offer credit and/or savings services, based on principles of mutual help, solidarity and cooperation.”

Savings-based microfinance institutions (MFIs) started to appear and proliferate with the technical and financial support of many international agencies. The mutual movement grew rather strong enjoying full support from the national government.

In 1996, law 96-020 was adopted to regulate the mutual microfinance sector. The four main objectives of the law were:

- greater autonomy of mutual law;
- harmony between banking law (law 95-030) and mutual law;
- simplification and a greater coherence of mutual regulation; and
- introduction of fiscal incentives.

Amongst other things, this law required the creation of the Professional Association of Mutual Financial Institutions (A.P.I.F.M)⁵. In 1997, the ILO's Social Finance Programme implemented the aforementioned project in support of A.P.I.F.M. with German funding.

Currently, the professional association has five member organisations of mutual MFIs. These five groups represent a total of about 340 local branches of MFIs from across the country, serving more than 140,000 clients/members as of June 2003. A.P.I.F.M. performs several tasks, including representing member MFIs, lobbying, coordinating trainings in microfinance, and developing dialogue on microfinance on a national level. For example, it organizes workshops on specific financial topics that expose members to innovative ideas. Beyond these tasks, the association collects statistical data on member MFIs and provides information to the MFIs on microfinance practices and regulations. One important task of the association is the recommendation of mutual MFIs for licensing to the Commission for Banking and Financial Supervision⁶ of the central bank as required in 1996 law.

A.P.I.F.M. is a solid institution based on democratic principles and participatory decision-making. It has competent and experienced technical staff and plays a very important role in the microfinance sector of Madagascar. It has become the focal point for national and international microfinance stakeholders in the country.

⁵ Association Professionnelle des Institutions Financières Mutualistes.

⁶ Commission de Supervision Bancaire et Financière.

2. Microfinance in Madagascar

2.1. Beginning Microfinance in Madagascar

Microfinance in Madagascar started in the early nineties. A thorough picture of the political and institutional framework of microfinance and, in particular, of mutual microfinance, will be provided in chapter 3. The present chapter focuses on the descriptions of the different microfinance initiatives, their governance and supervisory mechanisms.

Currently, the main donors and international technical agencies supporting microfinance in Madagascar are the World Bank, the European Union, the French government (Agence Française pour le Développement), UNEF, UNDP, IFAD, the Canadian government (Développement International Desjardins), USAID, the ILO and the German government. AGEPMF is the largest national agency involved in the field of microfinance.

From January 1993 to June 1995 with funding from the German Government, the ILO implemented a project to develop rural mutual financial institutions (Projet CECAM)⁷. This project was carried out in collaboration with FERT, an NGO specializing in the creation of partnerships between Northern and Southern farmers' organizations. The main objective of Project CECAM was to create a self-managed and sustainable rural financial system in three areas of Madagascar using village mutual financial institutions (CECAM) and regional ones (URCECAM). In addition, special inter-regional teams (INTERCECAM) would provide training and technical assistance. The goal was to integrate the CECAM network into the national financial system.

Beyond CECAM, other microfinance initiatives were launched with technical and financial support from different agencies and donors as described in the following table.

⁷ CECAM: Caisses d'Epargne et de Crédit Agricole Mutuels.

Table 1. Microfinance Initiatives in the Early Nineties

Name of Micro-finance Initiative	CECAM	OTIV	TIAVO	AECA	ADEFI	Vola Masahoa	APEM	SIPEM
Donor/ Technical Agency	ILO/ FERT	World Bank/ DID	World Bank/ WOCCU	CIDR	AFD FAC/ ACEP/ Coopération Française	CIDR/ APEM	Private Initiative	Cordaid/ SIDI

In 1999, the Ministry of Finance and Economy established a special unit in charge of the coordination and the development of Microfinance. This unit was set up in collaboration with the different donors and technical agencies that were active in the microfinance sector. A national microfinance coordinator was recruited in 1999 and was remunerated by the World Bank through AGEPMF. UNDP and UNEF, through a microfinance project, appointed and paid for an assistant to the national microfinance coordinator. As of July 2002, the World Bank discontinued financing the national coordinator position and recently, the UNDP/UNEF project folded and the assistant position was no longer funded. At present, there is no one in the position of national microfinance coordinator in Madagascar although during the Microfinance Week in June 2003, the Minister of Finance mentioned that UNDP and UNEF have expressed an interest in funding a coordinator.

2.2. Mutual Microfinance

According to law 96-020, three types of mutual financial institutions may exist:

- associations/unions of credit and savings institutions;
- credit and savings institutions; and
- mutual guarantee associations.

In 1997, when A.P.I.F.M. began, most mutual financial institutions had existed for less than five years. The first one that obtained a licence in the category of mutual financial institutions was ADEFI in August 1999. Three other members of A.P.I.F.M., AECA, CECAM and TIAVO, were granted licences by the beginning of 2001. AECA and TIAVO fall under the category of credit and savings institutions, while CECAM has a licence as a credit and savings institution as well as a union of savings and credit institutions. ADEFI is a rather unique case. Article 4 of law 96-020 states that the objective of mutual financial institutions is

to mobilize savings from their members and/or to extend credit to them. In the case of ADEFI, a very narrow interpretation of this clause has been adopted. ADEFI extends credit without mobilizing any savings. Some of OTIV MFIs, particularly OTIV SAVA, OTIV DIANA, OTIV Toamasina and Ambatondrazaka, are still working on obtaining a licence.

The following table details the five members of the professional association at the end of year 2000.

Table 2. Mutual Financial System Members of A.P.I.F.M. at the End of 2000⁸

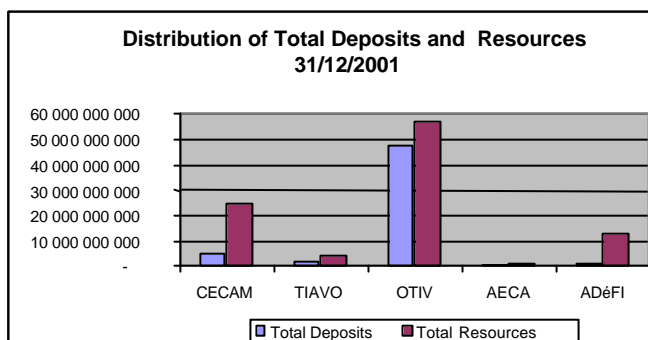
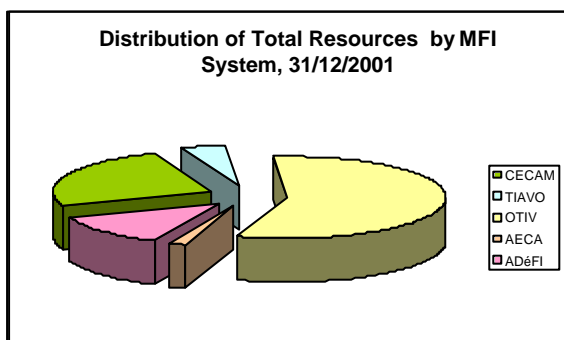
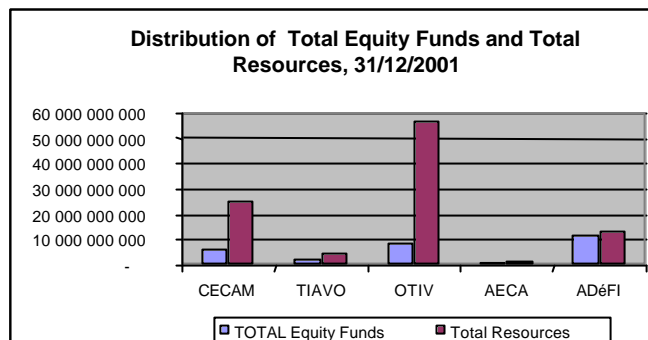
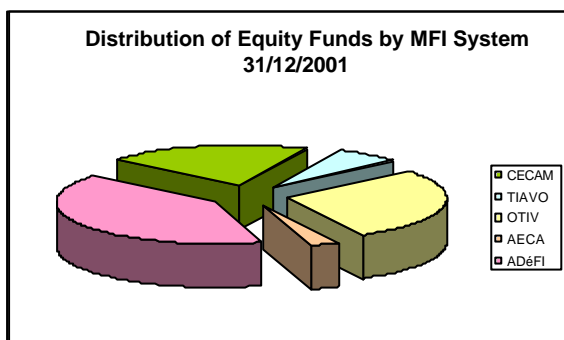
	Full Name of the Mutual Financial System	Supporting Technical Agency	Number of Members or Clients	Member MFIs and Areas of Action
ADEFI	Action pour le Développement et le Financement des micro-entreprises	Agence Française pour le Développement (AFD)	3,942	One member : -local branches (Antananarivo, Majunga, Toamasina, Fianarantsoa)
AECA	Association d'Épargne et de Crédit Autogérée	Centre International de Développement et de Recherche (CIDR)	4,598	System/Union of 4 members: -AMEC TAFATSAKA (Central Office Marovoay) -AMEC AVOTRA (left bank of the river-Marovoay) -AMEC TAFITA (right bank of the river-Marovoay) -AMEC TSARAJORO (Ambato Boeni)
CECAM	Caisse d'Épargne et de Crédit Agricole Mutuel	Formation Paysanne et Promotion des Organisations Professionnelles Agricoles (FERT)	33,183	System/Union of 7 members: -UNICECAM (Central Office) -URCECAM Amoron'I Mania (Ambositra) -URCECAM Bongolava (Tsiroanomandidy) -URCECAM Ivon'I Merina (Ambatolampy) -URCECAM Itasy (Miarinarivo) -URCECAM Sofia (Mandrtsara) -URCECAM Vakinankaratra (Antsirabe)
OTIV	Ombon Tahiry Ifampisamborana Vola	Développement International Desjardins (DID)	45,546	System/Union of 4 members: - MFI OTIV Ambatondrazaka (or Alaotra) - MFI OTIV Antananarivo - MFI OTIV Toamasina - MFI OTIV SAVA (Sambava)
TIAVO	Tahiry Ifamonjena Amin'ny Vola	WOCCU and since November 1999 IRAM	4,483	One member: -Union FITIA (Fianarantsoa)

Figures 1 and 2 below provided detailed financial information from 2001.

⁸ The information reported in this table is contained in the ILO/SFP's project progress report from the second half of 2000.

**Figure 1. Financial Data on Mutual Financial Institutions as of 31/12/2001
(Information Available through A.P.I.F.M.)^{9, 10}**

	Shares from Members	Other Equity Funds	(1) Total Equity Funds	(2) Other Financial Resources	(3) Total Deposits	(1+2+3) Total Resources
CECAM	5 115 285 741	998 369 770	6 113 655 511	13 489 981 581	5 283 084 168	24 886 721 260
TIAVO	62 282 000	1 824 114 380	1 886 396 380	920 750 000	1 804 868 768	4 612 015 148
OTIV	666 865 700	7 689 078 505	8 355 944 205	1 131 992 944	47 376 762 189	56 864 699 338
AECA	49 018 620	883 558 087	932 576 707	265 265 593	213 183 886	1 411 026 186
ADéFI	-	11 909 136 242	11 909 136 242	35 055 000	1 071 520 000	13 015 711 242
TOTAL	5 893 452 061	23 304 256 984	29 197 709 045	15 843 045 118	55 749 419 011	100 790 173 174

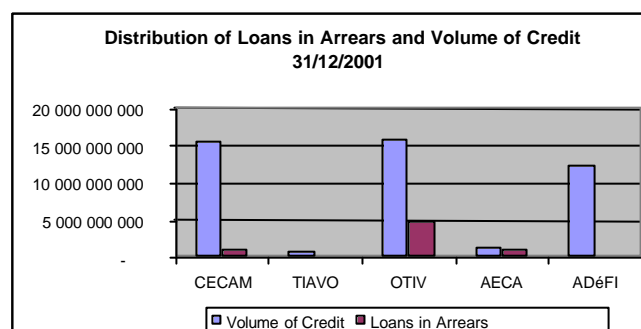
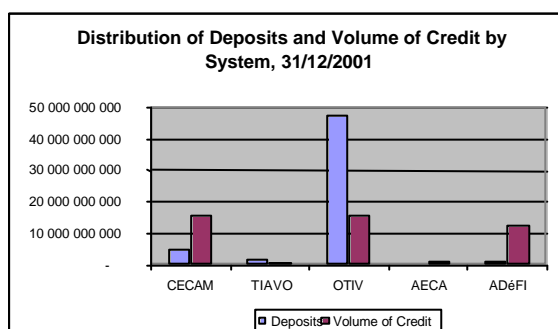
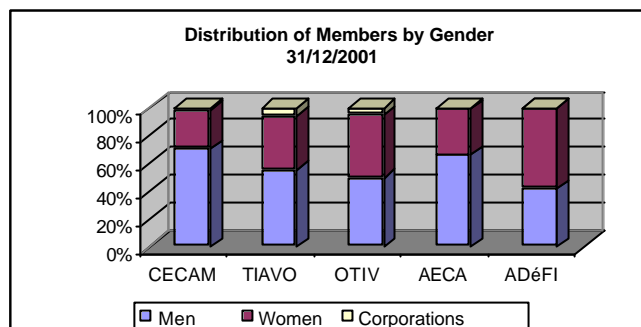
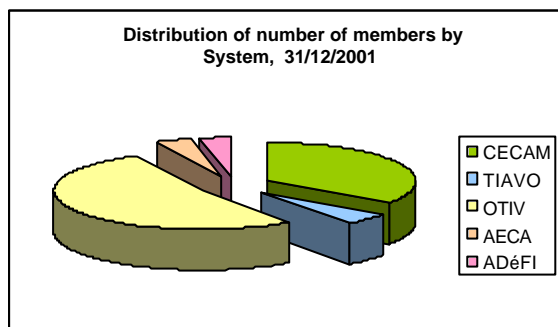


⁹ The value of MGF as of 22/08/03 is 6000 MGF = 1 United States Dollar.

¹⁰ André, Bernard, "Final Report of Phase I of the Project in Support of A.P.I.F.M." 2002.

**Figure 2. Other Data from Mutual Financial Institutions as of 31/12/2001
(Information Available through A.P.I.F.M.)¹¹**

	Number of Local Branches	Number of Members				Deposits	Credit		
		Men	Women	Corporations	Total		Volume of outstanding loans	Number of outstanding Loans	Loans in Arrears
CECAM	168	28 499	11 386	648	40 533	5 283 084 168	15 712 446 827	12 550	1 027 457 096
TIAVO	27	3 416	2 427	380	6 223	1 804 868 768	881 761 261	897	46 979 245
OTIV	86	30 318	28 144	3 166	61 628	47 376 762 189	15 996 215 811	4 647	4 799 937 513
AECA	54	2 997	1 512	59	4 568	213 183 886	1 298 722 466	3 476	995 712 343
ADéFI	29	1 670	2 357	-	4 027	1 071 520 000	12 412 064 473	4 780	109 316 214
TOTAL	364	66 900	45 826	4 253	116 979	55 749 419 011	46 301 210 838	26 350	6 979 402 411



In recent years, activities and contributions from donors and technical agencies in the field of microfinance have intensified. Some organizations have been more active in strengthening and expanding MFIs (e.g. Agence Française de Développement, European Union, World Bank), while others have concentrated their efforts in the provision of specific financial instruments and institutional support (e.g. UNEF with guarantee funds, UNDP, EU with credit lines, ILO).

