Consultative Group to Assist the Poorest (CGAP)
Working Group on Savings Mobilization

SELF-RELIANT VILLAGE BANKS, MALI (CASE STUDY)

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ABBREVIATIONS

Av.	Average
bac	Baccalauréat (French high school degre)
BCEAO	Banque Centrale des Etats d'Afrique de l'Ouest (Dakar, Senegal)
BMZ	Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (Germany)
BNDA	Banque Nationale de Développement Agricole (National Agricultural Development Bank) (Mali)
CANEF	Centre d'Appui Nutritionnel et Economique aux Femmes (Mali)
CAS/SMEC	Cellule d'Appui et de Suivi des Structures Mutualistes ou Coopératives d'Epargne et de Crédit
CBWAS	Central Bank of Western African States
CFA	Communauté Financière Africaine
CGAP	Consultative Group to Assist the Poorest
CIDR	Centre International de Développement et de Recherche (International Centre for Development and Research)
COOPEC	Coopérative d'Epargne et de Crédit (Savings and Credit Cooperative)
CVECA	Caisses Villageoises d'Epargne et de Crédit Autogérées (Self-reliant Village Savings and Credit Banks)
DFS	Decentralized Financial System
DID	Développement International Desjardins (Canada)
DNACOOP	Direction Nationale de l'Action Coopérative et du Développement Régional et Local (National Headquarters of Cooperative Action and Regional and Local Development)
FAAFF	Fonds d'Appui aux Activités Remuneration des Femmes (Burkina Faso)
FCFA	Francs de la Communauté Financière Africaine
FF	Francs français
FIDA	Fonds International pour le Développement Agricole
FNMF	Fédération Nationale de la Mutualité Française (National Federation of French Mutual Benefit Societies)
GDP	Gross Domestic Product
GIE	Groupement d'Intérêt Economique

GNP	Gross National Product
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit (Germany)
INPS	Institut National de Prévoyance Sociale (National Institute for Social Insurance)
KfW	Kreditanstalt für Wiederaufbau (Germany)
ACODEP	Appui au Développement Participatif des Collectivités Décentralisées pour la Satisfaction des Besoins Essentiels
MISELI	Solidarity group credit scheme in Mali
MUTEC	Mutuelle d'Epargne et de Crédit (Mutual Savings and Credit Association), (Senegal)
n.a.	Not available
N.B.	Nota bene
NGO	Non-governmental organization
NYETA MUSO	Solidarity group credit scheme in Mopti (Mali)
OECD	Organisation for Economic Co-operation and Development
PARMEC	Projet d'Appui Régional aux Mutuelles d'Epargne et de Crédit (Regional Support Project to Mutual Savings and Loan Societies)
PASACOOP	Projet d'Appui aux Structures Associatives et Coopératives
PRAOC	Programme Régional d'Appui aux Opérations d'Epargne-Credit Décentralisées
SFD	Système Financier Décentralisé
SME	Small and Medium Enterprise
WAMU	West African Monetary Union

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1 CONTEXT

1.1 Macroeconomic context

Mali is one of the poorest nations in the world. In 1995, its GNP was US$2.4 billion, which translates into a per-capita GNP of US$250. The country is huge, covering 1.2 million square kilometers with a population estimated at 9.8 million. Although only about one quarter of the territory is arable, 74% of the population live in rural areas.

In 1995, the gross domestic product was broken down as follows: primary sector (44%), secondary sector (16%) and the tertiary sector (40%).

In January 1994, Mali joined the other countries in the CFA zone in a 50-% devaluation against the FF. This devaluation was accompanied by a reform program covering the period 1994-1996. In global terms, the program was a success: The high inflation rate of 24.8% in 1994 was contained at 12.4% in 1995 and then further reduced to 6.5% in 1996. The rate of real GDP growth rose from 2.6% in 1994 to more than 6% in 1995. The competitiveness of the Malian economy increased significantly, as substantial growth in exports both in volume and value show.

Efforts have been made to enhance agricultural efficiency, in particular by entering into contracts with para-public organizations, both in the cotton and rice sectors, owing to the consistent rate of producer income.

With 8.8% in 1995, the gross domestic savings rate in relation to GDP has clearly increased from the preceding years. Likewise, at 26%, the rate of domestic investment has also risen in comparison with the past ten years.

The Mali banking system consists of six commercial banks and two non-bank financial institutions. There is a strong state presence in banking capital. Generally, the sector has remained highly solvent, helping to fund the regional money market despite a very significant decline in interest rates: The Central Bank rediscount rate fell from 14.5% in 1994 to 7.5% in 1996. The main reasons advanced by the banks for not playing a greater role in financing the economy and particularly SMEs are their own shortage of funds and the lack of suitable guarantees in a judicial system with little credibility and the absence of real promoters and profitable projects. The banks are more experienced in commercial import-export business transactions and therefore do not wish to take any risks in a sector they are not familiar with.

The *Banque Nationale de Développement Agricole (BNDA)* (National Agricultural Development Bank) is the only bank to significantly fund agricultural activities in rural areas. However, given the strong demand from the agricultural sector since devaluation, the BNDA has found its resources stretched to the limit, unlike the rest of the sector. The interest rate on rural loans to village bank federations is 13%. The BNDA is also the main refinancing bank for Mali's decentralized financial systems (DFS)[1]. The rate for those networks is 8%, which corresponds to the rate for the bank's best clients.

A World Bank-funded aid program for the financial sector aims to strengthening the financial and institutional structures in the banking sector and raise the level of credit availability.

[1] "Decentralized financial systems" in this study the proposed translation of the French "Système Financier Décentralisé (SFD)". SFD in French usually refers to a network of either savings and credit cooperatives, villages banks or Grameen Bank-oriented group lending schemes as a microfinance institution. In fact, "decentralized financial systems" does not refer to the "financial system". i.e. the financial sector in the Anglo-Saxon literature.

Another objective is promoting the development of new financial institutions capable of responding to new financial needs in the country.

This program further includes a component geared to supporting the development of DFS and the microfinance sector, with the overarching objective of facilitating the integration of such networks into the formal financial sector.

1.2 Financial sector context

1.2.1 Role of the central bank

The Central Bank of the Western African States (CBWAS)[2] acts as financial authority over the eight member states of the West African Monetary Union (WAMU). In 1994, CBWAS drafted a law on savings and credit banks as a first step in the integration of DFS as financial institutions. Several countries voted in favor of this law, including Mali in 1996.

Another important feature to be taken into account in the microfinance sector is the law on interest rates applicable in all the WAMU member states. The interest rate itself is calculated on the basis of the rediscount rate and is consequently now at 13%. Virtually unanimously, the DFS informed CBWAS that the application of this law would prevent them from attaining any sort of financial equilibrium and demanded that the law be revised, taking account of the specific characteristics of the microfinance sector. CBWAS' subsequent deliberations aimed, on the one hand, to disconnect the rate of interest and the rediscount rate and, on the other, to set a different rate for commercial banks and DFS. The WAMU's Council of Ministers of Finance decided on the matter in the second quarter of 1997, raising the DFS lending interest rate to 27%. Microfinance institutions clearly benefit from this: In spite of their greater flexibility, the microfinance institutions still have to charge higher interest rates if they are to reach and maintain financial equilibrium.

1.2.2 Regulation and supervision

Under this law, regulation and supervision have been assigned to a specific unit set up for this very purpose located in the Ministry of Finance. It is this unit's task to ensure that the DFS approved of as savings and credit cooperatives correctly apply the law and its prudential regulations.

The law has been in force since 1996. About one hundred primary level savings and credit cooperatives and their federations have been approved. The ministerial unit has been operating since September 1996 and has conducted on-site visits to the DFS concerned.

This law requires the DFS to use a standard chart of accounts which complies with bank accounting practices, and demands a specific format for the balance sheet and profit-and-loss statement. Furthermore, the DFS have to submit monthly financial and internal audit reports to the ministerial unit. However, the law does not require any external audits by certified inspectors.

In daily practice, this law, which was created for networks of village-based savings and credit cooperatives, has proven quite restrictive, both in terms of the internal organizational structures it imposes and especially with regard to certain prudential regulations which were implemented without taking into account the environment of African DFS or the prevailing market tendencies. As an example, the deposit loan ratio demands that total outstanding loans do not exceed twice the amount of deposit stock, a rule that obviously limits the

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[2] *Banque Centrale des Etats d'Afrique de l'Ouest* (BCEAO).

possibilities of bank refinancing. This ratio might be sufficient to satisfy member demands for personal consumption loans, but it quickly becomes a constraint when, in the capacity of their financial institution, the DFS try to meet their members' needs for production-related loans, particularly in a country where access to institutional credit is limited, both for farmers and microentrepreneurs alike.

One alternative open to DFS that are not organized according to cooperative principles is to ask for a preliminary agreement with the Ministry of Finance, which authorizes them to conduct savings and lending activities. Since it is an agreement, no norms are specified which means the operational procedures are negotiated individually with the Ministry.

