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Action Research: Building Networks for Improved Delivery of Financial Services to the Poor

Over the last three years, the team for Action Research on Sustainable Microfinance Institutions in Africa has assisted local rural and micro-finance institutions to improve their delivery of financial services to the poor in rural and urban areas. Supported by Swiss Trust Funds, the program covers six countries in Sub-Saharan Africa—Ghana, Cameroon, Kenya, Ethiopia, Mozambique and Zambia. The program's emphasis is on capacity building at the national level through distilling and disseminating "best practices" and strengthening local networks of rural and microfinance providers.

The 5-year program has the objectives of: (i) documenting current practices of financial service providers in rural areas, and assess the effectiveness of innovative techniques; (ii) creating and strengthening national networks of rural and micro-finance institutions as a forum for mutual learning and dialogue; (iii) improving the capabilities of institutions to deliver financial services to the poor on a sustainable basis; (iii) establishing a mechanism for World Bank staff as well as donors to support effective, innovative institutions that reach the poor.

The Approach

A participatory approach has been adopted to develop a sense of ownership of the process and product,

and promote participants' learning from each other's experiences. Leading rural and microfinance institutions in most cases NGOs, oversee the process through a core group, the "champion," which is also often the coordinating agency. In Phase I of the program, diagnostic studies of practices in two or three selected institutions are conducted and discussed at a national workshop. The workshop identifies critical areas of weakness and suggests how best to remedy them. The "champion" team is normally tasked with follow-up actions. Sub-regional workshops in the fourth and fifth years will facilitate cross-border sharing and Africa-wide networking.

During Phase 2, the network may opt for more in-depth studies as in Phase I; it may favor focused study of one issue/delivery mechanism drawn from four or more institutions, or it may concentrate on developing modules for improving the performance of its members for more effective outreach. These are discussed at a second national workshop.

The program provides support for a newsletter and periodic meetings of the networks to encourage wider participation, dissemination of regional as well as international "best practices," further sharing of experiences, the development of guidelines, and the opening of policy dialogue with the government.

Findings

At the end of three years, networks are expected to become self-supporting.

The first case studies were carried out in 1995 in Kenya and Ghana. Phase I workshops have been held in Ghana and Kenya and national networks have been formed in all six countries. Diagnostic studies are currently under way in Cameroon, Ethiopia and Zambia. Mozambique is about to embark on its diagnostic studies and network activities. The results of Phase I operations, including the performance of the networks, were shared in a Building Networks workshop sponsored by the World Bank in February 1996.

Building Networks

The studies are yielding several common lessons to be integrated into the Action Research program. This will assist participating countries at different stages of the program, as well as those countries that are not a part of Action Research but where networks are already established and functioning.

Increase Quality and Access to Services: Services need to be identified by members and not driven by donors. This is necessary to achieve sustainability. The guiding principle must be added value, to enhance members' operational capacities and resources.

Common vision, objectives and transparent structure: Networks must have a common vision and standards leading to a common code of conduct. The nature of membership is important here since openness of dialogue between members must be encouraged, keeping in mind the role and functions of government agencies and regulatory authorities.

Capacity building through technical assistance and training: Qualified staff need to be attracted and retained through adequate pay, appropriate training and levels of responsibility that they could not achieve elsewhere. In terms of structure and organization, permanent secretariats need to be established at the national level in each country in order to move away from the model present in many participating countries where an NGO, a private third party, or a donor houses the administrative nucleus of the network.

Mobilization of resources to become self-sustaining: Networks can generate operating resources from the following sources: (i) collection of membership fees; (ii) external funding for specific network programs and for organizing workshops; (iii) mobilizing savings. In this regard it is important that the respective national banking and business codes be adapted to permit mobilization and banking of deposits by microfinance institutions.

Develop linkages: Networks must establish a common policy and reporting standards to attract donor funds and must speak with one voice to influence policy-makers.

Acquire new members: It must be recognized that small "players" may have something of value to teach, while learning from others. It is important to engage them in dialogue and encourage their activities in the network.