By 2001, the five MFIs members of A.P.I.F.M. had on the average been active in microfinance for seven years. They represent over 80% of the microfinance market in Madagascar and have developed their activities in rural and semi-urban areas. Some

¹¹ André, Bernard, "Final Report of Phase I of the Project in Support of A.P.I.F.M." 2002.

institutions have expanded into urban areas targeting the semi-formal sector that traditional banks still exclude. Some MFIs have started to collect savings in urban areas in order to transfer financial resources to rural regions.

The following table provides a clear picture of the evolution of the MFIs members of A.P.I.F.M. from 1996 until 2001. Please note that outreach remains very weak (3%) despite the remarkable expansion of the sector.

Table 3. Evolution of the Members of A.P.I.F.M. from 1996 to 2001¹².

	1996	1997	1998	1999	2000	2001
Number of Local Branches	160	205	248	271	336	353
Number of Clients/Members	18,063	29,444	47,472	60,775	91,954	116,977
Volume of Savings (Million MGF)	968	2,870	6,400	9,595	34,009	55,749
Outstanding Loans (Million MGF)	7,737	11,448	16,583	23,517	43,058	46,300

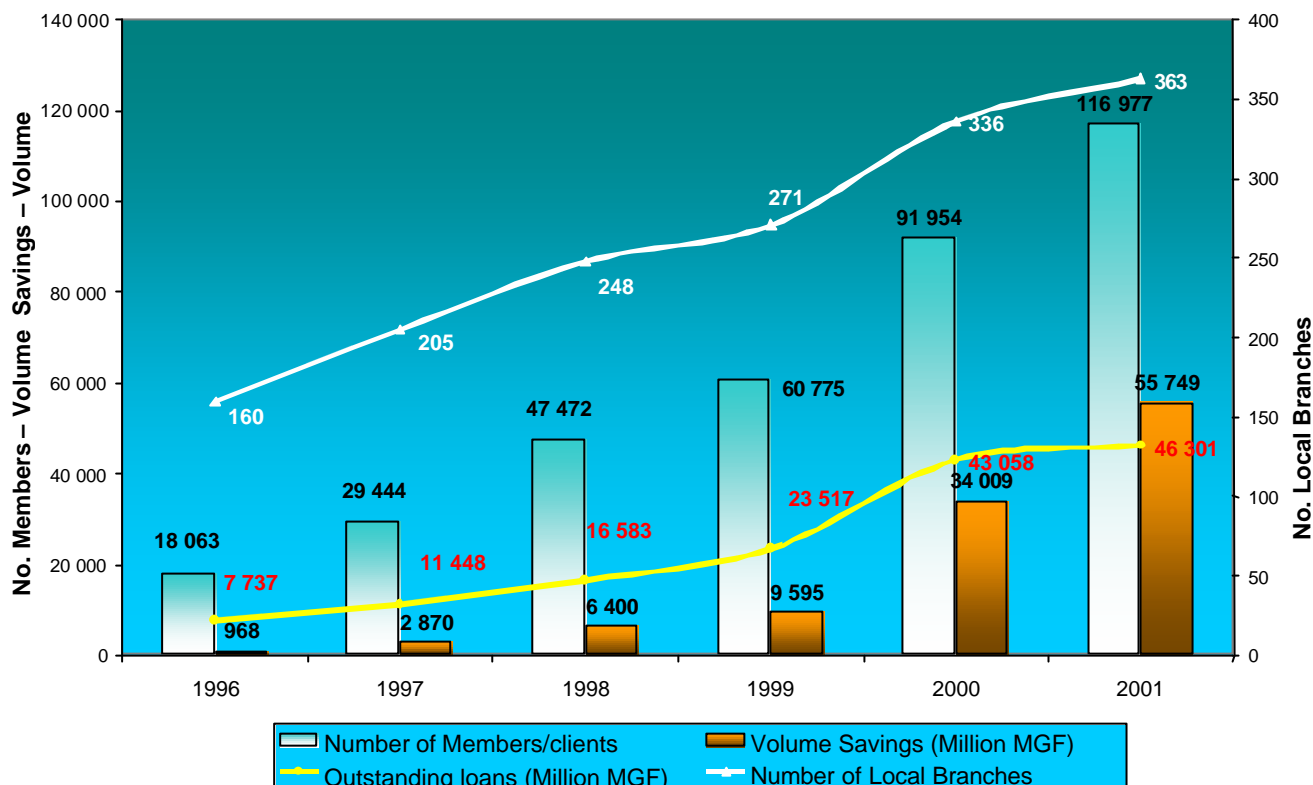
The number of local branches has more than doubled between 1996 and 2001. There were 160 in 1996 and 353 only five years later. During the same period, membership increased over 6 fold. On average from 1996 to 2001, women were 37% of total the total membership.¹³

Since 1996, microfinance activities and transactions have increased considerably though the largest period of expansion took place in 2000. In 2001, the rate of growth slowed compared to previous years. Between 1996 and 2001, the amount of outstanding loans increased proportionally to the growth in members of MFIs, namely 6 times in five years. Savings also rose remarkably between 1998 and 2000 expanding 7 fold in three years.

¹² André, Bernard, "Final Report of Phase I of the Project in Support of A.P.I.F.M." 2002.

¹³ André, Bernard, "Final Report of Phase I of the Project in Support of A.P.I.F.M." 2002.

Figure 3. Evolution of the Mutual Financial Sector through the members of A.P.I.F.M. from 1996 to 2001



The political and institutional crisis that Madagascar experienced in 2002 has had some negative economic repercussions on the activities of members of A.P.I.F.M.. They remain stable, but the process to reach self-sufficiency has been delayed by about a year.

2.3. Non-Mutual Microfinance

As previously mentioned, mutual financial institutions dominate the microfinance sector in Madagascar (86% of the microfinance market in 2001). Non-mutual financial institutions make up a small proportion and are rather new compared to mutual microfinance systems. They only comprise 14% of the microfinance market¹⁴.

Because of the national legislation on mutual financial institutions, data on this type of organization are easy to obtain and quite precise. For non-mutual institutions, information is not always available or is often inaccurate. Since they are not regulated, non-mutual financial

¹⁴ Chemonics International. "Analysis of the Legal and Regulatory Framework for Microfinance." USAID. 2003.

institutions function as commercial companies or specific components of projects. It is estimated that the number of clients of non-mutual financial institutions range between 12,000 and 15,000¹⁵. The amount of outstanding loans was reported as 16,431 million MGF at the end of year 2001¹⁶. Non-mutual financial institutions do not mobilize savings. The following table compares data on the two types of institutions.

Table 4. MFIs and Non-MFIs at the End of 2001

	Mutual Financial Institutions¹⁷	Non-Mutual Financial Institutions¹⁸
Total Number of Clients	116,977	17,223
Outstanding Loans (Million MGF)	46,300	15,884

Currently, there are five non-mutual financial institutions in Madagascar: APEM (Association pour la Promotion des Entreprises à Madagascar)¹⁹, SIPEM (Société d'Investissement pour la Promotion des Entreprises à Madagascar), EAM (Entreprendre à Madagascar), Vola Mahasoa, and SAF / FJKM (Sampan'Asa Fampandrosoana/Fiangonan'i Jesosy Kristy eto Madagasikara). The following table presents data on the five microfinance institutions as reported by Chemonics International for USAID in *Analysis of the Legal and Regulatory Framework for Microfinance*, April 2003.

Table 5. Membership and Outstanding Loans of Non-Mutual Financial Institutions as of 31/12/2001

	Number of Clients	Outstanding Loans (Million MGF)
APEM	5,573	1,229
EAM	238	1,865
SIPEM	612	8,855
Vola Mahasoa	6,105	2,950
SAF / FJKM	4,695	985
Total	17,223	15,884

¹⁵ Information collected at the National Workshop on Microfinance, 16-17 June 2003.

¹⁶ Chemonics International. "Analysis of the Legal and Regulatory Framework for Microfinance." USAID. 2003.

¹⁷ André, Bernard, "Final Report of Phase I of the Project in Support of A.P.I.F.M." 2002. André, Bernard, "Final Report of Phase I of the Project in Support of A.P.I.F.M." 2002.

¹⁸ Chemonics International. "Analysis of the Legal and Regulatory Framework for Microfinance." USAID. 2003.

¹⁹ APEM has a programme APEM/PAIQ (programme d'appui aux initiatives de quartier) that is considered a separate entity when financial information is reported.

As already mentioned, information on non-mutual financial institutions is not very accurate. For example in June 2003 at a conference during the Microfinance Week in Madagascar, the estimated number of non-MFI members/clients is 12,500, nearly 5,000 fewer than the number reported from 2001 in the Chemonics International/USAID position paper. Since the number of member/clients has increased for non-MFIs, it would appear that data on non-MFIs should be interpreted with caution.

Like mutual financial institutions, non-mutual financial institutions have a professional association called Association of Non-Mutual Micro-Finance Institutions²⁰ (A.I.M.). Three of the five microfinance institutions mentioned above are official members of A.I.M., while the other two participate in its activities. A.I.M. has two main objectives:

- Provide technical support to non-mutual financial institutions; and
- Represent non-mutual financial institutions.

As reported by Chemonics International/USAID²¹, the principal challenges A.I.M. faces are:

- lack of support from donors;
- difficulties collecting statistical and financial data from its members;
- relatively little weight as compared as to A.P.I.F.M.; and
- little lobbying capabilities.

²⁰ Association des Institutions de Micro Finance Non Mutualises.

²¹ Chemonics International. "Analysis of the Legal and Regulatory Framework for Microfinance." USAID. 2003.

2.3.1. *SIPEM*²²

SIPEM was created in 1990 as a private company. It has a central office and five area offices in the Antananarivo region. The principal objectives of SIPEM are:

- to support micro and small enterprises, which normally do not have access to credit from traditional banks, providing that such enterprises respect the environment and are profitable; and
- to support the development of a dynamic private sector to create employment.

Table 6. Data on SIPEM as of 31/12/2002

Share Capital (Million MGF)	Shareholders	Equity Funds (Million MGF)	Financial Partners
1,900	APEM, SIDI France ²³ , Insurances and other share holders	4,300	CORDAID, SIDI France

Until the end of 1996, SIPEM offered 3 types of financial services:

- participation in share capital of enterprises coupled with a loan,
- credit guarantee through a guarantee fund supported by SIDI France,
- small loans from APEM's fund.

In 1997, the executive board decided to transform SIPEM into a regular financial institution according to banking law 95-030. In order to comply with the law, the amount of operational capital needed to increase. SIPEM is still preparing its licence application.

Currently, SIPEM offers loans for a maximum of 12 months and a maximum size of 40,000,000 MGF. Any type of economic activity can be financed.

²² Société d'Investissement pour la Promotion des Entreprises à Madagascar.

²³ Société d'Investissement pour le Développement International

Table 7. Evolution of SIPEM's Activities from 1998 to 2002

	1998	1999	2000	2001	2002
Number of Clients	216	426	471	612	531
Outstanding Loans (Million MGF)	2,500	5,300	6,400	8,800	8,500

It is quite evident that the economic crisis of 2002 slowed SIPEM's growth, although not in a significant way. This is probably a temporary downward trend that may change by the end of 2003. Though SIPEM has had problems finding new capital to ensure its growth, all microfinance stakeholders in Madagascar believe SIPEM has great potential in terms of expansion.

2.3.2. Vola Mahasoa (VM)

Vola Mahasoa is a non-mutual financial institution operating in South West Madagascar. It is based in Tuléar and has 4 branch offices, 3 in rural areas and 1 in Tuléar. Because of the current regulations, it is not an independent legal entity. VM is a project of CIDR and APEM²⁴.

Fifty waged employees manage VM, 42 of whom work in the rural branch offices. The staff determines the policy and objectives of the organization as well as designing financial products.

The lending methodology that VM has adopted is one of solidarity groups and mutual guarantee. In rural areas, solidarity groups must have at least five members, while in the urban area of Tuléar, the minimum number of group members is 18. In urban areas, solidarity groups join together creating associations that report to VM.

VM lends money to groups whose members live next to each other and are friends. No start-up enterprises can receive funding from VM. Training on group formation and group management is required before any group can receive a loan. Urban clients must be trained in health, nutrition, self-confidence, and business development prior to receiving finances.

²⁴ Association pour la Promotion de l'Entreprise à Madagascar.

Table 8. Data on Vola Mahasoa as of 31/12/2002

Number of Clients	Percentage of Women Clients	Outstanding Loans (Billion MGF)
5,800	45%	3,800

In year 2002, a third of the loan portfolio of VM was used to finance agriculture and two thirds financed small trade. More information on the financial services offered by VM is in Appendix I.

2.4. Current Situation of Mutual Microfinance

In 2002, Madagascar experienced a political and institutional crisis that had serious social and economic consequences. Although the situation of mutual financial institutions is relatively stable now, the unfavourable economic situation did damage some MFIs, especially those in poor rural areas with monoculture activity. The mutual microfinance system most effected by the economic crisis is AECA; one of its MFI had to close. While other MFIs members of the professional associations have expanded their operations, the AECA system decreased in size. With this change, in 2003 the total number of local branches of members of A.P.I.F.M. had decreased from 2001.

Currently, most mutual financial networks are trying to strengthen their already existing MFIs and local branches by increasing the number of members/clients rather than operating in a new area. The only exceptions are CECAM and ADEFI who are indeed expanding operations into areas where existing networks are already operating.

The following two tables provide a comparative picture of the evolution of mutual microfinance in Madagascar, reflecting the difficulties encountered by mutual financial systems during the crisis of 2002.

Table 9. Data on A.P.I.F.M. Mutual Financial Systems Members as of 31/12/2001

	Number of Clients	Number of Local Branches	Outstanding Loans (MGF)	Volume of Savings (MGF)	Equity Funds (MGF)
ADEFI	4,027	29	12,412,064,473	1,071,520,000	11,909,136,242
AECA	4,568	54	1,297,722,466	213,183,886	932,576,707
CECAM	40,532	158	15,712,446,827	5,283,084,168	6,113,655,511
OTIV*	61,627	85	15,996,215,811	47,376,762,189	8,355,944,205
TIAVO	6,223	27	881,761,261	1,804,868,768	1,886,396,300
Total	116,977	353	46,300,210,838	55,749,419,011	29,197,708,965

* Does not include information from OTIV DIANA.

Table 10 shows the latest data available on A.P.I.F.M. members.