1.2.3 Characteristics of the financial sector and its general development

Whilst the banking sector would appear to be quite static, the modern microfinance sector, which has only developed in the past decade and is thus still very young, is showing phenomenal growth and dynamism.

Two rural savings and credit networks (CVECA in the Pays Dogon and Kafo Jiginew) were the first to be founded in the period 1986-1988. By the end of 1996, they had reached a total of 21,500 and 45,000 members respectively, which means that around 42% of the population in Mail now have access to microfinance.

However, the boom in this sector dates back to the beginning of the 1990s, when around 20 other networks (French: systèmes) were set up in both the rural and urban sectors. These networks consist of three different types:

- The village-based savings and credit cooperatives according to the PARMEC law (Kafo Jiginew, Nyesigiso of DID, Kondo Jigima);
- The self-reliant village savings and credit banks (Caisses Villageoises d'Epargne et de Crédit Autogérées, CVECA) such as in Pays Dogon, in Kita, in Niono and the PASACOOP network in San and Djenné); and
- The Grameen-Bank-oriented approaches of solidarity group lending (CANEF, MISELI, NYETA MUSO, FFHC).

In 1996, these institutions served 160,000 clients with total lending of FCFA5.8 billion (US$11.6 million) and savings of over FCFA5 billion (US$11 million). They had 322 paid employees.

It is worth noting, however, that these systems are extremely heterogeneous: Eight have total assets in excess of FCFA100 million (US$200,000) and a great many small ones operate at a level below FCFA10 millions (US$20,000).

Similarly, some of them are becoming more professional and institutionalized, whilst others continue to pursue a project approach or, for lack of specialization, conduct operations on several different fronts, without really mastering any one at all. Not all of them will attain autonomy and sustainability as financial institutions.

Some of them have already linked with a commercial bank for refinancing. In 1996, two banks refinanced DFS with around FCFA1.6 billion (US$3.2 million). There are substantial demands for refinance and the most important bank for rural finance (BNDA) has already reached its limit. Today, it can no longer satisfy this potential market, which is promising, but also entails risks.

Nowadays, those areas reputed to be the most profitable, such as rural income-production areas (cotton at Koutiala and Sikasso, rice at Niono), or the town of Bamako (composed of

six communes) are generally well served by several DFS. In certain zones or districts, competition is very lively and is already starting to pose serious problems.

A study has shown that most of the existing DFS have already made plans for extension for the period from now until the year 2001, aiming to reach the level of 588,000 clients and a loan portfolio of some FCFA35 billion (US$70 million). A look at the areas targeted for DFS establishment shows that essentially all of habitable Mali will be covered, even generating large-scale overlaps in certain areas.

The focus will thus be on institutional capacity, coordinated self-regulation and access to commercial financial resources.

1.2.4 Outreach and characteristics of state intervention

When implementing the Self-reliant Village Savings and Credit Banks project, the *Caisses Villageoises d'Epargne et de Crédit Autogérées du Pays Dogon* (CVECA), the Ministry of Rural Development (DNACOOP) which was responsible for national management of agricultural cooperation, acted as executing agency within the scope of the bilateral agreements with Germany. CVECA's success sparked DNACOOP's interest in playing a greater role in the promotion of rural finance throughout the country. Its requests in this matter to potential donors, however, have not met with a positive response. In the meantime, however, the ministry has been restructured. After a number of attempts in this direction, the Malian government has recognized the fact that it should neither implement DFS, nor directly provide microloans. It should rather elaborate policy strategies conducive to DFS development and support a concerted action plan involving all stakeholders.

Nevertheless, it is worth noting that there are several governmental projects which provide microloans, such as L'ACODEP, managing a loan portfolio of some FCFA800 million (US$1.6 million) serving 207,000 clients, and FAAFF (loans for women) which has disbursed FCFA250 million (US$500,000) in loans to 5,500 women. These projects are currently looking for ways to link up institutionally with existing and future DFS, with a view to sustaining their activities. In doing so, they will break free of state control.

Although state participation in the banking sector is quite considerable, it does not translate into more direct interventions by these banks at the level of small savers or borrowers. Only the BNDA refinanced seven DFS in 1996 to the total amount of FCFA1.4 billion (US$2.8 million).

1.2.5 Social security system

The legal provisions for social security in Mali only address the salaried employees in the private and para-statal sector and civil servants. As a consequence, the entire rural population and informal sector are excluded. The inadequacy of these provisions can clearly be seen in terms of the beneficiaries, the risks covered and the operational efficiency of the executing agencies.

In 1991, the INPS (*Institut National de Prévoyance Sociale* - National Institute for Social Insurance), which is in charge of social security for workers employed in the private sector, recorded 62,200 registered employees, representing about 2% of the working population. Since civil servants account for approximately 42,000 jobs, less than 5% of the total population in Mali can be said to benefit from social security.

In theory, relatively complete coverage of social risks is provided for salaried employees and civil servants, i.e. work-related accidents and illness, sickness, motherhood, family allowances and pensions. In general, though, the beneficiaries complain about having to pay

considerable amounts (an average of 22% of earnings before tax) in exchange for mediocre benefits.

Given these gaps in coverage, certain companies have organized social-security funds to help employees in difficulty who are not catered for under any specific legislation. Certain initiatives are worth noting, such as the *Mutuelle des Travailleurs de l'Education et de la Culture,* dating from 1985, which offers its members an extra pension and special rates in a health center it set up at Bamako.

A program geared to supporting the development of mutual societies in Mali spear-headed by the *Fédération Nationale de la Mutualité Française* (FNMF) (National Federal of French Mutual Benefit Societies) was launched in December 1996 with the objective of promoting mutual mechanisms for social protection in both urban and rural contexts. It supports two projects at Kayes and at Niono or Koutiala.

1.2.6 Social and socio-cultural context

Population density in Mali is quite sparse with seven inhabitants per square kilometer and 74% of the population living in rural areas. However, in reality, these figures mask a stark contrast, since nearly all of the zone located north of the MOPTI parallel is characterized by low precipitation and serious deficits in infrastructure that are so severe that there are only one to two inhabitants per square kilometer.

The 30% rate of enrolment at primary school and the adult literacy rate of 20% are a considerable impediment for development. Moreover, poverty and unemployment amongst young people are spreading into the towns, while traditional systems of social security erode. Seen from this angle, the situation raises considerable concern.

1.3 Classification of the macroeconomic, financial and social context

Today, Mali's economy is based on its extremely diverse private sector, which reflects the country's geography and the knowledge of its people as farmers, vegetable growers, fishers, livestock breeder, craftspeople and traders. However, the economy has remained quite traditional and has little in common with a liberal, productive and competitive economy. On the one hand, Mali is an agricultural economy but, on the other hand, it is also a speculative, commercial one. This informal sector, although growing, will only be able to play a greater role when a supportive environment for small and medium-sized enterprises is established. However, in recent times, the creation of social, economic, financial and professional associations indicates a transition towards a modern productive society.

All in all, however, at the end of the 20th century Mali appears to be a country full of promise. Stimulated by the devaluation of the FCFA, which greatly boosted its agricultural economy, it is now reaping the rewards of a voluntarist government policy that implemented important reforms and reorganized public finance. Its openness and dynamic approach have made Mali one of the West African countries most sought-after by international partners in the past two to three years.

However, it is important not to overlook the structural constraints that will hold back Mali's growth in the long term. These include its weak human-resource base linked to a dramatically low-level of education, limited institutional capacity, inadequate economic infrastructure and deteriorating natural resources.

In the medium term, growth forecasts estimate an average annual rate of 4%, which should result in a per-capita increase in GNP of 1–2% a year. Another positive development in Mali is the process of democratization that the country has been pursuing since 1991 and the gradual establishment of a state of law. The vast process of decentralization, which is due for

completion as of 1997, is heading in the same direction, even if the financial means the new district authorities need to operate are not available.

In a context such as this, the formal financial sector in Mali seems to be insufficient and poorly suited to supporting economic growth or financing the creation of companies or jobs. In its place, informal and semi-informal private initiatives that make up the decentralized financial systems are literally sprouting, as seen in this sector's explosive growth of late. There are still considerable legal loopholes, however, preventing coverage of the microfinance sector in its entirety. There is currently a dialogue between the financial authorities, the DFS and the financial backers to bring about changes in legislation, a vital move at this stage where several DFS are looking to institutionalize themselves. And yet, the present situation need not be regarded as a major risk, since all the parties involved are aware of what is at stake and are in favor of developing the DFS as a means of reducing poverty. Solutions will thus be found gradually. A reform of the financial sector has just been launched which aims to revitalize this key sector, enabling it to, once again, take the initiative when it comes to financing growth and thus fulfil its role to the full.