Essential Steps

Results from the Building Networks workshop referred to earlier suggest the following

lessons:

- ⊙ networks need to have a clear vision and work program which should include information sharing and influencing government policy through advocacy;
- ⊙ outreach and member acquisition activities need to be promoted ;
- ⊙ financial sustainability needs to be achieved through dues; and
- ⊙ the involvement of government or donor agencies in the networks is to be encouraged provided this does not constrain the sharing of members' experiences.

To build on the foundations laid by the microfinance institutions in six countries and elsewhere, the Action Research Teams will continue to facilitate :

- ⊙ the sharing of experiences in networking;
- ⊙ the dissemination of network strategies;
- ⊙ widening the group of stake holders involved in the microfinance dialogue; and
- ⊙ expanding the national networks to operate on the sub-regional, regional and international levels.

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Table 1: Sample of Rural and Operating Microfinance Networks

Country/Network	Composition	Purpose of Network	Challenges
Cameroon	7 members: 2 from banking sector, 2 govt. agencies, 3 NGOs	<ul style="list-style-type: none"> - To share information about members' services - To influence government legislation to create favorable environment - To address need for growth in this sector and develop new services targeting poverty alleviation 	<ul style="list-style-type: none"> - Initial reluctance to join network, particularly on the part of bilateral agencies - Resolution of conflicting operations where some MFIs charge interests and others do not
Ethiopia	<p>13 members</p> <p><i>Coordinating Agency:</i> Redd Barna Ethiopia</p>	<ul style="list-style-type: none"> - Delivery of SMART (specific, measurable, achievable, realistic and timebound services) - To exchange information and experiences - To share technical assistance in the areas of lending and savings mobilization - To influence policy makers - To conduct studies and research 	<ul style="list-style-type: none"> - Lack of concrete vision, clear objectives and outputs - Competition from other networks - Lack of openness to different approaches and structures - Lack of delivery of effective services - Insufficient funds
Ghana Action Research Group	<p>8 active members: 2 banks, 2 non-bank financial institutions and 6 local and international NGOs</p> <p><i>Coordinating Agency:</i> Technoserve</p>	<ul style="list-style-type: none"> - To share experiences in microfinance intermediation and disseminate best practices - To share information on microfinance practices - To provide a forum for discussing issues affecting microfinance. - To provide support to small informal financial institutions (not initiated or supported by Action Research) 	<ul style="list-style-type: none"> - Separate laws regulating banks, credit unions and non-bank financial institutions; weak or no links between formal and informal institutions
Kenya Kenya Micro-Finance Institutions (KEMFI)	<p>16 members</p> <p><i>Coordinating Agency:</i> Kenya Rural Enterprise Programme (KREP)</p>	<ul style="list-style-type: none"> - To share information on clients to prevent clients defaulting on one obligation and seeking new funds from a different MFI - Effective advocacy to influence government policy (i.e., deposit taking through modification of Banking Act) 	<ul style="list-style-type: none"> - No secretariat - Low participation - Low outreach (approximately 20 MFIs)
Zambia Micro Bankers Trust	Initial network organized by European Union and subsequent expansion facilitated by World Bank support at request of local MFIs	<ul style="list-style-type: none"> - To exchange information on credit delivery innovations and techniques - To share various approaches to different target groups - Interchange of expertise between national and international networks. 	
Nigeria Community Development Association (CDA Secretariat) (not initiated or supported by Action Research)	12 NGOs providing rural financial services; 3 being evaluated for membership and 4 new applications	<ul style="list-style-type: none"> - Capacity building for small informal groups-Financial resource mobilization - Easier access to training 	<ul style="list-style-type: none"> - Insufficient resources - Promotion of individual member interests - Low capacity (i.e. need to attract and retain qualified staff)
South Africa Alliance of Microenterprise Development Practitioners (not initiated or supported by Action Research)	20 members including microfinance NGOs, commercial banks, business support service organizations, funders, and parastatal development organizations	<ul style="list-style-type: none"> - To bind group of practitioners with common interests - To respond to government directive to NGOs to organize along sectoral lines - To influence interest rate policy and regulation 	<ul style="list-style-type: none"> - Strong competition - Desire of organizations to always appear to do the right thing, thereby restricting sharing of experiences. - Official control on maximum interest rates on loans with a temporary exemption for MFIs now under review

Findings

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