Table 10. Data on A.P.I.F.M. Mutual Financial Systems Members as of 31/12/2002

	Number of Clients	Number of Local Branches	Outstanding Loans (MGF)	Volume of Savings (MGF)	Equity Funds (MGF)
ADEFI	4,913	31	13,762,366,318	1,267,096,551	12,363,833,764
AECA*	2,061	32	472,234,989	74,476,982	295,000,000
CECAM	46,675	157	25,573,008,834	7,925,008,286	8,932,266,467
OTIV**	78,100	90	29,393,000,000	43,434,248,677	8,953,000,000
TIAVO	8,408	33	1,737,298,010	2,626,221,607	854,131,851
Total	140,157	343	70,937,908,151	55,327,052,103	31,398,232,082

* MFI Ambato-Boéni was closed in 2002 and not included in these figures.

** Include information from OTIV DIANA.

Despite the economic crisis, the number of clients/members of mutual financial institutions increased considerably with almost 20% growth (from 116,977 to 140,157). There was a 5% increase in the number of local branches from 2000 to 2001 (from 336 to 353), but by 2002 they had decreased. As already mentioned, AECA was the financial network which was

harmful from the crisis. Because of this and other issues, some local branches of AECA closed.

Another sign of the negative impact of the economic crisis on the financial sector in Madagascar is the volume of savings. As compared to 2001 when 55,749,419,011 MGF was saved, at the end of 2002, savings had decreased to 55,327,052,103 MGF. Prior to 2001, savings mobilization had remarkably increased consistently, as shown in Table 3.

The amount of outstanding loans has increased following the trend that was established during previous years. In 2001, the amount of outstanding loans was 46,300,210,838 MGF and grew to 70,937,908,151 MGF by the end of 2002. Although savings decreased, the amount of outstanding loans increased from 2001 to 2002 because major mutual financial networks, such as CECAM, lend money based on external credit lines and resources rather than on internally raised funds. External contributions to CECAM also accounts for its expansion when other networks members of A.P.I.F.M. have either maintained the same operational size or shrunk.

The following table provides an overall picture of the evolution of mutual microfinance in Madagascar expanding on the data reported in Table 3.

Table 11. Evolution of the Members of A.P.I.F.M. from 1996 to 2002²⁵

	1996	1997	1998	1999	2000	2001	2002
Number of Local Branches	160	205	248	271	336	353	343
Number of Clients/Members	18,063	29,444	47,472	60,775	91,954	116,977	140,157
Volume of Savings (Million MGF)	968	2,870	6,400	9,595	34,009	55,749	55,327
Outstanding Loans (Million MGF)	7,737	11,448	16,583	23,517	43,058	46,301	70,937

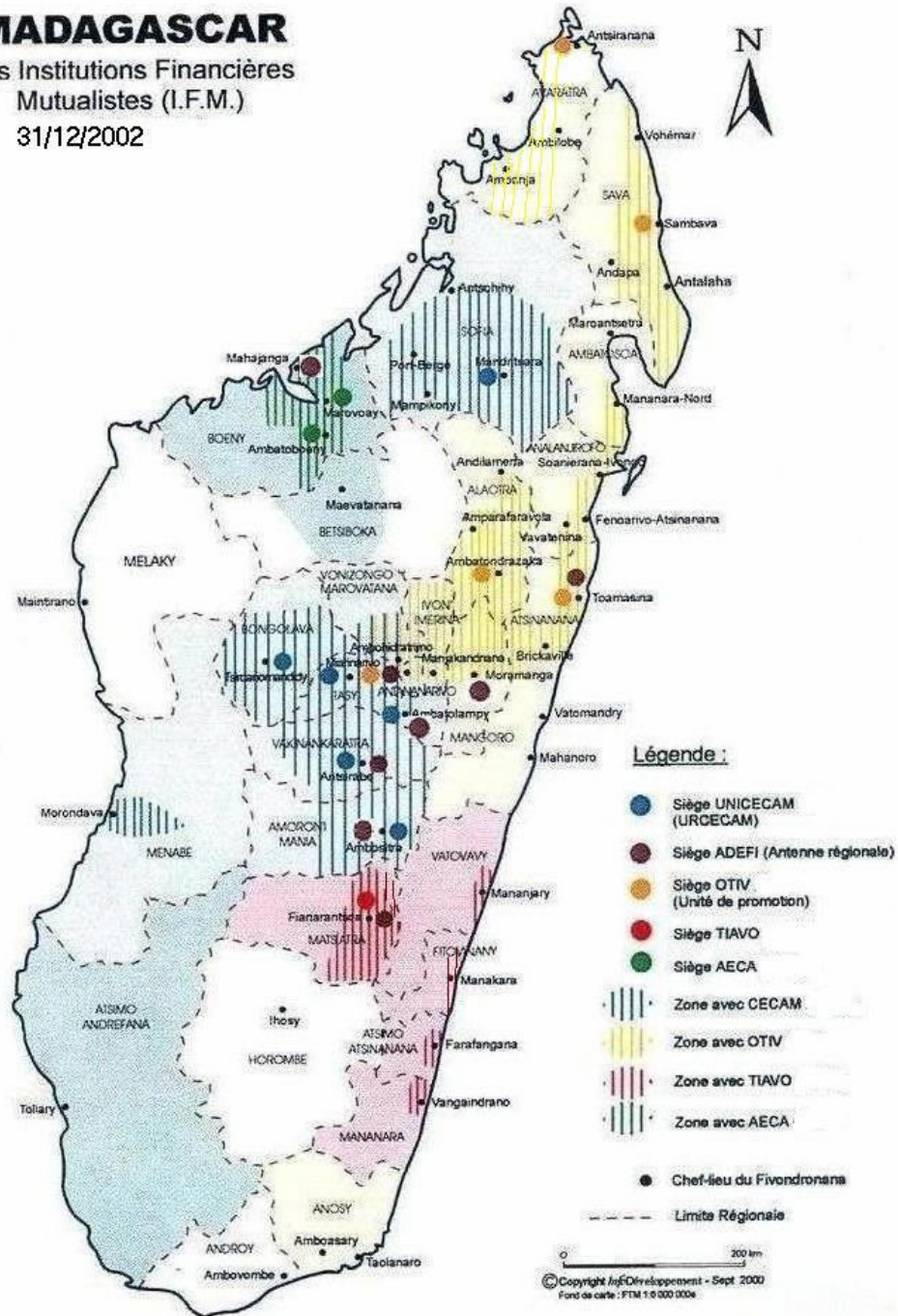
After a map of MFIs in Madagascar, the next sections will provide a short description of each of A.P.I.F.M.'s member microfinance systems based on papers and leaflets distributed during Madagascar's National Microfinance Week (16-20 June 2003).

²⁵ André, Bernard, "Final Report of Phase I of the Project in Support of A.P.I.F.M." 2002.

Map 1: Mutual Financial Institutions in Madagascar 31/12/2002

Couverture géographique des Institutions Financières Mutualistes

MADAGASCAR
 Les Institutions Financières
 Mutualistes (I.F.M.)
 31/12/2002



2.4.1. ADEFI²⁶

Action pour le développement et le Financement des Micro-Entreprises (ADEFI) was created in 1995. It provides financial services to micro, small, and medium-sized enterprises in urban areas in four provinces: Antananarivo, Toamasina, Fianarantsoa, and Majunga. ADEFI was technically and financially supported by the French Agency for Development (AFD) until July 1999 and has been self-sustaining ever since. ADEFI was the first MFI to be granted a licence by CSBF in August 1999.

ADEFI has a three-tiered structure with local agencies, regional offices and a headquarters. Thirty-two local agencies establish direct contact with clients. The six regional offices supervise loans granted in their region. And finally, headquarters oversees policies, finance, internal control and information management.

ADEFI's objectives are to:

- facilitate access to credit to micro, small, and medium-sized enterprises that are excluded from access to credit from traditional banks;
- improve income to develop economic activities; and
- create jobs.

Table 12. Data on ADEFI as of 31/12/2002

Number of Clients/Members	Equity Funds (MGF)	Outstanding Loans (MGF)
4,913	12,363,833,551	13,762,366,318

As already reported, ADEFI does not mobilize savings. Its credit services are based on three key principles: proximity, quickness, and transparency. Clients receive credit within ten days. The size of loans progressively increases according to the repayment capacity of clients. ADEFI provides financial services to any legal economic activity which respects the

²⁶ ADEFI's website address is <http://adefi.org/presentation.asp>

environment including small manufacturing, processing, services, agriculture, handicrafts, trade, transportation, etc..

2.4.2. AECA

Association des Caisses d'Epargne et de Crédit Autogérées (AECA) was established in 1990 to support rice growers. It has a central office based in Marovoay, two MFIs located on each bank of the Betsiboka River, and several local branches in different villages. Prior to 2002, there was another MFI located in Ambato Boéni. The central office is responsible for representing all local branches vis-à-vis supervisory authorities, for the cohesion of the system, and for monitoring and managing the financial operations of local branches. The two MFIs are in charge of setting the savings and credit policies of the organization, exchanging information and experiences between local branches, and maintaining relationships with technical and financial partners. Local branches mobilize savings and extend loans using their own funds with the support of some external resources from a bank.

The two objectives of the AECA system are to:

- set up a self-managed financial system for the population of the Marovoay region by mobilizing and redistributing savings from agricultural revenues of rice, promoting the diversification of economic activities, and eradicating the need for loan sharks.
- encourage the establishment of self-promoted solidarity organizations in a region where such entities are rare.

AECA operates in rural areas and its members work in either agriculture or small-scale trade. CIDR gave technical and financial support to the AECA network until 2002. Currently, the whole system is being run and managed by its members on a voluntary basis. At the end of

2002, AECA had 2,061 members and 32 local branches. Due to the economic crisis, 13 local branches and the MFI in Ambato Boéni had to closed in 2002.

Table 13. Data on AECA as of 31/12/2002

Mutual Financial Institution	Equity Funds (Million MGF)	Outstanding Loans (Million MGF)	Volume of Savings (Million MGF)
AMEC Avotra	139	294	46
AMEC Tafita	295	178	28
Total	295	472	74

AECA was granted its MFI licence by CSBF in October 2000.

2.4.3. CECAM

Caisse d'Épargne et de Crédit Agricole Mutuels (CECAM) officially started in 1993 from a collection of rural groups that were developed in 1990. It always has had technical support from FERT. CECAM has a central office (UNICECAM) and 6 regional units (URCECAM). UNICECAM is responsible for the general policy of the network, training members, monitoring the application of professional rules within the network, and representing CECAM. INTERCECAM, a special entity within the CECAM system, deals with training waged staff, financial management, risk analysis and management, internal accounting, the promotion of the network's activity, and the financial balance between central and local funds.

CECAM's objectives are to:

- Provide financial services to farmers in rural areas.
- Become a cohesive, decentralised, and professional network enjoying full financial autonomy.

CECAM is active in 8 regions of Madagascar: URCECAM is in Vakinankaratra, Itasy, Bongolava, Amoron'Imania, Ivon'Imerina, and Sofia and two branch offices are in Menabe and Marovatana. The CECAM system obtained a licence from CSBF in May 2000.

Table 14. Data on CECAM as of 31/12/2002

Number of Local Branches	Number of Clients	Outstanding Loans (Billion MGF)	Repayment Rate (Annual Average)
157	46,675	28	94%

CECAM provides financial services to the agricultural sector. It first started its financial activities by using external resources, but it soon introduced Mutual principles to its clients/members. Member/clients must now contribute to the formation of CECAM's equity funds by paying a fixed share when they join and when they have a loan, they pay a variable share depending on the its size.

2.4.4. OTIV

The Ombona Tahiri Ifampisamborana Vola (OTIV) network was created in 1994. It was created within the PATFR organization and funded by the national government, the World Bank and Développement International Desjardins (DID). DID has always been the technical agency supporting OTIV.

The main objective of this network is to:

- give access to credit and savings as well educate members in economic and social issues.

Table 15. Data on OTIV as of 31/12/2002

Total Number of Members/Clients	Total Number of Local Branches
78,100	90

Within the OTIV system, there are five sub-networks in the areas of Antananarivo, Toamasina, Ambatondrazaka (or Alaotra), SAVA²⁷, DIANA²⁸ (where a network was created in 2001 and joined A.P.I.F.M. in 2003). Within each of these five networks, there are local branches of unions. The Antananarivo network obtained a licence from CSBF in 2001. The applications of the other networks are still being examined.

Table 16. Data on OTIV's Networks as of 31/12/2002

	Equity Funds (Millions MGF)	Volume of Savings (Millions MGF)	Outstanding Loans (Millions MGF)
Antananarivo	588	6,510	795
Toamasina	4,262	15,278	8,619
Ambatondrazaka (or Alaotra)	1,516	5,504	3,870
SAVA	1,721	12,674	15,530
DIANA	866	3,467	579
Total	8,953	43,433	29,393

Additional details of the financial services provided by OTIV are in Appendix I. Besides financial services, OTIV has developed some special programmes:

- Programme for vulnerable persons or women's groups - Solidarity groups are formed with very poor women to allow them access to credit.
- Programme for micro-entrepreneurs - This specifically targets owners of micro-enterprises.

²⁷ SAVA covers the regions of Sambava, Antalaha, Vohémar, and Andapa.

²⁸ DIANA covers the regions of Diégo 1 and 2, Ambanja, Nosy Be, and Ambilobe.

Women's Groups (Caisses Féminines) in OTIV Toamasina

Donors often expect microfinance institutions to reach the very poor yet achieve self-sustainability in few years. To meet those somehow contradicting objectives, OTIV has developed services in different forms, depending on donors' interests. For example, OTIV has a program called "caisses féminines" which we will translate as "Women's Groups". The first programme of this type was launched in August 1998 with funding from the national government and the World Bank with technical support of DID.

This product is offered to communities where:

- leaders believe that the product matches the interests of the community;
- local authorities commit to do follow-up and evaluation work;
- the population is active and willing to accept partnership; and
- access is possible throughout the whole year.

It is up to leaders, authorities, and the community to decide whether the products offered by OTIV match local needs. Once the product is deemed useful, OTIV holds a series of information sessions for women. Women, who live in the same area, organize themselves into solidarity groups.

Women are taught to manage financial resources and also how to run a group. Training sessions emphasize three points:

- credit management;
- savings; and
- social life.

To become part of the programme, a woman must:

- be a permanent member of the community;
- be over 16;
- be self-confident;
- be a member of a solidarity group where they guarantee repayment of loans and interests for each other;
- pay membership fees;
- not be members of the same family within the same solidarity group; and
- belong to a group with 12 to 40 members.

Solidarity groups meet weekly. Every time the group meets, members must bring a small amount of savings equal to 1% of their loans. Additional savings is always accepted. In order to apply for a loan, women must first have deposited savings. The loan is granted only when the whole solidarity group and the overall Women's Group (caisse féminine) approve it. All transactions (borrowing and repaying) must occur in front of all the members of the solidarity group during regular meetings.

The Women's Groups are self-managed with support from an OTIV appointed technician. OTIV grants a loan for a four-week period to the Women's Group charging 16% interest. The Women's Group lends money for 16 weeks to solidarity groups at 18% interest rate. The 2% difference covers operating costs.