2 INSTITUTIONAL ANALYSIS

2.1 General characteristics of the financial institution

The CVECA project in the Pays Dogon was launched at the local level in the course of 1986, with the first banks opening at the end of that year. In 1997, the network comprised 52 banks, divided into three zones of the Pays Dogon, which is a Sahel region 800 km North of the capital Bamako.

The Pays Dogon is on the edge of the inhabitable area of Mali: Its rainfall of 500 mm supports food-crop cultivation, which permits self-sufficiency in a good year, although the region is regularly hit by drought.

Pays Dogon is divided into three zones:

- The escarpment and plateau (Bandiagara);
- The piedmont (Bankass);
- The plain (Koro).

The culture is homogeneous, as one main ethnic group, the Dogons, inhabits the entire region. Initially established on the plateau, the Dogons have been steadily driven on to the more fertile plain by the shortage of land suitable for cultivation on the plateau. However, the villages in the piedmont and the plain retain very strong social ties with the original villages on the plateau. The villagers on the plateau are subsistence farmers. Where possible, small dams have been constructed for off-season irrigation. In Bankass and Koro, the villagers grow millet and also raise small livestock. In a good season, the people of the North come to the Pays Dogon to buy cereals, making it a trade region.

The Pays Dogon is characterized by a solid and well-organized village system, an indispensable element for the survival of a population living in an agriculturally and ecologically hostile environment. It has very strong social bonds that rely on the principles of mutual assistance and discipline. The Dogons have a reputation for being hard workers, honest and mutually supportive. Even if some of these characteristics tend to be less pronounced in modern times, they nevertheless remain the ongoing mainstay of society.

It is on the basis of these quite specific agro-economic and socio-cultural elements that the CVECA concept has gradually evolved. All the replications subsequently generated in other contexts have been adapted to match the specific features of each new region and population. The 52 CVECA banks in the Pays Dogon had 21,500 members at the end of 1996, or 17% of the region's adult population.

During this time, around 12,000 members, i.e. 56% of overall membership, were active customers, i.e. making regular transactions with their banks, either through deposits or credits or both. At this point in time, there were 3,419 savings accounts, 809 of which were sight deposits and 2,610 time deposits. Total deposits as of 31 December 1996 equaled US$347,000. 77% of the sight deposits and 67% of the time deposits were below FCFA25,000 (US$50). 63% of the time deposits accounts were between FCFA50,000-250,000 (US$100-500). There were virtually no accounts above US$500. Savings collected in 1996 totaled US$692,000, an increase of 40% compared to 1995.

As of 31 December 1996, there were 5,685 outstanding loans totaling US$836,800. Of these, 78% were loans below FCFA50,000 (US$100), representing 26% of the total amount. 45% of total loans were between FCFA50,000-250,000 (US$100-500). There was one loan for FCFA2,500,000 (US$5,000). 73% of these loans were to men, representing 89% of total lending, with the other 27% of loans and 11% of loan volume going to women. This is more

or less the same proportion as female membership. Women consistently borrow smaller amounts.

In 1996, total lending was 72% up on 1995 at FCFA652 million (US$1.3 million) disbursed for 13,213 loans. This represents an average loan of FCFA49,000 (US$98). The repayment rate for loans up to 15 days has always been in excess of 96% over the past 10 years and was 99% in 1996.

The approach implemented allows the village bank offices to cover their operating and financial expenses with their income from the first year of operations (apart from a US$540 initial investment subsidy and training and follow-up costs, estimated at US$800 p.a. per bank). The village bank federations do not have very high costs, because they do not have any paid employees. They manage to fully cover costs in two to three years after achieving formal status, or around five to seven years after the network starts. The last stage in self-financing is when the village banks and their federations cover the service charges of the *Service Commun*. This is a private organization created with a few former project managers in the network institutionalization phase, which took over from the project the follow-up, and training functions.

In 1997, the network covered all of its costs. Thus, within 11 years, the CVECA network in the Pays Dogon has effectively achieved technical and financial sustainability. This performance deserves to be emphasized, as this network is one of the firsts to break even financially in West Africa, although it was set up in a far poorer context than other comparable networks. This achievement is undoubtedly due to the combination of different factors that will be described below.

2.2 Institutional type, governance and organizational structure

2.2.1 Organizational structure

In general, the organizational structure reflects the institutional set-up chosen by the system. In the case of the self-reliant village savings and credit banks in the Pays Dogon, these choices were made on the basis of three principles:[3]

2.2.1.1 Maximum decentralization

The village banks are designed to achieve autonomy and total self-reliance. For this reason, all banks' funds are kept or used as loans at the village bank level. All decisions concerning the bank are taken by the villagers and their elected representatives and by the local managers. Loan policy, interest rates, measures to be taken in the case of loan defaulters and appropriation of operating profit are all decided by the general village assembly or the bank management committee.

Village banks in a socio-economically homogenous region (the plain, the piedmont and the plateau in the Pays Dogon) with their own economic, cultural and indeed linguistic characteristics build their own regional federations after numerous meetings and an intensive exchange of experience. The regional federation is a structure made up of delegates from the village banks and elected representatives. It does not have any paid employees. It meets, as a rule, twice a year to analyze the situation of each individual bank and all banks together. It takes ad-hoc decisions to meet specific needs; this includes setting up an appropriate delegation with the mandate to visit a bank in difficulty to offer its support and try to resolve problems. Administrative and accounting documents are kept by the secretary and

[3] Cf. PRAOC. *Capitalisation d'une expérience d'institutionnalisation de caisses villageoises d'épargne et de crédit autogérées: le cas du Pays Dogon au Mali*, 1996.

the treasurer elected to the board of the federation. Two key technical functions have been transferred to the regional federations at their request:

- The creation of new banks, from identification of the village through to training the persons responsible and setting up the financial institution. To this end, it mobilizes the network's internal resources, i.e. both elected and management staff, to fulfil the necessary tasks.
- "Peer monitoring," i.e. controllers approved by the federation from neighboring village banks are called on to audit another bank's accounts once every quarter in addition to the internal audits that are conducted by the village controller. This kind of “cross-checking”, which is supervised by the federation, is one of the eligibility criteria for refinancing.

One key financial function fulfilled by the federations includes entering into refinancing contracts with the BNDA. It is during the federations’ meetings that the banks and any request for refinancing, including village banks demanding higher sums are analyzed in terms of their eligibility. Decisions are taken in this forum, whereby every request is included in the overall portfolio submitted to the BNDA. It is the federation that borrows money, secured against a deposit of 10% of the total equity of the refinanced village banks, thus providing the BNDA with joint liability. If one of the banks should fail, the federation reimburses the BNDA with its own funds from the village banks’ contributions, and is then in turn reimbursed by the member bank. All of the banks set up reserves earmarked as guarantee funds resulting from their previous operating results. Disbursement is made to the federation, which passes it on to the village banks. In their turn, the village banks reimburse the federation, which subsequently repays the BNDA. The federation thus fulfils the role of financial intermediary between the village banks and the BNDA.

The refinancing bank lends money to the federations at a rate of 8% p.a. The federations onlend these resources to the village banks at a rate of 18%, usually the same rates as the village-bank interest rates for term deposits. It could be said that deposits constitute an important leverage in the process of external refinancing through the BNDA. The village banks in turn onlend money to their members at their interest rates between 36-40% p.a.

The gross financial margin that the federations obtain each quarter (10%) is used to cover their operating costs, namely, the costs of meetings, maintenance of the federation’s building, and travel expenses of federation staff. Each federation decides freely on its policy, in line with its given situation. The remaining funds (75%) are used to pay the *Service Commun* the private structure set up to provide training and advisory services to the banks. There are no other formally recognized institutions beyond the level of the regional federation.

Twice a year, the three federations in the Pays Dogon meet to exchange their experience and contract external support services, the main one being the *Service Commun*. This level is called the Inter-Federation Meeting which takes place successively in each of the three zones, chaired each time by the host federation. The Inter-Federation Forum has neither an office, nor paid employees, nor a budget. Each federation finances its own participation costs.

Since there are no centralized liquid assets, there is no need to have a central cash facility. The village banks therefore have neither a liquidity pool nor a union bank. They sub-contract with the BNDA whereby the latter becomes a partner in the process of mobilizing additional resources with which to refinance local banks.

Authority and decisions are kept at the village bank level, thus taking the principle of subsidiarity to the maximum. The result is a simple and lean structure consisting of the minimum requirements which both instills a sense of responsibility in village-level operators and members. This strategy also promotes an entrepreneurial approach in which, ultimately,

there is no top management, nor a chain of delegation weakening the need to render account.

2.2.1.2 Outsourcing of non-vital functions

In place of centralized services located directly in at a national federation in the case of a traditional credit union network, the CIDR has opted at the top for an alternative approach consisting of identifying service providers in the close environment that are capable of making the kind of contributions the village banks and regional federations need but which they cannot produce themselves. The principle is thus one of maximum sub-contracting of technical functions to public or private providers. The financial institutions only pay for the actual service rendered and not for an entire structure which the network would not necessarily use in full. As these services are not available in the market or do not exist nearby, the next option is to initiate the generation of a private service enterprise with a few project managers willing to take the risk.

This was the case with the *Service Commun* operated as a kind of ”for-profit-association”[4] in the Pays Dogon, which was created by three project managers, including the former counterpart, and duly registered with the chamber of commerce. It offers auditing services, management training, assistance in preparing both refinancing dossiers and general assemblies. The *Service Commun* and the bank federations are legally autonomous and separate. They are linked in formal terms purely by a contractual relationship based on articles and conditions as well as terms of reference that were jointly negotiated and agreed on.

In addition to working for the regional federations and village banks, the *Service Commun* is at liberty to enter into contracts with projects, farming organizations or private enterprises in need of its skills and services in exchange for remuneration on a commercial basis. Its operating principles dictate that it only work for organizations or entities whose existence or development can help strengthen, either directly or indirectly, the village bank network or, whatever the circumstances, will not jeopardize or harm it. Thus, there is no exclusive relationship between the regional federations and the *Service Commun*, each party remaining free to enter into contracts with other service-providers or clients in the environment according to their given priorities. This structure leaves a door open: Should the federations not be satisfied with the *Service Commun*, they can look elsewhere. It also ensures a dynamic approach to operations within the *Service Commun* which, while serving the federations at a cost-covering price, can still hope for greater profit with other clients through diversifying its range of services within a process of ongoing upgrading.

Another example of the outsourcing of non-vital functions is the network's sub-contracting of the liquidity pool function to the BNDA, or at least what is left of this function, since liquid assets are not centralized and therefore there is no need for liquidity exchange or transfers between the self-reliant village banks and their federations. The network could have created a financial organ to mobilize external resources for bank refinancing, but it opted to make use of a partner bank for this purpose. Given the costs of generating such a structure, this decision should, under normal circumstances, lead to significant economies of scale.

The network works with a notary on site in all legal matters concerning it. It signs, on a case-by-case basis, performance contracts negotiated at commercial rates. All of these fees make up the village banks' and federations' operating costs.

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[4] As an appropriate legal form available in Mali, the “Service Commun” is organized as a “*groupement d’intèrêt économique*” (GIE) which is a private association allowed to conduct business activities.

2.2.1.3 The network or voluntary solidarity: "Fire-retention" strategy

As seen above, even in an extremely limited context, a village bank is nevertheless able to subsist on its own because it has all the vital functions of a small financial institution; it mobilizes its resources on the basis of local savings, re-uses them as loans in the same village and takes all decisions itself, accounting for its actions to its members.

If it decides to form a regional federation with other village banks, it is not out of necessity, but because this brings certain advantages: more exchanges of experience, additional services and greater negotiating power when it comes to accessing bank refinancing. The regional bank federation does not have any fixed costs with the exception of the federation's building-maintenance costs, no paid employees and no operating costs apart from those of its meetings to which every bank is obliged to contribute. Likewise, each bank contributes to the 10% guarantee deposit with the BNDA to access refinancing on a pro-rata basis in line with the total being refinanced.

If one village bank, even a larger one, should leave the federation, that does not mean that the others will then have to pay more. The three regional federations do neither have a common equity base nor any fixed costs. If one of the three federations drops out, the only consequence is the adjustment of the *Service Commun*'s terms of reference, followed by a reduction in payment. With notice of six months to one year, the *Service Commun* thus has the chance to reallocate its human resources under other private contracts. If one of the federations defaults on BNDA loans, it alone is made responsible for that situation and sanctioned, since the loan contracts are signed individually by each regional federation without a joint liability mechanism.

It is this "fire-retention" strategy that prevents the failure of one level from bringing down the other levels creating a domino effect. It also means that the absence of one entity will not jeopardize the existence of all the others, as has been observed in a few cases recently in certain networks. In this respect, the CVECA undoubtedly differ the most from the mutual savings and credit associations networks which are based on centralization and liquidity exchange mechanisms among them.

2.2.1.4 Selection criteria for creating new village savings banks

During the expansion phase, the CIDR applied rigorous eligibility criteria when identifying villages that seemed advantageous for the creation of new banks and conducive to their long-term sustainability. These criteria included the region's economic potential, the prevailing market mechanisms, the monetary circulation rate, the literacy level, village history and its social cohesion as well as the potential number of members. The application of strict selection criteria helps diminish the risk of failure for future banks. Only those banks with a potential for dynamic expansion that are able to count on village support have a chance of striking a financial balance and sustaining the financial system.

2.2.2 Governance

Governance reflects the degree of institutionalization. The CVECA are not mutual savings and credit associations and are therefore not regulated by the PARMEC legislation.

2.2.2.1 Village level

The people in charge of the village banks are "designated", rather than actually elected, by their peers in a village assembly attended by both members and non-members alike. Numbering 7 to 13 depending on the size of the bank and the village, those responsible form a management committee that concomitantly acts as a credit committee. This is the bank's one and only executive organ. The committee has the task of promoting and overseeing the

smooth running of bank operations and of applying internal regulations and the policy laid down by the general assembly. In its capacity as credit committee, it analyses loan requests, decides on them and grants and recovers credits.

One element is particularly important: Having been designed by the village to fulfil a specific function, the committee's authoritative powers are conferred on it by the village and the village elders. In the event of serious difficulties that the committee is unable to resolve, the matter is "remitted" for arbitration to the village leader and his/her advisers. Thus, if someone infringes on village bank regulations, they also violate the rules of the village at the same time. This is a very serious situation, since it can be tantamount to social marginalization for the perpetrator.

2.2.2.2 Secondary level

Within the framework of village banks, the secondary level is not established and formalized until after several years of informal operations. It is only when the village banks have got to know and recognize each other and decide that they ought to get together to conduct joint activities that a federation is born.

The bank federation is a district-based structure that caters for a nearby zone in which solidarity is actively practiced. It has the double task of ensuring solidarity and self-regulation. The bank federation is a lean structure made up of voluntary workers elected to their posts (nine in all). It meets twice a year in a general assembly known as the "Inter-Bank Assembly," on which occasion all network problems are deliberated and all decisions are taken.

The federation does not have any paid employees. It has a small operating budget that mainly covers the cost of its meetings and any advisory and support activities for village banks in difficulty. In contrast, the federation exercises the role of financier, since it borrows from the BNDA to onlend to the eligible village banks.

There are three federations in the Pays Dogon: Ejibe at Koro, Badaguine at Bandiagara and Merebara at Bankass, all of which are autonomous entities. There are no transfers, adjustments or structural links between them. Twice a year, delegates from the three federations meet to exchange experience, debate certain subjects of common interest and to stipulate the terms of reference for the services they wish the *Service Commun* to provide. In spite of the lean institutional structure, the bank federations work together and support each other, since they are fully aware of the negotiating bonus that membership in the same network gives them.

2.2.3 Analysis of the lessons learned from the structures of governance

2.2.3.1 Success factors

As outlined above, the structures governing the *Caisses Villageoises d'Epargne et de Crédit Autogérées* (Self-reliant Village Savings and Credit Banks) in the Pays Dogon are characterized by the following aspects making them truly self-reliant:

- Extreme decentralization of responsibility and of policy and operational decision-making which is needed to heighten management effectiveness (fast resource rotation, execution of regulations) given the fact that the village banks are located throughout quite a vast geographic zone with great distances between the individual village banks and between the village banks and technical support structures such as the Service Commun. The principle of decentralization is particularly important for DFS operating in rural areas with low population density and at remote distances from urban centers with banking services, since it precludes the costly and uncertain transfer of funds. It is also a voluntary option that ensures that the authoritative powers and money remain in the village, thus

guaranteeing that the system is adopted by its owners-members and is firmly embedded in the social and cultural context, thus ensuring its long-term sustainability.

- High level of democracy in the grassroots-level banks where all major decisions are taken in a general village assembly and where the persons selected by the villagers to manage their banks have to answer to their members for the operating results they achieve. The regulations are laid down locally and can therefore be modified from one location to another, in keeping with any findings made on implementing them: the members are directly in touch with bank operating conditions, which ensures a high level of flexibility.

After eleven years experience and having attained the status of autonomy for the entire network, it can be said that the key factor of success lies in the principle of self-reliance, the sense of responsibility generated, and the respect for the values specific to each community. The upshot of self-reliance is the mobilization of local savings. This has played an essential role in the system's acceptance and adoption and in generating the communities' sense of responsibility towards this tool. Time deposits are also a key instrument when it comes to obtaining refinancing loans from the BNDA. These deposits have a vital role to play in meeting seasonal variations in liquidity and in satisfying requests for loans which, more in respect of their size than their duration, exceed the financial capabilities of the savings deposits collected by the village banks.

All in all, this has introduced the qualities of stringency and discipline into fund management. The network has a drastically reduced fraud rate of 1.5% of total lending over 10 years, leading to considerable savings from the point of view of costs.