This product is not profitable for OTIV; it still must diversify its products to cover for the losses of Women's Groups. Self-sustainability cannot be reached if an MFI serves only the very poor.

2.4.5. TIAVO

Tahiry Ifamonjena Amin'ny Vola (TIAVO) was created in 1996 within the framework of the Microfinance Project promoted and funded by the national government and the World Bank.

The project in support of TIAVO was executed by WOCCU until 1998. After ten months of self-management, TIAVO received technical assistance from IRAM.

At the end of 2003, TIAVO is composed of a central office called Union FITIA, and of 33 local branches in the Fianarantsoa region. The central office is responsible for representation, protection of TIAVO's interests, promotion of collaboration between members, training, and control of financial resources and of local branches. TIAVO obtained a licence from the central bank in January 2001.

Table 17. Data on TIAVO as of 31/12/2002

Total Number of Clients/Members	Total Number of Local Branches	Equity Funds (MGF)	Outstanding Loans (MGF)	Volume of Savings (MGF)
8,408	33	854,131,851	1,737,298,010	2,626,221,607

Until 1999, TIAVO based credit services on internally mobilized resources. Expansion of its lending activities was therefore rather slow. Near the end of 1999 with new technical support, TIAVO started to include external resources to the internal ones derived from savings. Consequently, lending activities increased considerably. Another feature of TIAVO's methodology is that savings must always be prior to credit. Appendix I describes financial products offered by TIAVO.

Besides its mutual financial activity, TIAVO has developed some group microcredit schemes for women. Women represent 100% of the beneficiaries of credit programmes for vulnerable groups. In addition, they are 40% of regular credit participants. Women are therefore about 50% of TIAVO's members/clients as a whole.

TIAVO offers its services to professionals from both rural and urban areas. Financial services are therefore available to public officials, farmers, artisans, traders, etc. Because of the regional economy, the majority of TIAVO's members/clients are farmers.

The following tables show the most recent data on TIAVO.

Table 18. Data on TIAVO as of April 2003

Number of Clients	Percent Women Clients	Number of Local Branches
9,500	40%	36

Table 19. TIAVO's Total Amount of Loans and Number of Loan Disbursement²⁹

	2001	2002	January-March 2003
Total Amount Distributed in Loans (Billion MGF)	2.4	3.6	1.02
Loans Disbursed	1,637	2,049	780

Within a period of 3 months, the number of clients increased by 1,000. On the basis of this indication, we assume that the average annual growth for year 2003 will be about 4,000 clients, or 33.3% growth of members.

The amount of outstanding loans keeps increasing. We can easily expect that by the end of year 2003, outstanding loans will be over 4 billion MGF. From the data presented, we can see that the number of loans disbursed grew proportionally to the number of clients and that outstanding loans increased at a similar pace.

TIAVO has expanded without impacting institutional stability. As a matter of fact, loans that are over-90-days overdue are only 1.4% as of 31 March 2003.

²⁹ Unlike data reported for other MFIs, TIAVO reports savings and credit in a cumulative way. For example, the total amount of loans includes the total amount of MGF distributed to members/clients and the total savings is the cumulative amount of MGF deposited from 1/2003 to 4/2003. This definition varies from the one used in the reporting of credit and savings in Tables 9 and 10.

2.5. Supervision and Governance from the Central Bank

2.5.1 Supervision

The Commission for Banking and Financial Supervision (CSBF) is within the Central Bank of Madagascar. It is responsible for controlling the application of legislation, the supervision and the licence of mutual financial institutions. This supervisory body is the only one that deals with microfinance in Madagascar and it only oversees mutual microfinance because non-mutual microfinance is not regulated.

The annual report of the central bank and the CSBF contains a whole chapter on mutual financial institutions providing data on all MFIs. CSBF tries to take into account the specific needs of microfinance in its rules of accounting and management and prudential rules.

It is not easy for a unit of a central bank to understand the special characteristics and procedures of microfinance in a very short time, given the recent regularization of the microfinance sector in the country. Mutual financial institutions complain at times because the requirements that the CSBF imposes are too stringent and incompatible with the reality of microfinance. However, learning the features of microfinance takes time and with only six staff members, CSBF has little time to cope with the workload that MFIs create. National authorities are thinking about delegating the supervisory function provided by CSBF to a different organization. At present, this is only a suggestion that brings up more questions to consider such as what this new organization should be like and how supervision would take place.

CSBF tries to learn about microfinance through its meetings with the professional association of mutual financial institutions. Representatives of this special unit regularly meet with A.P.I.F.M. for analysis of licence applications.

Supervision in Bolivia

In Bolivia, the Supervisory Body for Banks and Financial Entities (Superintendencia de Bancos y Entidades Financieras, SBEF) supervises the entire financial sector, including microfinance. As updated in 2001, Article 153 of law 1488 states that SBEF is the principal organization responsible for controlling the savings mobilization and financial intermediation system in the country, including the central bank of Bolivia.³⁰ Its two main objectives are to make sure that the financial system is sound and efficient, and to monitor the solvency of the financial intermediation system.

Quickly it seemed that normal supervisory methods and procedures applicable to regular banks were not suitable for microfinance therefore SBEF designed and developed specific tools to supervise microfinance institutions. The method adopted has two components:

- analysis of key indicators and relevant information provided by the institutions themselves; and
- periodic visits to the field aimed at checking the validity of the information provided by the institutions.

To better cope with the characteristics of microfinance, in 1997, SBEF created a special unit called Supervisory Body for Entities Specialized in Microfinance³¹. SBEF's staff had to be intensively trained in microfinance supervision in order to be able to fulfil supervisory tasks properly. Intensive training was possible because of the intervention of several donors.

Supervision in West Africa

In July 1999, the Central Bank of West African States (BCEAO) created the Mission for the Regulation and the Development of Microfinance (RMDM)³². This body is in charge of the regulation and monitoring of microfinance institutions in the West African Monetary Union. Its creation is the expression of the BCEAO to support and strengthen the political choices made by the governments of West Africa in the late eighties and early nineties to promote alternative financial institutions.

Donors and international technical agencies have supported RMDM through two main projects. The ILO Social Finance Programme implemented one of them, the PASMEC³³. It built a database on microfinance institutions to monitor their evolution. Data on three types of microfinance organizations were collected: mutual and cooperative financial systems, organizations providing only microcredit, and projects with a microfinance component. This project has now been integrated in the activities of RMDM and the ILO is no longer providing technical assistance.

The main objectives of RMDM and of its two technical-cooperation projects are:

- monitoring and supervision of microfinance;
- participating in capacity-building programmes to strengthen managerial skills and control mechanisms within MFIs;
- improving regulation on monitoring and supervision; and
- participating in the process of the development of financial tools for micro and small enterprises.

³⁰ ARTICULO 153°.- La Superintendencia, órgano rector del sistema de control de toda captación de recursos del público y de intermediación financiera del país, incluyendo el Banco Central de Bolivia, tendrá los siguientes objetivos:

1. Mantener un sistema financiero sano y eficiente.
2. Velar por la solvencia del sistema de intermediación financiera.

³¹ Intendencia de Supervisión de Entidades especializadas en Microfinanzas

³² Mission pour la Règlementation et le Développement de la Microfinance. www.bceao.int

³³ Programme d'Appui aux Structures Mutualistes d'Epargne et de Crédit.

2.6.2 Credit Bureaus

The majority of technical staff and advisors of financial networks in Madagascar think that it is necessary to set up a credit bureau³⁴ in order to blacklist bad clients. 'A credit information bureau aims at identifying credit defaulters across financial institutions in order to avoid overlapping credits and keep the defaulting risk low³⁵.' Demand for the creation of such an institution is very strong, but it is not clear who should establish it and with what resources. It is certain that a credit bureau would not solve governance problems, but it would certainly improve the current situation.

According to a recent GTZ study on microfinance associations (MFAs), in Mali an MFA has been involved in the attempt to set up a credit bureau. Yet, at present there is no information on the creation of such an institution with the support of a microfinance association. Credit bureaus should be established with very precise procedures and security system to protect borrowers' privacy. The study suggests that microfinance associations could have a role in running a credit bureau by consolidating data on creditors and by preventing their misuse³⁶.

³⁴ Centrale d'Information du Risque de Crédit (CIRC).

³⁵ Gross and Brüntrup. "Microfinance Associations (MFA): Their Role in the Development of the Microfinance Sector", Deutsche Gesellschaft für Technische Zusammenarbeit. 2003.

³⁶ Gross and Brüntrup. "Microfinance Associations (MFA): Their Role in the Development of the Microfinance Sector", Deutsche Gesellschaft für Technische Zusammenarbeit. 2003.

Credit Bureaus in Latin America

Regulation on the establishment of credit bureaus has been adopted in Bolivia. Credit bureaus collect information on microfinance clients, thus preventing over indebtedness and providing greater transparency in the microfinance sector. Over indebtedness was one of the major factors causing a financial crisis in the past few years in the country. Both regulated and non-regulated microfinance establishments can receive information from and provide it to credit bureaus³⁷.

In 2001, Bolivia law 1488 established that SBEF is responsible for the creation of credit bureaus and for the definition of minimum information requirements. In several other Latin American countries (Chile, El Salvador, Peru) public credit bureaus are connected to the superintendence of banking like in Bolivia³⁸. Only in Chile does national legislation allow the chamber of commerce to collect information on past-due accounts and disseminate it. Central banks often operate credit bureaus directly, because through them they can monitor the financial sector.

Besides public credit bureaus, there are private ones financed by subscribers. Private credit bureaus exist in Bolivia, El Salvador, Chile, Peru and Uruguay. In El Salvador, a private for-profit specialised credit bureau was created in 1999 through the financial support of USAID and some microfinance institutions.

In Bolivia, a microfinance association set up a database containing information on clients who had defaulted for its member MFIs. The service needed to be improved, because it only provided information based on 90-day past-due loans. To improve the service, a formal licence to operate a private credit bureau has been requested. In addition, links with the public credit bureau have been established in order to collect more information.

Private credit bureaus usually develop more tailor-made services compared to public ones, because to make a profit, they need to meet the needs of the microfinance institutions that support them. In some countries, though, privacy legislation does not allow private credit bureaus to operate. Where legislation is not too restrictive in this matter, like in Uruguay, private credit bureaus function very well. Also in El Salvador specific legislation favouring credit bureaus in accessing clients' information has been adopted.

Setting up a credit bureau requires specialized technology and specific expertise as well as the capacity to attract a large number of subscribers. Costs to access the information provided by credit bureaus are quite high for microfinance institutions. A solution could be to have a professional association of microfinance institutions negotiate a fair price for its members³⁹.

³⁷ ARTICULO 153°.- La Superintendencia, órgano rector del sistema de control de toda captación de recursos del público y de intermediación financiera del país, incluyendo el Banco Central de Bolivia, tendrá los siguientes objetivos:

1. Mantener un sistema financiero sano y eficiente.
2. Velar por la solvencia del sistema de intermediación financiera.

³⁸ Campión and Valenzuela. "Credit Bureaus: A Necessity for Microfinance?", USAID. 2001.

³⁹ Campión and Valenzuela. "Credit Bureaus: A Necessity for Microfinance?", USAID. 2001.

2.6.3 Governance

In Madagascar, governance mechanisms for financial institutions in general are described in law 95-030. For mutual financial institutions, serious problems concerning governance have been identified and reported. Some believe that CSBF should be more active in its role as a supervisory institution.

Currently, MFI audits are performed by external consulting firms specializing in audit on the behalf of donors or for CSBF. However, law 96-020 states that with the prior agreement of CSBF, the MFI's internal control committee is allowed to perform audits but in practice, only external consulting firms have been allowed to perform them.

An Example of Internal Control Committee Audit: CECAM

CECAM has a functioning system for internal audits. As stated earlier, CECAM is composed of six regional institutions called URCECAMs. Under each URCECAM, there are local branches. Local branches have their own general assemblies made up of elect representatives. The local branches also elect members to serve on the regional URCECAM's general assembly. The local general assemblies appoint members to the local control committee and URCECAMs and the executive board delegate power the committees. The URCECAMS 'control committee supervises the operations of local control committees, intervenes to correct mistakes, and withdraws the delegation of power if necessary.' An inspector is appointed by the URCECAM to assist the local control committee. Through the control committees, members of the financial institutions review the operations and transactions carried out by waged staff in local branches. The URCECAMS assures overall control by incorporating into an electronic information system the data that local committees collect manually.

CECAM has identified three major constraints concerning governance:

- It is hard for farmers to volunteer to work for CECAM without getting paid. Farmers in Madagascar are very poor and want remuneration in return for their services at CECAM. Allowances that increase their income and easier access to credit for themselves and their relatives or friends remain the principal reasons for trying to be elected as CECAM's representatives. CECAM's technical staff believe that working for social development, access to information, and training should motivate members to volunteer.
- It is difficult to establish the right balance between elected representatives of farmers and waged technical staff. Farmers sometimes find it difficult to understand that they have to delegate technical functions to waged staff and yet supervise, control, and provide political guidance to them. Farmers tend to perform technical tasks themselves with very poor results.
- Power often makes elected representatives misbehave. It is crucial to have a transparent and democratic system where representatives' inappropriate behaviour can easily be detected. Sanctions for misbehaviour must be implemented through fair voting mechanisms and obvious procedures. In addition, it is necessary for elected leaders to follow a strict moral codes and serve as an example for other members of the mutual financial institution.

Audit in West Africa

In all eight of the West African Monetary Union states, cooperative and mutual financial institutions must receive a licence from the Ministry of Finance. The PARMEC law regulates both internal and external audit. According to article 23 of the PARMEC law, internal audit must be carried out by entities that are not involved in managerial tasks⁴⁰. Mutual financial networks and unions and federations or confederations of savings and credit cooperatives must insure internal control. They can draft manuals of procedures conforming to the rules set by the central bank or the banking commission. Once a year they must launch an internal inspection. Should the control committee discover problems or errors, it has to issue a report containing recommendations for the principal players in the financial organizations. A copy of that report must be sent to the Minister of Finance, the banking commission, and the central bank.

As for external control, mutual institutions and savings and credit cooperatives must issue an annual report to be sent primarily to the Ministry of Finance and then to the central bank and the banking commission. The central bank and the banking commission may carry out field inspections on their own initiative or upon a request from the Ministry of Finance.

In Madagascar, external audits are performed by specialized consulting firms and are carried out according to international auditing standards. Some general constraints and challenges have been identified:

- auditing methodologies used for banks have not been adapted to microfinance institutions and do not detect the weaknesses of MFIs;
- data collection is manual, not computerized, therefore not very precise;
- the location of the MFI and the infrastructure of the region have a strong impact on the performance of the institution and should be taken into account in the audit;
- local culture and traditions may have an influence on the application of mutual values;
- within a specific microfinance network there exist different types of structures: the central branch, mutual financial institutions, local branches all of which function in a different way;
- data are conceived and collected in different ways within the same network depending on the internal structure;
- there are differences between MFIs with a licence and MFIs without a licence;
- credit files are dealt with in a way which microfinance institutions specifically use, because there is no real collateral, only personal mutual guarantee;

⁴⁰ Article 23 : Au sein d'une même institution, les fonctions de gestion et de contrôle sont exercées par des organes distincts.