2.2.3.2 Limitations and risks

It has often been said, by external observers, that the risks of such a system are to be found in the melt-down of social ties within the villages, the declining authority of village elders and leaders as a result of the exodus of young people, loosening social ties and the force of social pressure. This evolution is possible in the long term, however, in the near term, internal observations have been of a completely different nature.

The villagers themselves say that the bank, through its positive action in terms of management training, transparency, cooperation between generations has strengthened mutual aid and solidarity in the villages, giving them renewed substance. The older people contribute their wisdom and discipline, the young their technical know-how – i.e. their ability to read and write as well as their creativity and entrepreneurial drive. Furthermore, "improved living conditions for the majority of families have contributed to greater peace and harmony." This means that if the establishment of a bank has been possible thanks to strong social cohesion, these social ties are strengthened whilst changing in line with the social evolution underway as the village bank develops: in other words, the two aspects are mutually reinforcing.

There is of course a risk connected to the abuse of power by the village leaders and other leading men and women whenever a system relies too heavily on traditional structures. However, this risk is balanced out by detailed internal regulations and specific procedures that clearly demonstrate any violations. When such things happen, the village bank immediately experiences a drop in activities (fall in deposits, absenteeism on the part of committee members etc.). This is quickly disclosed in the Inter-Bank Assembly and the association intervenes in an appropriate manner, for example by sending other village leaders to advise an extremely intervention-oriented manager.

All in all, experience has shown that it is better to integrate the bank into village structures whenever the village truly practices solidarity as is the case in the Pays Dogon, rather than creating a "modern" structure, without any social roots, which the villagers would always

regard as something external to them and which would make identification and adoption extremely difficult.

2.2.3.3 Possibilities of replication

Even though the Pays Dogon has very pronounced socio-cultural characteristics, the question of replication has already been answered in that, following experience in here, self-reliant village savings and credit banks have been set up elsewhere in Mali, and also in Burkina Faso (SOUM, SISSILI), Gambia, Madagascar, Cameroon, Sao Tomé and Principe, as well as in a "spontaneous" manner elsewhere (Benin, Guinea Bissau) or in the wake of voluntary activities geared to its dissemination as in Senegal (CASAMANCE) or Chad (MOUNDOU) or even Albania.

Solidarity can be found everywhere, if one makes the effort to find it. In other places where social ties are very strong, the extent of self-reliance will be greater. In those places where the cohesive forces are more restrained, it is necessary to find mechanisms which will allow them to develop at grassroots level, whilst concomitantly taking care to establish stricter regulations at a higher level. Wherever authority and discipline are weaker, it is possible, for instance, to propose solidarity groups as basic members of a village bank in the place of individuals, thereby strengthening these structures. However, in general, it has been found that cohesion is greatest in the most disadvantaged areas. In wealthy zones, less self-management generates costs, but these can be covered by the system.

2.3 Savings products and mobilization technologies

2.3.1 Characteristics of saving products and mobilization technologies

In the CVECA in the Pays Dogon, savings are free and voluntary: There is no form of compulsory saving or saving as a condition of access to credit. The CVECA generally open for a full day once a week, according to the local village hours. The day for opening and the office hours are chosen by the general assembly. Three savings products are offered:

- Sight deposits, without a minimum or maximum amount: Withdrawals are possible without notice whenever the village bank is open. Such deposits pay neither interest nor incur any administration charges.
- Time deposits, without a minimum or maximum amount: These deposits are contractual with a fixed term and date for withdrawal. Any maturities are possible, from three months to 12 months at monthly intervals. Premature withdrawals are not possible. Time deposits earn interest at a rate fixed by the village bank (on average 20% a year or 1.6% a month).
- The savings plan, based on a tontine savings plan: Savers sign up for a savings plan for 24 or 48 weeks, committing to pay in a fixed amount regularly. Again, early withdrawals are not permissible. If savers stop paying in the fixed amount before time, or if they fail to pay in over three consecutive weeks, the account is frozen, only to be released at the contractually agreed date. The savings plan earns interest (on average 10% a year). This product is aimed more at women, who are not able to save large amounts, but can regularly save small amounts.

Sight deposits help to safeguard temporary liquid assets, either for individuals or groups. In doing so, the clients avoid having their money stolen, refrain from wasting it or having it solicited from them. They are thus able to build up a contingency fund to cover any urgent needs ahead. Groups also save their aid funds in this manner, since it has to be possible to mobilize them at any time to help a member in difficulty. They also pay in any funds from marketing activities, with a view to building up a sufficient amount to renew stocks.

Time deposits correspond more to what are known as traditional savings. Individuals chose them because of their attractive interest rate. In general, they have a targeted use for the money they are saving for a specific period. The groups[5] put their working capital into these accounts out of season or deposit funds for paying off any jointly acquired equipment. Although the interest rate is a decisive factor, the groups' prime motivation for choosing time deposits is often one of solidarity, since in so doing they will allow the village bank to operate and provide more loans. The conditions for depositing are the same for individual persons as for groups, with the one exception that more signatures, i.e. at least two, are required to withdraw money from group accounts.

2.3.2 Savings product concept

At the start of the project, extensive and detailed surveys were carried out to identify individuals' and groups' savings capacity and savings requirements, as well as the appropriate periods and terms for saving in relation to the annual patterns of expenditure and investment, which are often seasonally influenced. These surveys also covered the traditional forms of saving and the places for saving or safeguarding liquid assets, the terms and conditions applicable in such cases and the extent to which individuals and groups feel these savings forms match their needs. These studies generated a better understanding of what is needed and expected of savings whilst concomitantly determining the appropriate volumes and periods and identifying those areas that are still underserved or unserved. This, in turn, made it possible to establish which savings products best matched the members' wishes.

The first products offered were then reviewed to check the degree of satisfaction and to collect suggestions, or, if necessary, extend the range to include new products. At the start in the Pays Dogon, the time deposits were set at 3, 6 and 12 months respectively; terms which seemed rather rigid and not fully adapted to the members' financial cycles. Gradually, as more opinions were voiced, it became clear that the product maturities had to become more flexible, even if that meant additional work for managers. The savings plan was left unused. It was found that women saved very little and, after talking to them, it seemed that they hesitated to open an account for a time deposit for such small sums. Thus, a product that matched their particular needs and possibilities was elaborated together with them.

2.3.3 Procedures for introducing savings products

Following the surveys in the villages, reviews are organized during village meetings. The aim of these public reviews is to check the information obtained against the actual way that villagers think and act. Conclusions are reached collectively on which savings products to offer in the village bank when it opens. In this way, when formulating the internal regulations for savings, the villagers themselves create the list of savings products they feel are appropriate for their bank and the return that they feel is fair and motivating.

Once the village banks have opened, management and the committee members are responsible for ensuring through their efforts the promotion of these products among the membership, and specifically among new members, by explaining product-specific characteristics and advantages. These presentations should be made individually and to small groups (district, women, family heads).

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[5] Groups have always had cash in "banks" at their level in order to assist each other in times of difficulty, to grant small loans to their members or for seasonal use. The depositing of this money in an establishment is something new and linked to the generation of banks offering access to this kind of service.

2.3.4 Analysis of lessons learned in the design and implementation of savings products requested by members

2.3.4.1 Success factors

Table 1: Growth in savings and number of savers in CVECA in Pays Dogon (in FCFA)

	1989	1990	1991	1992	1993	1994	1995	1996
Number of banks	10	22	25	31	55	54	54	52
Sight deposits	2,093	6,009	6,916	6,585	18,489	27,578	63,579	89,905
Time deposits	4,433	8,159	14,965	30,461	56,044	115,917	184,417	256,533
Total savings	6,526	14,168	21,881	37,046	74,533	143,495	247,996	346,438
Group/time deposits (%)	60	51	52	32	n.a.	n.a.	n.a.	n.a.
Number of individual depositors	111	294	417	1,025	1,752	2,452	2,822	2,794
Individual persons/members (%)	7	8	9	14	14	16	15	13
Average amount of time deposits	9.6	11.6	17.4	23.6	22.1	38	49.6	62.5
Average savings/bank	652	644	875	1,195	1,355	2,657	4,592	6,662

Source: *Service Commun*.

An impact study on the CVECA in the Pays Dogon carried out in 1997 by Ohio State University provided some very interesting insights into the way the members of the village banks make use of this service within the framework of their own economic and social strategies:

- The very substantial growth in the volume of savings collected is associated with the appearance of a few large net depositors, either emigrant villagers repatriating their savings or merchants investing their working capital between trading seasons. The confidence they have developed in the reliability of the system has led them to make these large deposits.
- As a result, the village bank has come to play the role of financial intermediary between net depositors on the one hand and net borrowers on the other (often women or young farmers).
- The second category of large net depositors at the banks consists of groups. These are primarily attracted by the return on savings which enables them, in turn, to increase the credit funds which they onlend to their members.
- The relatively small proportion of individual depositors in the total membership (13%) is due to the following factors: Men continue to invest in animals, which are felt to be more profitable. The fact that the bank gives them access to credit actually tends to reinforce this, as it is no longer necessary to sell an animal whenever they need ready cash. Women continue to save in tontine groups, in order to maintain these social ties.

Even so, everyone stated that the savings services offered by the CVECA are good and attractive. From these results, we can conclude, for the time being, that only well-managed

systems with a good reputation can attract large depositors – a development that requires a certain period of observation. Indeed, five years are generally considered necessary to convince people. Similarly, the attractive return on savings plays a role in attracting clients, although it is not the only criterion: Each individual defines his or her own savings strategy, and the different savings products figure in these options accordingly. It is very important not to neglect this aspect when designing the system.

2.3.4.2 Limitations and risks

Since the usury law sets interest rate ceilings for lending, returns on savings also have to be restricted, so as not to jeopardize the viability of the system as a whole. In the Pays Dogon, for example, it will undoubtedly be necessary to gradually lower the deposit interest rate from 20% to 10%. It is difficult to gauge the impact such a lowering would have on savers' behavior and thus the consequences in terms of the volume of money that will be mobilized in the future.

2.4 Management capacity

2.4.1 General management capacity

In view of the specific nature of CVECA self-reliance, all financial management of the network - from the village bank offices to the federations - is exercised by villagers appointed by their peers, participating on a voluntary basis.

The members of the village bank management committees (*comité de gestion*) are men and women chosen for their integrity, knowledge of the mentalities and activities involved, absence of bias, discretion and the trust they inspire in others. Most of them are illiterate. They are all trained for the various tasks and functions they assume, and specifically to analyze a loan application and to conduct a meeting or a general assembly. To enable them to ensure that the bank is operating well, three or four of them volunteered to be taught numeracy,[6] which allows them to maintain a simple operating report, check the bank's accounts, its general ledger and present the bank's end-of-year financial statement. The management committee members are volunteers, although they do receive a small payment at the end of the year in recognition of their services.

The village bank managers, i.e. a cashier and a controller per village bank are generally literate in the local language or Arabic (Koranic school); some have attended primary school. They are also appointed by the villagers for their honesty and presumed ability to perform their function conscientiously and discreetly. They receive a number of training sessions on keeping records and more elaborate management techniques, such as developing loan repayment plans, calculating the loan portfolio and auditing accounts, and even preparing the financial statements at the end of the year. They commence their activities in a voluntary capacity, accepting that they will be paid out of profits once the bank starts generating them. Generally, 33% of the bank's profit goes to pay cashiers and controllers. Payment may scarcely amount to the price of a soft drink in the first year, but it rises to the salary of a middle-level administrator after ten years, if the bank does well.[7]

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[6] The project had started literacy campaigns in the villages in conjunction with other development projects (*Banque de Céréales* (Grain Bank), rural organisations), but without any major impact. The change of focus to numeracy has, in contrast, met with true success, both in terms of participation and results.

[7] In 1995/1996, after 10 years, cashiers and controllers earned on average about FCFA80,000 a year for opening 52 days, which is FCFA1,500 (US$3) a day, three times the price of local agricultural labour and almost equal to the minimum daily wage in Mali.

The members of the offices of the bank federations are delegated to the Inter-Bank General Assembly by their village banks, having been elected by all those present. Often, they are elected because of their personal reputations or because of their village banks' good operating performance. They are trained for their specific role by the project (i.e. office secretaries and treasurers), taught how to run an inter-bank assembly and to represent their associations in negotiations or on official occasions. They undertake field studies to other rural banking projects or DFS networks where they meet their counterparts. The members of the federation offices are volunteers and do not receive any payment, apart from reimbursement of travel expenses incurred on behalf of their federations. To fulfil their management tasks, they have at their disposal statistical information and performance indicators on all the village banks in their federations. Previously provided by the project, these data are now collected by the *Service Commun*. These indicators make up part of the criteria governing eligibility for refinancing. They are analyzed prior to inter-bank assembly meetings, thus ensuring that the office members are fully briefed on the given situation and are aware of the problems and matters at stake when they chair such meetings.

The project that set up the network (banks and federations) was made up entirely of highly qualified facilitators („bac" and two years of study or „bac" and five years). They were either assigned to the project from their posts at the Direction National de l'Action Coopérative (project executing agency and then project implementing agency) or were selected by CIDR, recruited by DNACOOP and then assigned to the project, or were paid employees recruited directly by project. They are all native Dogons and from the region concerned and have undergone project training on the job. All have attended upgrading sessions (about 1 month) outside the project, either in another DFS or in a professional institution in Africa; those who joined the *Service Commun* even underwent training in France. It is the project facilitators who collected relevant data in the banks, enabling the elaboration of a statistical monitoring system that has been maintained since the project was launched in 1986. In keeping with their status, they either received a bonus in addition to their wages as civil servants or a private salary equivalent to that of a higher-level administrative employee.

As of 1994, some of the project's managers gradually left the project and, in 1995, three of them officially formed an "economic interest group"[8], called *Service Commun* with the goal of providing sustainable technical services such as auditing, management training, organization of banking files, legal consultancy to village banks and their federations on a fee-paying contractual basis. The *Service Commun* remunerates its staff at a level equivalent to that which they received as project employees. They can, however, improve on their pay by offering external services from time to time.

Regional meetings are organized every quarter to discuss the problems encountered and the solutions proposed or tried out. It is here that the methodological approach and means of upgrading it are reviewed and proposals made on how to capitalize on experience. Quite a few documents focusing on the experience gained with the various tools and support technologies as well as approaches and procedures have been elaborated in the Pays Dogon. Thus, lessons have been learnt at all levels over the 11-year period of implementation - lessons that are known and mastered by all. This approach to operations today forms part of the network's basic operating principles and is now standard, everyday practice.

2.4.2 Specific management capacities: Risk management

The CVECA in the Pays Dogon do not invest outside the network, except for the guarantee funds required to access refinancing through BNDA. The risks are accordingly limited to the loan portfolio. There are no predetermined uses for credit as far as the bank is concerned:

[8] French: *Groupement d'Intérêt Economique* (GIE)

Members accordingly apply on the basis of the intended use, be it productive or social. Applications are recorded by the managers and submitted to the loan committee for review. Generally, they are small loans for traditional activities familiar to everybody or for a social need. The committee considers the application on the basis of each type of activity and the demands it knows they can expect to make and on the given borrower's rating in terms of his or her reputation and lifestyle in the village. To emphasize the need to repay the loan under all circumstances, a material guarantee (item of daily life, bicycle, radio, animal or jewelry for women) or a personal guarantor is required. However, the reliability of the review is based primarily on the committee members' knowledge of the individuals, the activities and the social pressure on borrowers to repay their loans.

Initially, the portfolio was primarily made up of small loans of FCFA10,000-20,000 for financing local small traders, which was very useful to villagers in terms of training in both management and market techniques and also because the rate of return was sufficient to ensure enough profit to cover basic family necessities. However, such homogeneity could be risky in the long term, because of saturation. After three years, the CIDR wanted to help the village banks diversify their portfolios, both to diversify risks and also to enhance economic impact beyond that of a subsistence economy. A special component known as the "diversification component," then changed to "economic facilitation," was introduced with the aim of identifying and supporting the establishment of small-scale enterprises with more ambitious economic projects requiring greater loans and somewhat longer repayment periods. At the same time, studies were conducted into the sector-specific conditions and technologies that had to be generated to enable Dogon microentrepreneurs to access them.

Initially, this approach was accompanied by an "innovation fund," a sort of risk capital allowing new ideas and approaches to be tested without making the village banks take any risks. After an initial pilot period, and once the committee members recognized their sound nature and had gained a better understanding of the analytical approach involved, these loans were gradually integrated into the general portfolio. This led to the introduction of a number of credit types that vary in terms of amount as well as market segments (local, regional, national) and – to a lesser extent – in terms of sector, with crafts and livestock-keeping having been added to the initial focus on lending to small traders, small-scale processing and market gardening (onions). In fact, it also involves "mixing" borrowers, since micro-business owners rank alongside women and poor rural inhabitants in terms of their initiative and ambitions.

In more formal terms, the funds that can act as guarantees for the CVECA in the Pays Dogon can take a number of forms:

- The banks' equity made up of membership fees and a fraction of the annual profits taken in reserve;
- The banks' 10% guarantee deposits made to the BNDA through the federations to guarantee refinancing;
- The guarantee funds, financed by levies on profits (about 10% p.a.) now representing some quite substantial amounts.
- Finally, insurance funds (FCFA500,000/bank (US$1,000) put forward by the donor and which can be called on in the case of a bank's insolvency.