- unlike regular financial institutions, microfinance institutions have an important social mission which has an impact on their financial activity; and
- the distribution of power within a mutual financial institution in a poor rural environment is very different from that of a bank;

3. The Professional Association of Mutual Financial Institutions⁴¹

3.1. Microfinance in Madagascar: The Institutional Framework⁴²

The policy in support of mutual financial institutions was adopted in 1991. The principal objectives of the policy were that:

- credit should be based on market conditions and not on subsidies;
- mutual financial institutions should be developed as the main tool to achieve rural cohesion and to overcome the lack of financial resources in rural areas;
- multiple international technical agencies (NGOs) should exist to allow for diversity in support of rural groups;
- donors' interventions in the field of rural finance would be coordinated;
- a legal and regulatory framework to promote the development of mutual savings and credit would be created ; and
- a private organization would be created to coordinate activities and provide services to the intermediary institutions in support of rural groups.

After the adoption of the policy, ordinance 93-026 on credit and guarantee activities of mutual financial institutions, was passed in 1993. In January 1993, to achieve the last objective of the policy, ADMMEC⁴³ was created as required under ordinance 93-026. It was designed to provide technical and financial support for the establishment of mutual financial institutions, and to represent and defend the values of the mutual movement.

ADMMEC was composed of 11 local NGOs⁴⁴ and the state bank, BTM, which was active in rural development. The NGOs were willing to operate in the field of savings and credit services by supporting mutual financial institutions in rural areas. ADMMEC was set up as a private association, but its public utility was recognized in Decree 93-016, thus allowing it to receive public subsidies as well as funding from donors.

⁴¹ Association Professionnelle des Institutions Financières Mutualistes.

⁴² Information in this sections is from the project document of ILO/SFP's project in support of A.P.I.F.M..

⁴³ Association de développement des mutuelles d'épargne et de crédit.

⁴⁴ Association des Femmes Rurales de Farafangana (AFRF), SCAE, AVEAMM, SAFF/FLM, CEADAM, FITATA, TANTELY, FIKRIZAMA, SAFAMP, TSIMOKA, ROVA.

ADMMEC managed an experimental microfinance programme that was effectively started in April 1994 and continued for five-years. This project was called Technical Assistance Project in Rural Finance (PATFR)⁴⁵. The PATFR project was developed as an integral part of the overall strategy to promote the creation of self-managed rural financial institutions. PATFR was co-financed by the World Bank, the government of Madagascar, and the Canadian Agency, Développement International Desjardins. Four international NGOs with a well-acknowledge expertise in the development of mutual financial systems were involved in the execution of PATFR: CIDR, FERT, WOCCU and DID.

PATFR and other initiatives proved that it was possible to mobilize savings in the rural areas of Madagascar and recycle it into productive credit through mutual financial institutions. Depending on the agency supporting the savings and credit groups, different approaches were used. Some emphasized savings and others gave priority to credit. Nonetheless, the main objectives were the same for all rural groups:

- reaching financial sustainability;
- establishing a direct link between savings and credit;
- complementing the formal banking sector; and
- providing financial services to all mutual financial institutions.

In order to strengthen the mutual movement and improve the provision of financial services in rural areas, it was decided that ADMMEC should evolve and be replaced by a professional association representing and defending the interests of mutual savings and credit institutions.

3.2. Adoption of Law 96-020

Five years after the adoption of a national policy in support of mutual financial institutions, law 96-020 regulating the activities and organization of mutual financial institutions (MFIs)⁴⁶, was passed. This law is still in effect today. As already mentioned, it has four main components:

⁴⁵ Projet d'Assistance Technique en Finances Rurales

⁴⁶ portant réglementation des activités et organisation des Institutions Financières Mutualistes (IFM)

- greater autonomy of mutual law;
- harmony between banking law (law 95-030) and mutual law;
- simplification and a greater coherence of mutual regulation; and
- introduction of fiscal incentives.

Under heading III on diverse and final clauses⁴⁷, law 96-020 requires the establishment of a professional association of mutual financial institutions. Article 46 of the law describes the mission of the professional association as:

- promoting collaboration between different rural groups operating in mutual savings and credit development;
- providing technical support in the creation of mutual financial institutions;
- assuring representation of the mutual movement and defense of its interests vis-à-vis the government, professional bank associations, or international institutions and organizations⁴⁸.

As stated in article 47, members of the professional association are mutual financial institutions that organize as unions or federations. The law adds that the professional association shall have its own statutes and be governed by a general assembly and an executive board (articles 48 and 49). Article 50 lists the types of financial resources that the association may receive: members' fees, subsidies, donations, and profits from fees charged for its services.

Article 20 assigns to the professional association the very important task of recommending that mutual MFIs obtain a licence. The article states that MFIs must obtain a licence, as required in the banking law, before they can perform any activity. A licence is granted to collective (a union or federation MFIs) or individual (single MFIs within a more complex structure) MFIs by the Commission for Banking and Financial Supervision (CSBF) of the central bank. A licence is only granted with approval of the professional association.

⁴⁷ dispositions diverses et finales

⁴⁸ d'encourager la coopération entre les différents groupements impliqués dans le développement mutualiste d'épargne et de crédit;
de fournir les soutiens techniques dans la constitution des IFM;
d'assurer la représentation du mouvement mutualiste et la défense des intérêts professionnels auprès du Gouvernement, des institutions professionnelles des établissements de crédit ou des institutions et organisations internationales.

3.3. Structure of Association Professionnelle des Institutions Financières Mutualistes⁴⁹ ***(A.P.I.F.M.)⁵⁰***

ADMMEC ceased to exist in 1998 and two new organizations were developed. One is the Executing Agency for the Microfinance Project (AGEPMF⁵¹), a government agency funded by the World Bank. The other is A.P.I.F.M., the professional association described in law 96-020. It was launched in March 1998 with the support of the ILO/SFP.

The statutes of A.P.I.F.M. list three main bodies of the organization: a general assembly, an executive board, and a secretary-general. The statutes also mention a technical and consultative committee, which is not a formal body of the association, but is a forum for the technical agencies supporting member MFIs and members of association to have discussions. Each of the bodies of the organization is discussed below:

General assembly: As stated in article 24 of the statutes, the general assembly is the sovereign body of the association, consisting of all MFIs and unions of MFIs that are members of A.P.I.F.M. In the beginning, each MFI was entitled to one representative in the general assembly per 500 clients/members. The first general assembly convened with nearly 80 representatives. Currently, in order to lower travel expenses covered by A.P.I.F.M., the general assembly decided that each MFI should have one representative per 3000 clients/members. Although the membership rate of the MFIs has grown considerably since the creation of the association, at present, the general assembly gathers about 60 representatives.

Article 31 of the statutes defines role of the general assembly. *Inter alia*, it has the power to determine the policy of the association, adopt the statutes of personnel and internal regulations, create an annual plan of activities, and approve the annual budget, the financial statements, and the report on annual activities. It must meet at least once a year.

Executive board: Members of the executive board are elected by the general assembly. Since the creation of A.P.I.F.M., there have been eleven members on the executive board: four from

⁴⁹ www.lk-oi.com/apifm

⁵⁰ The information in this section is contained in the mid-term evaluation report of the ILO/SFP's project in support of A.P.I.F.M. (November 1999).

⁵¹ Agence d'Exécution du Projet de Microfinance

CECAM, four from OTIV, and one from each of the three remaining mutual financial systems. The executive board meets with the secretary-general at least every three months or whenever it is necessary.

As stated in article 38 of the statutes, the executive board implements the decisions made by the general assembly. In addition, it monitors the application of the statutes, internal regulations, and decisions of the general assembly. It is in charge of recruiting and dismissing the secretary-general, as well as monitoring his/her activities. It submits policy recommendations to the general assembly. It sets the agenda for the general assembly's meeting and submits annual financial statements and reports on activities to the general assembly for approval. It may assign some tasks to the secretary-general and must execute those tasks that the general assembly assigns to it⁵². The executive board takes into account the recommendations made by the technical advisory committee⁵³. Beyond these tasks, the executive board drafts the association's recommendations for licensing for MFIs, as required by law 96-020.

Secretary-general: This is a permanent unit of the association. Articles 47 and 48 of the statutes describe the role of the secretary-general. The secretary-general is responsible for the administration and coordination of the association activities, including recruiting staff. He/she must execute the decisions of the executive board and the board may delegate some of its power to the secretary-general. He/she is also responsible for preparing the annual budget for the executive board review. The executive board may ask the secretary-general to represent the association.

Technical and consultative committee: This is composed of three members of the executive board, the directors of the technical agencies who support the member MFIs, and national technical staff of MFIs. Representatives of other national and international agencies and donors have been invited to join the committee. This committee meets prior to the executive board meetings and makes recommendations to the executive board.

⁵² From article 38 of the statutes.

⁵³ comité technique et consultatif

3.4. Evolution of A.P.I.F.M. ⁵⁴

When the ILO/SFP project in support of A.P.I.F.M. started, the professional association did not exist except as mentioned in law 96-020. Some mutual financial systems had been created, but they were operating as informal institutions because the law regulating them had just been adopted. They perceived A.P.I.F.M. as necessary in order to obtain a licence and operate in a formal way since the association was the organization to recommend them for licensing.

When the ILO/SFP's project began, the microfinance community believed the professional association should only have one major task: examine applications in order to recommend mutual financial institutions for licences. The community also accepted the idea that the association would provide technical assistance to those MFIs whose applications needed improving.

The different players in the field of microfinance in Madagascar, in particular technical agencies and donors, had varying interest in the association. They were not willing to accept the presence of a strong new entity. A.P.I.F.M. was mainly perceived as a threat because it could make decisions about microfinance that would be binding to member MFIs including, in theory, their supporting technical agencies. The association could have a different agenda compared to technical agencies.

Because the ILO was the only concrete presence in the beginning, the proposed professional association was perceived as an ILO-dependent body. One of the most difficult challenges of the ILO project was to make the association neutral, acting only according to its members' instructions. The ILO project was supposed to provide technical support to A.P.I.F.M. and had to make sure that the association was seen as an independent entity.

The first step that the project took to launch the association was to make contact with mutual financial institutions and their supporting technical agencies in order to establish the bodies of the association (general assembly, executive board, and technical and consultative

⁵⁴ The information in this section is based on ILO/SFP's progress reports.

committee). Also the ILO project recruited consultants to provide technical assistance to help MFIs prepare their licence application.

The statutes of the association were quickly adopted by the general assembly. Nonetheless, it was hard for both the general assembly and the executive board to make decisions. Member MFIs tended to seek the association's support for issues relevant to their work, but not common to all. This was usually linked to a specific interest that a technical agency or donor supporting a member MFI wanted to promote. Mediating between the collective and individual interests was hard for A.P.I.F.M. because elected MFIs' members who took part in the general assembly and the executive board did not have technical expertise in issues due to the nascent nature of microfinance in the country.

A positive change occurred when the secretary-general was appointed in May 1999. Until then, the general assembly met once a year and the executive board held meetings every two to three months. Between meetings, daily activities of the association were completed by the ILO project. As soon as the secretary-general took office, she directly administrated tasks and daily activities and, with the authorisation of the executive board, was able to represent the association. The ILO project then focused more on providing technical support to the secretary-general and to the association.

The reputation of A.P.I.F.M. grew stronger with the recruitment of a technical assistant⁵⁵ a few months after the secretary-general was appointed. Through the work of the national technical staff, A.P.I.F.M. gained credibility among member MFIs. The national staff developed technical activities based on the needs of member MFIs.

The ILO project aimed to train the technical staff of the association and provide support for the implementation of tools and activities for member MFIs. In March 2000, an agreement between the ILO project and A.P.I.F.M. was concluded, in order for the latter to manage its own budget separately from the project. The ILO project transferred some resources into the budget of the association for operational costs, integrating this money with member fees and other income resources. Maintaining separate budgets was an important step in making it clear that the association and the project were two distinct entities.

⁵⁵ chargée d'études

After a couple of years, the status of A.P.I.F.M. had changed considerably. Member MFIs, technical agencies, and donors no longer saw the professional association only as a means of obtaining a license. They began to see that it served many other functions including: representation of member MFIs, lobbying, developing internal and external dialogues, providing information through trainings on microfinance, ensuring that member MFIs are aware of regulation, organizing microfinance events, organizing exchange visits between member MFIs, and strengthening the mutual movement.

Currently, A.P.I.F.M. is a solid and highly respected institution. Membership increases on average 25% per year. The professional association can financially support its basic structure through member fees and its activities through funding from donors. The first partnership agreements were signed at the end of 2000. At this time, some of the association's principal current partners are UNEF, IFAD, SEEP Network and UNDP.

The technical staff of A.P.I.F.M. is now experienced enough to run the association without any external support. Members recently have shown strong feelings of ownership and commitment. These excellent results have been achieved in a relatively short time, after overcoming numerous problems and obstacles.

3.5. Principal Challenges Experienced by A.P.I.F.M.

3.5.1. Member Fees

Self-sustainability of the professional association has always been one of the primary goals of the ILO/SFP project. From the beginning, it was made clear to members of A.P.I.F.M that they would have to contribute to the functioning of the association. Fees started at a symbolic amount and progressively increased, while ILO project's contributions to the functioning of A.P.I.F.M. constantly diminish. Members never objected to this principle. The strongest opposition came from technical agencies and donors supporting MFIs. These institutions raised three main objections to member MFIs' financing A.P.I.F.M.:

- Member MFIs were not self-sufficient. They heavily depended on donors and technical agencies support and therefore their member fees would be financed by technical agencies and donors' contributions.

- The professional association was supposed to be supported by an ILO technical cooperation project. The ILO was therefore the only institution that had to take care of the financial needs of the association.
- Member fees could be much lower than what was proposed, because the association should perform very few tasks, primarily assisting in the licensing process.

Several factors contribute to the current situation where members pay fees with no concerns:

- The association quickly became dynamic and useful to its members. Beyond preparing licence applications, it provides other high quality services.
- Near the end of the project, the operational costs of the association were drastically reduced: headquarters moved to a cheaper location and the number of staff was reduced. At the end of the project, the secretary-general and the technical assistant were still being paid by the project at a rate double that of local salaries. If salaries are reduced to local rates, the association is capable of financing a secretary-general and a technical assistant.
- Representatives of member MFIs are now more familiar with technical issues. They understand problems and voice opinions vis-à-vis technical agencies and donors. They defend the position of A.P.I.F.M. and justify the need for paying fees to support it better than in the past.
- MFIs have grown financially stronger and can pay fees out of their own budgets, rather than relying on technical agencies and donors' contributions.
- Technical agencies and donors understand the important role of the professional association. They appreciate the services it provides beyond preparation of licence applications.