2.4.3 Specific management capacities: Liquidity management

The principal instrument used to manage liquid assets is based on two types of savings products, namely sight deposits, which are not used for lending, and time deposits which can be used in full, taking into account maturity, and hence are part of the loan portfolio and its repayment. All the village bank managers, i.e. cashiers and controllers have been trained accordingly and are thus able to manage liquidity at this decentralized level. The *Service*

Commun monitors compliance, and non-compliance penalized by blocking access to refinancing should the limit be exceeded. The sight deposits and part of the equity (internal guarantee fund) are kept in the bank as a liquidity reserve. Their total amounts are small.

There are no liquidity exchange mechanisms between the village banks, because all the banks manage to lend all their available funds on site. In addition, establishing a central cash facility for this purpose would be very expensive in terms of qualified personnel and would involve a risk of fraud which is not justified in a network where the need for such an institution arises only very occasionally. Conversely, being able to access refinancing at the BNDA eases the chronic shortages of funds, thus making it possible to respond to the many applications for loans. It must, however, be noted that the system tends to ration loans in line with local management capacity.

2.4.4 Analysis of lessons learned from management capacity, especially risk and liquidity management

2.4.4.1 Success factors

- In spite of the omnipresent illiteracy, which was a great handicap at the beginning, the committee members' and managers' excellent knowledge of their clients and their activities have made up for any initial drawbacks. The management skills and the results that they have achieved are indeed remarkable and totally in keeping with the demands of this very poor region with its wide-spread population and low population density that which would not have been able to maintain the costs of a completely professional, fully-paid management structure. The choice of self-reliance was not purely a philosophical or development-oriented one, but was based on the principle of maximum efficiency, even if that meant considerable investment costs in the form of staff upgrading at the beginning.
- The new diversification approach did not yield exceptional results in terms of new activities or investment openings, but played a decisive role in promoting initiatives, entrepreneurial savvy and more ambitious projects, thus leading to the successful diversification of the loan portfolio and helping minimize the risks deriving from local market saturation where purchasing power remains limited.
- In weak financial zones, where the problems of fund transfers can be handled by other means rather than the establishment of a central cash facility, it is always best to choose an alternative method, since experience has shown that this type of liquidity pool is both costly and harbors numerous pitfalls, some of which can be fatal for the system.
- It is important to initiate bank refinancing on a step-by-step basis, in keeping with the pace at which management know-how is being generated and acquired.

2.4.4.2 Limitations and risks

Voluntary work, necessarily, imposes certain limits. Another major constraint in the region is the low level of education, which necessitates an extended period of training. These unfavorable conditions mean that the managers and controllers are often those with the greatest know-how in the village. While better training of bank managers promotes their ability to execute financial transactions, it can, at the same time, be harmful to bank members, should this know-how be used to manipulate the operating results.

The consolidation and sustainability of the village banks relies on their ability to increase their income and to set up reserves, something which has to be done by expanding the credit portfolio and/or the interest-rate differential. In general, expansion is really dependent on local management capacity and the village banks' ability to absorb external funds. Today, the village-bank model, as implemented with CIDR support and KfW funding, has to face the challenge of a new expansion phase, one which may well lead to the banks' restructuring and a greater level of institutionalization.

In this context, the *Service Commun* plays an important role in providing the requisite technical services. However, it remains to be seen whether or not it could successfully support the village banks in their process of self-development with fewer personnel than the project team. The sustainability of the *Service Commun* depends on the extent to which it is able to recover its costs, and this in itself is directly linked to the banks' possibilities of increasing their financial revenue.

2.4.4.3 Possibilities for replication

The CVECA approach has been replicated in other contexts, in particular in more wealthy environments that show a lower level of solidarity. All in all, the same principles were applied, with a few variations, such as more formal guarantees, formation of jointly liable groups to access loans, combining fixed salaries with performance-based bonuses for managers with higher-level educational qualifications, etc.

2.5 Regulatory and supervisory framework

In 1986, when the project was first launched, DFS did not exist in Mali, and were few and far between in West Africa and of no interest to the financial authorities. The COOPECs, i.e. the traditional savings and credit cooperatives were regulated by the cooperative law as a specific type of cooperative and not as financial institutions. The CBWAS completely turned a blind eye to this sector. Thus, when implementing the CVECA in the Pays Dogon, the CIDR laid down a certain number of operational and prudential rules and regulations, in line with the concept of self-reliant village banks, that were sufficient to ensure observance of certain principles of good management, thereby guaranteeing the seriousness and sustainability of these grassroots institutions.

Further to this, performance criteria have been applied with respect to the recovery rate, the rate of transformation of deposits into credit and the level of cost coverage, taking particular care to limit as far as possible any fixed costs. Internal control and inspection procedures have gradually been implemented to ensure that these rules are being applied and observed, and to preclude and possibly correct any deviations, omissions or abuses detrimental to the system's security and thus harmful to the members themselves, especially small savers who have trusted these establishments with their savings.

In 1992, PARMEC organized studies and seminars with a view to drafting a bill on Mutual Savings and Credit Associations (MUTEC). This bill was eventually ratified by the WAMU's Council of Ministers and voted on in the parliaments of each member country. Mali adopted this law in 1994 and, in 1996, it was implemented under the supervision of a unit set up for this very purpose, called CAS/SMEC (*Cellule d'Appui et de Suivi des Structures Mutualistes ou Coopératives d'Epargne et de Crédit*), attached to the Ministry of Finance.

The decrees issuing from the PARMEC law stipulate prudential standards for MUTEC and normally only pertain to these institutions. Non-mutual DFS, such as the CVECA in the Pays Dogon, have to sign an agreement with the Ministry of Finance, pursuant to the so-called "Convention-Cadre" a kind of outline agreement adopted by the WAMU Council of Ministers in June 1996. This legal document is extremely open, its intention being to provide the foundations for negotiations on a case-by-case basis. The non-mutual DFS are therefore at liberty to propose within the framework of this treaty those rules that they would like to see applied in the system, subject to the Ministry's approval.

The next chapter therefore deals with the internal rules and supervisory procedures laid down and in force in the CVECA in the Pays Dogon. This is followed by a brief look at the rules and supervisory regulations provided for in the PARMEC law on MUTECs and, finally, the regulations that have to be adhered to within the framework of the treaty in order to safeguard and protect the non-mutual DFS and their members.

2.5.1 Internal regulation and supervision

The CVECA are self-administered, grassroots financial institutions at the village level. The general assembly determines the general policy of the village banks in terms of savings and lending, the operating and prudential rules, right up to the rate of interest, penalties and the use of operating profit. It follows that the administrative documents and accounting records are kept by the village bank managers, chosen by their peers for their abilities and the trust they enjoy. In the Pays Dogon, with an illiteracy rate of about 95-98%, these records have to be very simple but still reliable enough to prepare budgets, profit and loss statements and exact balance sheets, and to be a source of monitoring-oriented statistical data, indicators and performance ratios.

In each village bank, two persons a cashier and a controller are jointly responsible for the accounts, in addition to maintaining direct customer relations, executing financial transactions, as well as loan disbursement and repayment. This multiplicity inspires confidence, because in Africa, monetary operations have to be executed in front of a witness but with due confidentiality.

Decisions on loans are taken by the management committee which meets as often as their are loan applications and available funds to cater for them; at present, this means virtually every week. The decision is recorded in a document known as the loan ledger and signed by the president. The two village bank managers then execute it. It is the managers' job to inform the committee of the dates of expiry, so that it can give appropriate notice to the borrowers and ensure that the repayment deadlines are met. In the event of defaults, it is the management committee that has to instigate procedures leading to the recovery of payment, if necessary, by executing the guarantees.

The project facilitators have never kept the accounts in a village bank, nor attended a loan-assessment meeting. Their role consists in training the managers and persons responsible on the village committees, steering them, controlling accounts prior to the implementation of the *Service Commun*, participating in debates and providing technical information on the impacts of each type of decision.

2.5.1.1 Capital adequacy

The bank's registered capital is made up of its membership fees. To allow banks to have the largest possible membership, particularly among the poorest, the village banks generally set the membership fees fairly low, varying from FCFA250-1,000 (US$0,50–2,00). The initial capital is accordingly fairly small, even if village bank membership is very large right from the start, i.e. usually around FCFA100,000-200,000 (US$200-400).

However, the villagers are aware that the bank's equity is the real basis for the stability and durability of the organization and feel that in an agricultural region at the mercy of the weather and where saving is heavily tied to harvests, it is preferable to build up suitable capital to be able to withstand years of hardship. For this purpose, the obvious strategy has been to set high interest rates (average lending debit interest rates of 40%) to provide a wide margin (20% average margin) to build up cumulative reserves. It is interesting to note that, while the average capital for a bank was FCFA125,000 in 1990, this had risen to FCFA813,000 in 1996. This growth shows clearly that the villagers' chosen strategy of strengthening equity is succeeding.

Table 2: Growth in equity[9] in the CVECA network in the Pays Dogon (in FCFA)

	1989	1990	1991	1992	1993	1994	1995	1996
Number of banks	10	22	25	31	55	54	54	52
Equity	1.555	2.765	3.786	5.755	10.776	17.154	25.845	42.307
Equity/average lending	64%	44%	36%	27%	20%	19%	15%	15%
Equity/banks	155	125	151	185	196	317	478	813

Source: *Service Commun*.