3.5.2. Training

Member MFIs have always requested trainings. Until about two years ago, it was difficult for A.P.I.F.M. to provide trainings because of the following reasons:

- AGEPMF, the World Bank-funded governmental agency, is managing a very large programme in support of MFIs and microfinance in general. This programme includes a strong training component. A.P.I.F.M.'s training activities needed to be compatible with AGEPMF trainings.

- Technical agencies supporting member MFIs had developed and were implementing training programmes for their own MFIs. Training activities organized by the professional association needed to complement those of technical agencies.

Currently, A.P.I.F.M. successfully organizes training activities. The main factors explaining this positive evolution are:

- The association found a very specific training area that was not covered by other institutions and interested its MFIs. For the past three years, A.P.I.F.M. has organized courses in collaboration with CAPAF/CGAP reflecting international standards on microfinance adapted to Madagascar. In particular, the association focuses on training trainers in order to have future sessions run by nationals. The courses technical issues have been: accounting, measurement and control of non-repaid loans, calculation of interest rates, financial analysis, business planning and financial projections, and information and management systems for MFIs. To build economies of scale, these courses are accessible to everyone, including non-A.P.I.F.M.'s members who are charged slightly more. It is important to emphasize that demand for training courses remains very high.
- Although AGEPMF was to start training activities in 2000, no training programme has started.
- Demand for capacity-building from both members of mutual financial institutions and technical staff of MFIs remained strong and no training programme was available. Since law 96-020 states that the professional association can 'provide technical support in the creation of mutual financial institutions', A.P.I.F.M. organized training courses.

3.5.3. Encouraging Internal Discussion

When the professional association was created, most MFI representatives were not actively involved in the discussions of the general assembly and the executive board. They were physically present, but only about 20% participated actively. The reasons why MFIs sent their representatives to meetings were:

- Because of the law, the executive board of A.P.I.F.M. recommends licensing to MFIs and MFIs joined A.P.I.F.M. to obtain a licence.

- The travel allowance each representative received was an incentive for participating in meetings. At the beginning, travel expenses and allowances were funded by the ILO project, however, the association finances such expenditure currently.

At this time, representatives of MFIs participate more in the association. In the general assembly, about 50% of the participants express their views and react using sound technical arguments. Of these participants, about half speak at meetings; some of the others present their ideas to those who speak on their behalf. This is due to lack of confidence in public speaking. Nevertheless, their interests are clearly expressed.

In the executive board, almost everyone participates actively in discussions. Ideas are routinely exchanged and it is through discussions within A.P.I.F.M. that experiences and activities carried out by different MFIs become known to other members. It is now quite evident that allowances are an incentive for attendance for few representatives.

Some factors accounting for this positive change are:

- MFIs' members feel that the association belongs to them. They find it useful to exchange views and opinions about microfinance and the mutual movement. They perceive A.P.I.F.M. as an important tool to improve their situation and through which certain problems can be solved.
- MFIs have grown stronger. Their members are more familiar with microfinance issues and better understand how microfinance works. They not only have stronger technical backgrounds, but also have become more confident.
- Trainings organized by technical agencies supporting MFIs have been effective in strengthening the skills of MFIs's representatives.
- The MFIs' representatives are capable of making technical agencies aware of the decisions made in the general assembly and in the executive board of A.P.I.F.M.
- Technical agencies supporting MFIs trust the knowledge of MFIs' representatives and take their opinions into consideration more often.

3.5.4. Gender

In Madagascar, compared to other countries, women are less discriminated against; the social and cultural environment is not particularly hostile to them. Women often occupy senior professional positions. For example, the current government has some key ministers who are women, such as the Minister of Justice and the Minister of Culture.

Gender-related issues are not perceived as problems within A.P.I.F.M. Women make up about 1/3 of mutual financial institutions' clients/members. Nevertheless, we would like to point out that:

- In the executive board, out of 11 members, only one is a woman. Currently, she is the president of A.P.I.F.M.
- In this year's general assembly, out of about 60 representatives, only 4 were women. Besides TIAVO, where the president of the association is from, OTIV seems to be more active than the others in promoting women's participation in the activities of the network and the professional association.

When asked why women do not participate in the activities of the association, representatives of MFIs answered that normal household responsibilities, such as breast-feeding infants, as well as professional activities, prevent women from participating in MFIs' activities and A.P.I.F.M. We must admit that the ILO project never came up with concrete solutions to promote women's participation in the activities of the association. However, the fact that the current president of A.P.I.F.M. is a woman and that both the secretary-general and the technical assistant are female is generally seen as positive in gender terms.

3.6. Regulating Non-Mutual Financial Institutions

The government of Madagascar regulates only mutual financial systems. Although mutual financial institutions are the majority of microfinance providers in the country, some non-mutual financial programmes have developed.

Non-mutual financial institutions are not regulated, which is seen as problematic by both types of financial institutions. Mutual financial institutions would like a law on non-mutual financial institutions because they believe it is unfair that MFIs must follow regulatory

restrictions while non-mutual financial institutions can operate with no limitations. Non-mutual financial institutions want regulations because they do not like their current status. In addition, they would like to benefit from the same tax breaks that mutual financial institutions are given under law 96-020.

It should be pointed out that in most countries mutual systems in general or systems based on cooperative principles are granted favourable treatment. The policy adopted by the government of Madagascar seems to conform to the policies of other countries. Though the debate on the regulatory framework in Madagascar is still open, the next section shows how other countries have coped with this issue.

3.6.1. The Case of Bolivia

Bolivia was one of the first countries to regulate microfinance in a comprehensive manner and it is often touted as an example. The history and evolution of microfinance in this country differ considerably from those of Madagascar.

In the mid-eighties, the international community started to launch programmes of microfinance and social assistance all over Bolivia, in both rural and urban areas. NGOs delivering microfinance services quickly grew in number and size. Because they were not regulated, they were not subject to the supervision of SBEF⁵⁶, the national supervisory body of the financial sector. The NGOs were limited in their ability to expand further due to inability to mobilize savings. Only with the supervision of SBEF and the appropriate regulatory framework could NGOs collect savings⁵⁷.

In 1993, a law on banks and financial entities was adopted in Bolivia. In 2001, law 1488⁵⁸ revised the 1993 law. We will only discuss the revised 2001 law particularly the forth section, "Non-banking establishments for financial intermediation"⁵⁹. Article 69 defines the institutions that are covered under this category: savings and credit cooperatives, mutual savings and credit institutions, and private financial funds. Since savings and credit cooperatives and mutual savings and credit institutions are under similar regulation in

⁵⁶ Superintendencia de Bancos y Entidades Financieras

⁵⁷ <http://www.sbef.gov.bo/template.php?idPag=5>

⁵⁸ Ley 1488 de bancos y entidades financieras

⁵⁹ Entidades de intermediación financiera no bancarias

Madagascar as in Bolivia, we will focus on the third institutional type which is not regulated in Madagascar: private financial funds.

Article 76 of law 1488 states that 'Private financial funds are private companies whose main objective is to channel resources to small and micro borrowers whose activities are located in urban and rural areas.'⁶⁰ These funds can operate on a national level and send and receive remittances. With prior authorisation from SEBF, they can collect savings on their current accounts and provide credit cards to their clients. With a similar authorisation, they can invest capital from financial services establishments. Article 77 establishes the minimum capital of these funds. Other clauses define the ceilings of credit transactions allowed.

Another law also addresses the issues of microfinance in Bolivia. In 1995, the first version of law 1864 on Ownership and Credit for the Poor⁶¹ was adopted. The most updated version of this law is from 1998. The third section of this law is entitled, "Credit for the poor and financial services in municipalities"⁶². Chapter I, under this section, deals with "Microcredit and savings for the poor"⁶³. Article 14 of this chapter regulates microcredit and states that 'Banks, private financial funds, mutual systems, savings and credit cooperatives, and financial NGOs can perform microcredit operations, according to the rules admitted by CONFIP.'⁶⁴. The Committee for Financial Norms on Prudence⁶⁵ (CONFIP) was established under law 1864. It adopts prudential rules for the national financial sector. Article 30 lists some specific areas that must be regulated by CONFIP:

- '(a) The nature, constitution, directing bodies, minimum capital, allowed and forbidden activities, the transformation, and merging and liquidation of non-banking financial entities;

⁶⁰ ARTICULO 76°.- Los fondos financieros privados son sociedades anónimas cuyo objeto principal es la canalización de recursos a pequeños y micro prestatarios cuyas actividades se localizan tanto en áreas urbanas como rurales. Los fondos financieros privados podrán realizar operaciones pasivas y activas a nivel nacional, excepto los numerales 3 y 7 en lo referente a factoraje, del artículo 3°. Dicha excepción alcanza a los numerales 5 y 6 del artículo 39° de esta Ley, sólo en lo referente a operaciones de comercio exterior, estando permitidas las operaciones de envío y recepción de remesas de dinero de personas jurídicas y naturales dentro y fuera del país. También se exceptúan los numerales 19, 21 sólo en lo referente a empresas de seguro y 24 del artículo 39° de esta Ley. La captación de dinero en cuenta corriente y la emisión de tarjetas de crédito, así como la inversión del capital de entidades de servicios financieros será autorizada, en cada caso, por la Superintendencia.

⁶¹ Ley de Propiedad y Crédito Popular

⁶² CREDITO POPULAR Y SERVICIOS FINANCIEROS EN MUNICIPIOS.

⁶³ Microcrédito y ahorro popular

⁶⁴ Artículo 14.- DEL MICROREDITO. Los bancos, fondos financieros privados, mutuales, cooperativas de ahorro y crédito y las ONG financieras podrán efectuar operaciones de microcrédito, de acuerdo con las normas aprobadas por el CONFIP.

⁶⁵ Comité de Normas Financieras de Prudencia

- (b) The regulation of microcredit in all the Republic, determining its nature, objectives, field of application, intermediary institutions, beneficiaries and guarantee of credit in support of microentrepreneurs⁶⁶.

CONFIP is composed of the president of the central bank of Bolivia, the chief supervisor for banks and financial entities, the chief supervisor of pensions and insurances, and a vice-minister of the Ministry of Finance⁶⁷.

Law 1864 regulates other aspects of microfinance including work of NGOs under article 16. It states that NGOs which do not mobilize savings and use their own funds, donated funds or resources coming directly from international organizations without any state intervention are excluded from the fiscal measures, control, and inspection of SBEF. Those NGOs that benefit from public contributions will be under governmental supervision⁶⁸.

Article 17 adds that NGOs and financial entities that are exempt from taxation cannot receive deposits or funds to grant loans, except for those included under article 18⁶⁹. Article 18 deals with savings. It states that, in order to promote savings, collectives may request an authorisation from SBEF to mobilize savings in a limited way following the restrictions of SBEF and according to the rules set by CONFIP. Such rules will define mandatory investments. SBEF will supervise the application of the above-mentioned requirements and conditions⁷⁰.

⁶⁶ (a) La naturaleza, constitución, órganos de dirección, capitales mínimos, actividades permitidas y prohibidas, transformación, fusión y liquidación de las entidades financieras no bancarias;

(b) La regulación del microcrédito en todo el territorio de la República, fijando su naturaleza, alcances, ámbito de aplicación, instituciones intermediarias, beneficiarios y garantías del crédito en apoyo a los microempresarios;

⁶⁷ El Presidente del Banco Central de Bolivia, el Superintendente de Bancos y Entidades Financieras, el Superintendente de Pensiones, Valores y Seguros y un Viceministro del Ministerio de Hacienda.

⁶⁸ Artículo 16.- OPERACIONES DE LAS ONG.- Las ONG que no capten recursos del público y que realicen actividades de crédito utilizando recursos propios, fondos de donación o recursos provenientes directamente de organismos internacionales sin intermediación o participación del Estado, quedan excluidas de la fiscalización, control e inspección de sus actividades por parte de la SBEF. Las que utilicen recursos públicos serán supervisadas por la Contraloría General de la República en el marco de la ley SAFCO.

⁶⁹ Artículo 17.- PROHIBICION A LAS ONG.- Sin perjuicio de lo señalado por el artículo 5 de la Ley de Bancos y Entidades Financieras, las ONG y entidades financieras no fiscalizadas, quedan prohibidas de recibir de personas naturales y bajo cualquier modalidad, depósitos u obtener fondos destinados a ser intermediados, salvo lo establecido en el artículo siguiente.

⁷⁰ Artículo 18.- AHORRO POPULAR Y CAPTACION RESTRINGIDA DE DEPOSITOS.- No obstante lo indicado en el artículo anterior y a fin de promover el ahorro popular, las personas colectivas podrán solicitar autorización de la SBEF para movilizar recursos del público de manera restringida, sujetas a las condiciones, requisitos y limitaciones que ésta establezca, conforme a reglamentación a ser aprobada por el CONFIP. Dicha

Decree 24439 was passed in 1996 to promote savings. Its objective was to regulate the cooperative system so that cooperative financial institutions could be properly supervised, strengthened, and enjoy appropriate fiscal norms⁷¹.

3.6.2. The Case of West Africa

Eight countries in West Africa are members of the West African Monetary Union (WAMU): Benin, Burkina Faso, Côte d'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo. The regulatory framework and the supervisory mechanisms for microfinance in all these countries are the same.

In West Africa, savings mobilization has not only been promoted by governments, but also spontaneously practiced by the population for decades. Specific measures on microfinance organizations and in particular on credit and savings institutions were adopted in the eighties, after development banks and agricultural funds experienced a period of deep crisis. Alternative institutions for the mobilization of small savings were supported and strengthened in 1989 through adoption a credit and monetary policy reform. One of its objectives was to encourage and support the creation of cooperative and mutual financial institutions. Such institutions seemed to offer services that better met the needs of the rural and poor urban populations.

The Council of Ministers of the Monetary Union gave the Central Bank of West African States (BCEAO) full responsibility for the implementation of this legal framework for all member states. In 1993, the Council approved a special act on cooperative and mutual financial institutions, the PARMEC law. The act covers three main areas: it ensures depositors' protection, operational security, and the financial autonomy of institutions. Much emphasis is put on depositors' protection to increase both the credibility of institutions and their capacity to mobilize savings. Operational security involves the application of prudential rules aimed at preventing the misuse and appropriation of funds and at assuring the correct

reglamentación establecerá requisitos de inversión obligatoria. El cumplimiento de los requisitos será supervisado por la SBEF.

⁷¹ <http://www.sbef.gov.bo/template.php?idPag=5>

disbursement of loans according to existing rules. Financial autonomy is pursued by grouping institutions in networks, so that they can establish their own banking system if they wish⁷².

The PARMEC law particularly focuses on mutual financial systems and, as we have seen, the West African governments have adopted policies in support of mutual financial networks. Nonetheless, non-mutual financial institutions are not ignored. Article 5 of the PARMEC law states that 'Structures or organizations which are not constituted as mutual institutions or cooperatives and whose objective is savings mobilization and/or credit provision are not considered as mutual institutions or savings and credit cooperatives.' Article 6 continues 'In order to perform savings mobilization and/or credit provision, structures or organizations mentioned in article 5 are regulated:

- 1°) either by the norms of the banking law; or
- 2°) by the particular norms agreed upon with the minister.⁷³

Article 7 adds that 'Conditions to perform activities and mechanisms for recognition of the structures or organizations mentioned at point 2) of article 6 are established in a convention. The convention also fixes the rules concerning the functioning and control mechanisms for their activities. The convention is set for no more than five years.'⁷⁴

Under heading III "Mutual institutions or savings and credit cooperatives", chapter 3 is titled "Fiscal advantages". It contains two articles which state that mutual financial institutions and savings and credit cooperatives are not charged with any direct or indirect taxation linked to their savings and credit activities. In addition, members/clients are not charged with any taxes

⁷² The information provided so far is contained in ILO Social Finance Programme's documents and publications related to the PARMEC Project implemented in West Africa in collaboration with BCEAO.

⁷³ Article 5 : Ne sont pas considérées comme institutions mutualistes ou coopératives d'épargne et de crédit, les structures ou organisations, non constituées sous forme mutualiste ou coopérative et ayant pour objet la collecte de l'épargne et/ou l'octroi de crédit.

Article 6 : Pour exercer les activités d'épargne et/ou de crédit, les structures ou organisations visées à l'article 5 demeurent régies :

- 1°) soit par les dispositions de la loi portant réglementation bancaire ;
- 2°) soit par les dispositions particulières convenues avec le Ministre.

⁷⁴ Article 7 : Les conditions d'exercice des activités et les modalités de reconnaissance des structures ou organisations visées à l'alinéa 2 de l'article 6 sont fixées par convention. La convention détermine également les règles de leur fonctionnement et les modalités de leur contrôle. Elle est conclue pour une durée n'excédant pas cinq ans.

on their shares, profit made through their shares, and interest paid on loans received⁷⁵. Similar fiscal advantages are not mentioned in the PARMEC law for non-mutual institutions and for organizations that are not savings and credit cooperatives. At the same time, the law does not contain any restriction in this regard for non-mutual microfinance institutions. Regulation on this matter seems to be left to banking law and specific conventions as mentioned in article 7.

3.7. Relevant Technical Tools Developed by A.P.I.F.M.

3.7.1. Rules and Procedures

During the first two years of its existence, the professional association concentrated most of its effort on licence applications. Currently, almost all member MFIs have been granted a licence. The technical assistant of A.P.I.F.M. provided support to those MFIs that have experienced difficulties in preparing their licence applications.

The association has always maintained a very close relationship with the Commission for Banking and Financial Supervision of the central bank in order to facilitate dialogue between MFIs and supervisory authorities. For example, A.P.I.F.M. has explained to the Commission for Banking and Financial Supervision the constraints and limitations that microfinance institutions face as compared to established banks.

To help member MFIs better comply with the licence and supervision requirements of the Commission for Banking and Financial Supervision, the professional association published a manual on specific legislation and regulation. Later, it drafted a manual on licensing procedures, which a consultant working for the secretary-general of the Commission for Banking and Financial Supervision is still reviewing before CSBF can approve it. The manual on legislation and regulation contains texts on legal forms, prudential rules, management regulation, and procedures to obtain a licence from the Commission for Banking and Financial Supervision.

⁷⁵ Chapitre 3 : Incitations fiscales Article 30 : Les institutions sont exonérées de tout impôt direct ou indirect, taxe ou droit afférents à leurs opérations de collecte de l'épargne et de distribution du crédit. Article 31 : Les membres de ces institutions sont également exonérés de tous impôts et taxes sur les parts sociales, les revenus tirés de leur épargne et les paiements d'intérêts sur les crédits qu'ils ont obtenus de l'institution.

In agreement with the special commission of the central bank, A.P.I.F.M. published a small practical guide on the accounting chart from the Commission for Banking and Financial Supervision that MFIs must follow. The professional association also published a calendar with deadlines that MFIs must abide by in reporting to the Commission of the central bank. A guide on how to prepare the statutes of a mutual financial institution is currently being written.

3.7.2. Study of Tax Codes

Mutual financial institutions receive some tax advantages under law 96-020. Such measures are not mentioned in the general code on taxation, which creates some confusion. A.P.I.F.M. has extensively lobbied to have the two tax benefits for MFIs respected and applied. However, a law passed in 2001 suppressed one of the advantages described in law 96-020 which allowed mutual financial institutions to be exempt from VAT.

A.P.I.F.M. has carried out a study on tax codes, including the obligations of mutual financial institutions. It showed the advantages granted to MFIs and provided an overall picture of current tax regulations in the country. The results of the study were presented at a workshop for members, technical staff of MFIs, and public administrators in charge of tax norms. The useful presentation showed exactly how taxes are to be calculated and accounted for in MFIs' budgets. During the workshop, members discussed the tax code and a consensus was formed on the association's stance towards it.

The outcome of the workshop guided A.P.I.F.M.'s lobbying for some of the measures adopted in the 2003 law on finances. The 2003 law on finances has eliminated VAT on refinancing from banks to mutual financial institutions. This law has confirmed that VAT is not applicable to operations and transactions between mutual financial institutions and their members. Mutual financial institutions must still pay VAT on equipment, because they are considered as any other economic entity or final consumer and therefore cannot enjoy any exemption.

3.7.3. Code of Conduct on Mutualism

With the support of the ILO project, the technical staff of A.P.I.F.M. was able to submit to member MFIs a draft of a code of conduct on mutualism. The draft has been circulated to member MFIs for comments and should be finalized soon.

3.7.4. Statistical Data on Mutual Financial Institutions

A.P.I.F.M. began to develop a database containing statistical information on member MFIs as well as non-mutual financial institutions. This was carried out in collaboration with UNEF, which collected data on non-mutual financial institutions through A.I.M.⁷⁶, the professional association representing that type of institution.

During the first round of data collection, A.P.I.F.M. encountered two obstacles. One was that some member MFIs did not feel comfortable disclosing specific information on their performances. The other difficulty was that member MFIs had different understandings of the technical words contained in the questionnaire. The first problem was solved by turning the submission of data into some sort of a competition where knowing about best performing MFIs would automatically push the others to do better. This change took place through dialogue facilitated by A.P.I.F.M. The latter issue was dealt with by adding a glossary of agreed upon definitions to the questionnaire.

3.7.5. Technical notes

A.P.I.F.M. has prepared technical notes for its member MFIs. The objective of these notes is to spread information and clarify doubts on existing legislation and regulation concerning mutual financial institutions. The technical notes cover the following topics:

- Mutualism: How it works;
- Mutual financial institutions;
- Modalities for registering savings and credit cooperatives; and
- Social capital and social parties in savings and credit cooperatives.

⁷⁶ Association des Institutions de Microfinance

4. Conclusions

4.1. General Conclusions on A.P.I.F.M.

A.P.I.F.M. is a nascent professional association, which has achieved tremendous results in only 5 years. As stated at the beginning of the GTZ paper on microfinance associations, 'Microfinance associations (MFAs) are a relatively new type of institution in the microfinance (MF) world, and they are increasingly being seen as key players in the development of the sector. The hope is that they can decisively contribute to the standardisation of the multiple, often very heterogeneous approaches within the sector, enhance the professionalisation of microfinance institutions (MFIs), defend their interests and give the sector solid guidance on its way towards becoming a sustainable element in national economies.'⁷⁷ The desires expressed in the quote have essentially turned into reality in Madagascar. Although the creation of the association is very recent, its growth and evolution towards maturity have been quite fast and outstanding. Even if some of the results achieved need time to be institutionalised, much of the hard work has been done and the progress made is remarkable.

4.1.1. Contributing to Standardization

A.P.I.F.M. is now decisively contributing to the standardization of the different approaches that donors and international technical agencies have introduced in the country. The technical and consultative committee of the association is the formal body through which dialogue between different microfinance players takes place within the association. In addition, informal contacts between permanent staff of the association, in particular its secretary-general, and the principal actors of the microfinance sector are constantly maintained.

Through technical notes and other products described in the previous section, the professional association is active in trying to synthesize definitions, concepts, and practices related to mutual financial institutions, in particular, the database and common glossary providing definitions of key microfinance indicators.

⁷⁷ Gross and Brüntrup. "Microfinance Associations (MFA): Their Role in the Development of the Microfinance Sector", Deutsche Gesellschaft für Technische Zusammenarbeit. 2003.

In a few years, A.P.I.F.M. has managed to become an internally-cohesive association whose voice is heard and ideas are often taken into account by the national and international community. The technical level achieved by professional staff is quite satisfactory and this is why the technical opinions expressed by A.P.I.F.M. are generally respected.

4.1.2. Enhancing Professionalism

Because of meetings and discussions within A.P.I.F.M., members/clients of the financial systems have developed a sufficient level of self-confidence and of knowledge of the sector. They are now capable of formulating and backing-up their collective point of view without necessarily repeating what donors and technical agencies say.

The preparation and forthcoming adoption of a code of conduct on mutual principles is an important example of self-regulation and professionalism. All members are requested to make comments and circulate ideas on the code, thus learning and understanding concepts and rules by doing substantive work.

A strong sense of identity with the profession of mutual financial institutions emerged during the Microfinance Week, in June 2003. The event was co-organized by A.P.I.F.M. and A.I.M.. In particular, during the first day when lay-people asked for information on microfinance, mutual financial institutions became very cohesive and supportive of each other versus non-mutual financial institutions.

4.1.3. Defence of Interests of Mutual Financial Institutions

Several examples of the defence of the interests of mutual financial institutions have been provided from more favourable fiscal measures for the profession to the active involvement of A.P.I.F.M. in supporting the cause of regulation of non-mutual microfinance institutions. As already mentioned, the fact that non-mutualist institutions are not regulated puts them in an advantageous position as compared to mutual financial institutions, which are bound by several regulatory restrictions.

4.1.4. Guiding Microfinance Towards Sustainability

A.P.I.F.M. is one of the very few professional associations that has managed to reach self-sustainability. Member MFIs covers operating costs, though external funds are used to finance additional activities. This is a very good example for the entire microfinance sector.

The serious commitment of the association towards the mutual financial movement and its core values is an implicit way of promoting the principle of self-sustainability. Nevertheless, it is necessary to highlight that A.P.I.F.M. is still very new and, although it provides guidance towards self-sustainability, effort is still required in order for such a principle to be fully applied in the microfinance sector in Madagascar.

4.2. Success of A.P.I.F.M.

Looking at the lessons learnt during the implementation of the project in support of A.P.I.F.M. and at the evolution of this association, some factors influencing its success can be identified.

4.2.1. Meeting an Emerging Need

The principal factor of success of this professional association is its ability to meet an emerging need. The need is to help farmers and micro-entrepreneurs who are members of mutual financial institutions and who are part of the mutualist movement make their voice heard. Despite the different approaches and methodologies adopted by donors and international technical agencies, A.P.I.F.M. has managed to create a forum for discussion where the varied, even conflicting views, can be presented. The professional association expresses the voice and the opinions of the Malagassy clients/members of mutual financial institutions; it has become their instrument to be heard in the microfinance community.

4.2.2. Technical Staff

A large part of the success of A.P.I.F.M. is due to its technical staff. It is necessary to choose high-quality personnel and to train them from the beginning. In a professional association,

staff must be creative, with a strong sense of initiative, good communication, and technical skills.

In the case of A.P.I.F.M., a demonstration of the excellent skills and talents of staff (the secretary-general and the technical assistant) is the organization of the Microfinance Week in June 2003. The Prime Minister of Madagascar opened the event. The two principal ministries were also present: the Ministry of Agriculture and the Ministry of Finance. The first ever microfinance workshop gathered the main national players in the field of microfinance. Experts and directors of MFIs presented information on their institutions and financial products, describing problems and challenges encountered as well as solutions adopted. The event had national coverage by television and radio channels and can be defined as a great success.

4.2.3. Role in Society

Because of its increasingly visible position in society vis-à-vis public opinion, microfinance institutions, national and international players, regulatory authorities, and the government, A.P.I.F.M. has managed to successfully impose its voice and gain general respect and support. According to the aforementioned study on microfinance associations, gaining general national support is the main means to become independent from external assistance⁷⁸. A.P.I.F.M. has accomplished this.

4.2.4. Legal Prescription

The fact that a law established the creation of A.P.I.F.M. made it hard in the beginning, but helped later on to consolidate the position of the association. As a matter of fact, the existence of A.P.I.F.M. can never be jeopardised by member MFIs since it does not depend on their will. This legitimacy gives the association a certain level of autonomy from its members, in particular because it has always received support from the central bank (CSBF) and the government (especially the Ministry of Agriculture).

⁷⁸ Gross and Brüntrup. "Microfinance Associations (MFA): Their Role in the Development of the Microfinance Sector", Deutsche Gesellschaft für Technische Zusammenarbeit. 2003.

It is certain that if the professional association remained an empty box created by law, it would have never reached the level of self-sustainability and respect that it enjoys at present. The work of the technical staff of A.P.I.F.M. and the good quality of the services it provides have persuaded member MFIs that it is essential to have and finance a professional association.

4.2.5. Neutrality and Independence

To gain the confidence and trust of member MFIs, A.P.I.F.M. had to be neutral and equal towards its members. It is above all the technical staff that satisfies members' needs on a permanent basis and must insure neutrality. Personnel of A.P.I.F.M. have been very good in doing this, thus favouring the quick development of a strong sense of ownership of the members towards their association.

It is equally important that a professional association remains independent from the government and other institutions. Although it has been mentioned that the government and regulatory authorities have always supported A.P.I.F.M., it is undoubtedly true that the association has always seen other institutions as counterparts and/or partners. It has never been influenced in its decisions by any external institutions. Member MFIs have full control over their association.

4.2.6. Homogeneity

A.P.I.F.M. is a strong and internally cohesive association because its members are homogeneous. According to the report on microfinance associations from GTZ, the more heterogeneous associations are the less effective and weaker they turn out to be. Member MFIs must have relevant common interests to defend.⁷⁹

For the case of Madagascar, during the Microfinance Week, some participants suggested that the two existing professional associations A.P.I.F.M. and A.I.M. be merged into one. We recommend that the two associations remain separate entities, because mutual financial and

⁷⁹ Gross and Brüntrup. "Microfinance Associations (MFA): Their Role in the Development of the Microfinance Sector", Deutsche Gesellschaft für Technische Zusammenarbeit. 2003.

non-mutualist institutions have different and sometimes even conflicting interests to defend. We nonetheless encourage cooperation by the two associations on those activities which serve and defend common interests. The example of the Microfinance Week is an excellent of this.

4.2.7. Technical Assistance to a Professional Association

As we have shown, it was not easy for the ILO Social Finance Programme's Project to set up and develop A.P.I.F.M. Two main elements are of utmost importance in the implementation of such a project:

- letting local staff and local people take over leadership in the institution; and
- providing technical material and, in general, technical support without being too visible and making sure that local leaders learn and are ready to spread the technical information acquired.

At the end of the ILO Social Finance Programme's project in support of A.P.I.F.M., we can say that not all of the technical knowledge provided by ILO international experts throughout six years has been transferred. Nonetheless, a large majority of it has. After supervising A.P.I.F.M. from a distance for a year, we believe that the knowledge and information acquired by local staff and members are sufficient to assure a decent degree of sustainability. We can easily say that the ILO Social Finance Programme's project in support of A.P.I.F.M. has been a success.

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- APEM/PAIQ. *Produits financiers*.

Coalition Paysanne de Madagascar FTM/CPM. *Contribution sur les relations des OP avec les IFM.*

FOFIFA. *Finance rurale, développement et Pauvreté.*

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Ministère de l'agriculture, de l'élevage et de la pêche. *Quelle politique de financement de l'agriculture?*

Ministère de l'économie, des finances et du budget/DGT/DOF. *Microfinance et coordination nationale du projet microfinance.*

PNUD. *Microfinance : Vision et stratégie de PNUD.*

Réseau CECAM. *Une construction institutionnelle originale, conçue pour assurer la qualité de la gouvernance par un transfert continu et multiforme de compétences.*

Réseau OTIV SAVA. *La collecte de l'épargne.*

Réseau OTIV TANA. *Gouvernance et Viabilité institutionnelle.*

Réseau OTIV Toamasina. *Caisse Féminine; Le quotidien conjugué au féminin et La collecte de l'épargne.*

Réseau TIAVO. *La Mobilisation de l'épargne.*

ORCHID Systems. *Système d'information et de gestion informatisée pour les institutions financières.*

Rajaonarimampianina, H. Cabinet Auditeurs Associés. *Méthodologie d'audit Externe de Microfinance.*

SIPEM. Société d'Investissement pour la Promotion des Entreprises à Madagascar. *Transparence et évaluation des performances.*

Vola Mahasoa. *Gouvernance des IMF : Le cas de Vola Mahasoa.*

Vola Mahasoa. *Les produits financiers de Vola Mahasoa.*

Appendix I. Financial Services

Savings

Savings mobilization has been strongly encouraged by the government of Madagascar since the beginning of microfinance in the country in the late eighties, early nineties. We will hereby describe the main characteristics of savings using a few examples from mutual financial institutions in Madagascar.

One rather important element which will not be discussed, but which was certainly raised at the national Microfinance Week Conference is that of returns on savings. Some institutions deem it necessary to offer returns on savings in order to promote savings mobilization. Savings returns on money deposited for over 24 months vary between 5% and 7% (nominal), while the inflation rate is about 8% (14.8% in 2002). This means that real return rates in Madagascar are negative and subsequently, there is no incentive to save.

Most of the information is drawn from papers and material presented at the national Microfinance Week of 16-20 June 2003, jointly organized by A.P.I.F.M. and A.I.M. Special attention will be given to specific cases where microfinance institutions have developed particular practices and innovations that are worth mentioning.

Promoting Savings

TIAVO's savings mobilization in both rural and urban areas is not only an institutional option, but also a response to strong demand from the population. The principal concerns for people that savings services help to alleviate are:

- the need for security for the future (that is like a type of insurance);
- better control of household-related expenses;
- the need to accumulate resources to carry out personal or familiar plans and to cope with daily emergencies; and
- the need to combine credit with one's own resources to carry out a specific project.

For TIAVO, savings mobilization helps to:

- make the institution more solid and stable;
- develop and strengthen the sense of ownership of its members;

- make members feel involved in the management of common resources; and
- allow members to help each other through loans generated with their own resources.

OTIV SAVA familiarizes its members and potential members with the advantages of savings.

The advantages it stress are for members to be able to:

- use saved money at any time;
- cope with emergencies; and
- cover unforeseen expenditure.

Savings Products

TIAVO and OTIV SAVA offer some similar savings products and others that are specific to each financial institution. In both cases, savings is a prerequisite for access to credit. They both provide:

- Flexible savings that may be of any amount and for any duration with no returns.
- Collateral savings where some of the borrower's savings are frozen as collateral for a loan.

TIAVO also offers a two-month, fixed-term savings with 0.5% monthly return rate. After two months, the savings plan can be renewed. The minimum amount of savings is 50,000 MGF.

At the end of 2002, TIAVO had two thirds of its volume of savings as flexible savings and a third blocked savings composed of fixed-term savings and collateral savings. Only part of flexible savings can be recycled into credit because of the necessity to keep a certain level of liquid resources available for those clients/members who wish to withdraw their savings. Local branches can utilise only half of their flexible savings. The other half must be sent to the central branch/union. In order to have sufficient resources to extend credit, the local branches receive some additional resources from external credit lines through the central branch/union. A group may use more than the half of the savings it has collected only in exceptional cases determined by the central union. Some of the parameters used to decide on such exceptions are:

- the stability and composition of the resources of the group and its liquidity needs to satisfy withdrawals of savings by its members;

- the total volume of resources of the central union, groups' savings and external resources, and the proportion of groups which have deficit and surplus;
- the nature of the loans extended by the group and whether they can be refinanced through external resources; and
- the quality and composition of the group's portfolio and the quality of its management.

OTIV SAVA offers two products with similar characteristics:

- Specialised savings with a minimum of 1,000 MGF and a 2% annual return subject to the fluctuations of the market rates. Savings can be withdrawn at any time.
- Fixed-term savings for at least 6 months with a minimum of 2,500 MGF. Return rates vary between 4.5% and 6% a year depending on the amount deposited and on the duration of the deposit. The rate of return is subject to the fluctuations of market rates. The amount deposited can be withdrawn only after the deposit term has expired.

OTIV SAVA has developed a direct deposit savings service for employees:

- Members/clients can have their salaries paid by their employers directly into their savings accounts at regular intervals. The employer submits to OTIV SAVA a list of the people and the amount of money to be deposited into each of the savings accounts. The employer also provides a cheque covering the total amount of earnings. The list of names and the cheque must be submitted to OTIV SAVA at least 24 hours before the money is deposited into the savings accounts. After twenty-four hours, OTIV SAVA deposits the salaries into members/clients accounts. This direct deposit of earnings into savings accounts of OTIV SAVA is very advantageous for both employers and employees. For employees, it reduces risks of robbery of cash and prevents administrative delays. For employers, it considerably lowers costs in terms of fees on cheques (only one cheque needs to be signed) and time (only one transaction instead of one per employee is necessary).

When OTIV SAVA started its activities, most of the savings it had mobilized was mandatory savings that members/clients needed in order to obtain a loan. A survey that OTIV carried out in September 2002 revealed that only 30% to 40% of OTIV SAVA's clients save money in order to obtain a loan. Most savings in the OTIV system is voluntary savings that

members/clients deposit because they need a safe place to keep their money. The two main reasons for saving are for budgeted expense and emergency needs.

Security

Security is key in gaining members/clients' trust in savings products. TIAVO has two solutions for security. It has a

- very solid, fireproof safe that can not be penetrated; and
- well-protected room where the safe is and where clients are attended.

Members/clients perceive OTIV SAVA as secure because:

- money is not stolen;
- there is no internal fraud in the institution;
- the institution is properly managed and provides benefits;
- members are informed about institutional objectives, activities, problems, results and the utilisation of results; and
- through their representatives and leaders, members participate in the management of the institution.

According to OTIV SAVA, in order to gain members' trust, a mutual financial institution must:

- constantly provide good-quality services at a minimum cost;
- allow quick deposit and withdrawal;
- give savings with a return; and
- provide services with low fees.

OTIV SAVA also finds that it is important to maintain or increase the amount of savings. This "monetary security" is provided by OTIV SAVA by either granting returns on savings or not imposing any administrative fees.

Constraints

The main difficulties identified by OTIV SAVA in savings mobilization are:

- It is difficult to meet liquidity requirements, especially between August and February when vanilla is sold and there are huge amounts of weekly deposits. It is hard to keep large amounts of cash for those members/clients who may want to withdraw their savings without lending it out.
- When large amounts of cash are available, the risk of having resources stolen even by members or managers is very high.
- Due to the fact that the economy of the region is based only on vanilla, savings is completely linked to the cycles of vanilla production and trade.

CECAM lists two major constraints in savings mobilization⁸⁰:

- the limited monitoring of rural trade combined with a very low confidence in cash due, in particular, to the high inflation rate of the past decade (sometimes about 60% per year),
- the preference for other forms of savings, such as livestock (e.g. pigs, poultry, etc.), stocks of crops, or purchased commodities (e.g. sugar, cooking oil, salt, etc.).

Negative returns on savings make it more productive to either invest savings in the business or to choose other forms of savings. Efforts to mobilize savings are in general more successful in urban areas than in rural ones. For CECAM, it has been cheaper and easier to mobilize savings on an institutional level rather than through clients/members.

TIAVO has also identified some constraints in savings mobilization.

- The area where TIAVO operates is the poorest in the country. It is highly populated by a population that is mainly employed in rural activities (89%).
- There is a limited cultivatable land and many of the poor do not possess any land at all.
- Infrastructure is either very bad or simply nonexistent and several villages are isolated in remote areas.

⁸⁰ Fraslin, JH. "Case study on agricultural lending practices, methodologies and programmes: A cooperative agricultural financial institution providing credit adapted to farmers' demand in Madagascar", ICAR. 2003.

- The main crop cultivated in the internal area of the region is rice, which is produced for self-consumption and does not therefore generate any income. The southern part of the region is characterised by animal husbandry, which is subject to traditional risks and uncertainties. At the coast, there has traditionally been more trade, especially due to the production and commercialisation of coffee. In recent years, though, the price of coffee has drastically dropped and a deep economic crisis has hit this area.
- Expanding TIAVO's operations at the coast has been very expensive. Almost all groups in this area were started between 2001 and 2002. Due to the economic crisis, these groups are very weak and far from self-sustainable. Despite the special conditions of the coast and its unique social and economic characteristics, TIAVO must consider costs related to coastal MFIs the same as expenses linked to any other MFI in its network.

TIAVO is trying to face its challenges by intensifying activities in the areas where it is already active. It is concentrating its efforts on advertising its services in order to broaden its clientele through the following mechanisms:

- circulating posters and brochures on TIAVO and its financial services in the region,
- recording some of TIAVO's clients/members telling their experiences with TIAVO and disseminating it through the radio,
- producing and recording a play for the radio at the end of 2002,
- organizing a competition for a slogan to represent TIAVO,

These measures were launched at the end of 2001. Unfortunately, they could be only partially implemented because of the economic and political crisis that Madagascar experienced in 2002. The impact of the above-listed mechanisms was not yet visible by the end of 2002.

Credit

In this section, we will present some credit products offered by the different microfinance institutions in Madagascar. The list of products is not exhaustive; it simply provides an overall picture of the most common credit services available in the country.

Little information on interest rates will be given while considering credit products. However, in general, annual interest rates for credit services vary between 36% and 42%, while in the informal sector, they can reach 120%.

Before presenting individual credit services, we will highlight the general characteristics of loan products of financial institutions. Based on the information available, we can conclude that poorer the targeted client, the more tailored made the product. ADEFI and SIPEM, for example, offer credit services to micro and small entrepreneurs from any economic sector. The types of loans they offer are fairly general. ADEFI provides loans to finance the equipment of micro and small entrepreneurs and loans to finance the immediate needs of artisans to purchase raw material. SIPEM offers loans for a maximum duration of 12 months and a maximum size of 40,000,000 MGF for the financing of any type of economic activity.

For poor or very poor clients including micro-entrepreneurs and small farmers, more specific products are offered by microfinance institutions. For example, productive loans to cover expenses for cultivating and animal husbandry are provided.

The following table presents information on MFIs which provide productive loans and their features.

Table I. Productive Loans in Microfinance Institutions

	Size of Loan (in MGF)	Duration of Loan (in Months)	Special Features
AECA	NA	NA	Specified for agriculture
CECAM	NA	4 to 10	
OTIV	NA	NA	Specified for agriculture, handicrafts, fishing, animal-husbandry
TIAVO	300,000 to 400,000	NA	
Vola Mahasoa	50,000 to 3,000,000	3 to 12	Offered in rural or semi-urban areas; 3.5% monthly interest rate

NA is Not Available

The next table shows loans for small-scale trade.

Table II. Loans for Small-scale Trade in Microfinance Institutions

	Size of Loan (in MGF)	Duration of Loan (in Months)	Special Features
AECA	NA	NA	Used for handicrafts activities and other income-generating activities
OTIV	NA	NA	Used for production activities and working capital
TIAVO	over 10 million for urban and semi-urban groups; between 2 and 5 million for rural groups	NA	For individual needs in the fields of entrepreneurship and trade on a larger scale.
Vola Mahasoa	50,000 to 3,000,000	2 to 5	Offered in rural or semi-urban areas; 3.5% monthly interest rate

NA is Not Available

TIAVO offers another product which can be classified somewhere between productive loans and loans for small-scale trade and handicrafts. It is for the financing of trade, housing, rice cultivation, renewal of the rice fields and rice harvest. The amount of money for this type of loan ranges between 500,000 to 5,000,000 MGF depending on the size of the rural group.

The following table describes emergency loans.

Table III. Emergency Loans in Microfinance Institutions

	Size of Loan (in MGF)	Duration of Loan (in Months)	Special Features
AECA	NA	NA	For urgent consumption needs
CECAM	NA	2 to 3	For urgent needs of farmers; to avoid their going to a loan shark
OTIV	NA	NA	For urgent consumption needs, such as school fees, medical expenses, food, etc.
TIAVO	up to 500,000	Very Short Term	For emergency needs, such as hospital, death, etc..

NA is Not Available

The next table describes storage loans.

Table IV. Storage Loans in Microfinance Institutions

	Size of Loan (in MGF)	Duration of Loan (in Months)	Special Features
CECAM	NA	5 to 8	To finance the common storage of harvested crops in a village until crop supply is low, the crop increases and crops can be sold
TIAVO	NA	NA	Same as above
Vola Mahasoa	300,000 to 5,000,000	2 to 5	Same as above

NA is Not Available

The following table summarizes the features of unique products offered by financial institution. These products were explicitly mentioned in the publications of only one microfinance institution.

Table V. Specific credit services for some microfinance institutions

	Size of Loan (in MGF)	Duration of Loan (in Months)	Special Features
OTIV	NA	NA	For building houses and renovations
CECAM	10,000,000 to 300,000,000	NA	For the trade and provision needs of farmers organized in groups
TIAVO	NA	NA	For the trade and provision needs of farmers organized in groups
Vola Mahasoa	50,000 to 3,000,000	4	Credit for education only for women in urban areas

NA is Not Available

Leasing

According to the information available, two financial institutions in Madagascar offer micro-leasing as a financial product. Leasing is used for the purchase of small agricultural material or equipment for agriculture. The following table presents the general characteristics of this financial service.

Table VI. Micro-leasing in Madagascar

	Size of Loan (in MGF)	Duration of Loan (in Months)
CECAM	NA	12 to 36
Vola Mahasoa	100,000 to 500,000	less than 24

NA is Not Available