It should also be noted that the solvency ratio (outstanding loans/equity) of the CVECA in the Pays Dogon was 15% in 1996, which puts it clearly ahead of the banking sector's standard of 8% and very close to the 20% recommended for the supposedly risky DFS (CGAP, RODONDI, Latin American Supervisors etc.).[10] This ratio was not considered sufficiently relevant for adoption in the PARMEC law, because the DFS reputedly do not have high equity at their disposal given the type of member they attract and thus have to compensate for this weakness in capital by higher levels of deposits, demonstrating the members' affiliation with the system.

2.5.1.2 Liquidity

For reasons of prudence, and to simplify management, the CVECA do not use any sight deposits (which do not bear any interest) for credits. Owing to their non-interest-bearing status, sight deposits are few in numbers and are kept in the safe. They can be withdrawn any time the bank is open without prior notification. Time deposits receive interest as of three months. They have a contractually agreed term from between 3-12 months that is decided on by the depositor. The bank reprocesses them as loans with a slightly shorter duration. With the exception of its "guarantee fund", the village bank also uses its own equity to provide credit. Managers are trained to draw up repayment plans for time deposits and credits and to calculate the bank's loanable funds regularly to facilitate liquidity management.

The two products, sight and time deposits, facilitate management and also permit optimal use to be made of the bank's resources (in 1996, the average rate was 85%)[11] while maintaining a high level of prudence in liquidity management: The CVECA have a liquidity ratio in excess of 100%.[12] These rates are monitored regularly by the *Service Commun* and rank as indicators of good management, a condition of the bank's eligibility for external funding.

2.5.1.3 Loan coverage

The Pays Dogon is one of the poorest regions in Mali. It is therefore obvious that the savings mobilized cannot on their own be sufficient to meet the demand for credit or finance the

[9] Equity is made up of the registered capital deriving from membership fees and the reserves accumulated after the end-of-year balance.

[10] This average has been calculated on the basis of monthly statistics. Based on the annual average calculated using the figures from December 1995 and 1996, the rate of solvency is 10%.

[11] The rate of utilisation of a bank's resources is calculated as follows: average amount of loans/average amount of time deposits and average amount of refinancing + (equity - guarantee fund). It should be less than or equal to 1.

[12] The liquidity ratio is calculated as the average amount (cash and short-term lending and investments)/average amount (time deposits plus sight deposits and borrowing). It is more than 100%. Sight deposits are not used for lending.

region's economic development. The village banks need to link up with the banking system for the purpose of refinancing. In 1989, a year with a particularly severe drought in which savings were at their lowest, refinancing was first needed to grant loans and enable the villagers to stock up on cereal supplies and conduct out-of-season activities.[13]

From the start, the village banks have laid down the eligibility criteria for refinancing amongst themselves within the framework of their federation. The federation borrows from the BNDA and onlends the money to its members who constitute a form of joint security for the bank. This is why the federations have taken great care in defining indicators of good management and also in applying these criteria at every inter-bank meeting, taking up this issue and stipulating the sums of money to be requested from the refinancing bank. The eligibility criteria themselves are as follows:

- Regular operation for at least one year;
- Growth in membership;
- Growth in deposits;
- Less than 15% rate of loans in arrears for more than 15 days;
- Good managers, well-kept accounts;
- Compliance with internal and prudential regulations;
- Management committee performing its duties and functions diligently.

Subject to eligibility under these criteria, a village bank can apply for refinancing rising gradually to a ceiling of:

- Once the amount of time deposits plus equity, for the first refinancing loan;
- Then twice the amount of time deposits plus equity for following refinancing; and
- 2.5 times, after five years of refinancing have passed without any adverse events.

Thus, the loan to deposit ratio (outstanding loans/deposits) would be around 3 at the maximum within the scope of this regulation. There is not enough experience with just 11 years of CVECA activity in the Pays Dogon to affirm empirically whether this ratio of 3 is expedient or not. However, the results obtained to date tend to make us believe that there is neither over-indebtedness that is jeopardizing repayment, nor any over-liquidity threatening the banks' viability.

The BNDA has monitored CVECA operations as an observer from the very start and is informed of the network's financial status at regular intervals. The first refinancing loan amounted to just FCFA1.5 million (US$6,000). The increase has been gradual, allowing the bank to establish a means of monitoring repayment and progressive increases.

2.5.1.4 Loans to managers and risk diversification

These two principles were not made the subject of specific regulations at the CVECA level for cultural reasons. Moreover, the demand for credit is so pronounced that it is exerting strong pressure on the management committee to meet all creditworthy requests concerned with village enterprises aiming to promote village development. Indeed, the high percentage of members (45%) with access to loans demonstrates the matter in hand and shows that a reduction is impossible in this context.

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[13] N.B.: At no point over the past 11 years have the CVECA rescaled their loans, neither in connection with drought, nor other external factors.

However, the two principles of management loans and risk diversification are essentially contradictory, which explains why it is so difficult to implement them. The management committee works on a voluntary basis. They have also frequently been chosen for these positions because they are the most dynamic and entrepreneurial of the villagers. Limiting their access to loans or enforcing a ceiling on their credits would be tantamount to penalizing them twice over. The end result would be that these most capable persons would ultimately abandon their key functions, not to mention the fact that the committee members would increasingly demand payment for the roles they fulfil, curtailing the bank's profitability. It is necessary to monitor and follow-up this indicator, however, to avoid any misuse which might endanger the bank's operating performance.

As far as the diversification of risk is concerned, it is difficult to set a limit to an individual loan as a specific percentage of total lending, partly because there is a wish to support entrepreneurs with ambitious products where the loan may have a major economic impact both on themselves and on village development and because the mix of potential clients, from villagers engaged in subsistence activities to micro- and small entrepreneurs involved in more profitable and structural activities, is good for the bank's balance. In addition, risks in this context are based on a large number of small loans for similar activities that are very often closely linked to external factors such as the weather and local fluctuations in prices. In contrast, economic activities that have been carefully studied and formalized with guarantees and frequently developed outside the village context are less subject to the same risks. In addition, a number of members can join together in an economic interest group and apply for a larger credit for a supply activity or group business, which does not involve additional risk.

However, as the network expands and the amounts become more substantial, it will most likely be appropriate to apply a credit ceiling equivalent to 10% of total deposits for an individual credit in order to avoid excessive risk concentration in one single credit operation.

2.5.1.5 Provision for bad debts

Given the realities of village life, where the majority are illiterate and the use of a diary is a novelty, the CVECA consider that only those payments that are overdue for more 15 days qualify as an overdue loan. A series of progressively strict measures are available to recover outstanding payments, beginning with a simple reminder (with or without penalty), and continuing with an urgent home call by a member of the committee, exerting a certain amount of pressure on the personal guarantor, up to executing the material guarantees or, if required, presentation of the case to the village head and councilors.

After 12 months, the debt is completely written off, without abandoning the option of recovery by social means that are more or less coercive, in accordance with the customs of the village. The loan is retained in the portfolio and is followed up. In 10 years of operations, the total loss has in fact not exceeded 1.5% of cumulative lending, which would indicate that the measures used to recover bad debts are quite effective and well-adapted to the given context.

2.5.1.6 Internal control mechanisms

Several levels co-exist. At the village level, there are two sources of control:

- Control exercised by the management committee every time the bank opens, consisting of verifying the following at the end of the day: the accounting journal, cash settlements, cash-in-hand and comparison of the loan ledger with cash disbursements.
- Training in numeracy specifically geared to the committee members, which enables the almost illiterate members to fulfil their roles, thus instilling a great sense of responsibility in them.

- The internal controller, an individual chosen by the villagers, often noted for a greater aptitude with numbers, who is trained in the procedures of internal control. Every day the bank is open, s/he comes to close the journal, verifying certain key procedures, such as customer signatures on records. S/he draws up the ledger of accounts and the balance and checks that the theoretical balance corresponds to the actual balance and the cash-in-hand.

On the inter-village level, with the phasing out of the project and the dilution of the controls previously conducted by the project facilitators, “cross-checking” has been introduced as a new procedure by the federations, involving the verification of a bank's accounts by a controller from a neighboring bank at least once every quarter. To do this, the federation draws up a list of approved controllers, i.e. CVECA controllers reputed to be capable of the job, and a schedule for their visits. Application of cross-checking is one of the eligibility criteria for refinancing.

On the network level, before the *Service Commun* was set up, the project facilitators were responsible for controlling the village banks' accounts on a regular basis (bi-monthly control or quarterly control, depending on the village banks' age and its internal capacities). Since 1994, the village banks and the federations have had a contract with the *Service Commun* for mid- and end-year audits, unannounced controls, sampling-based authenticity controls (compliance with members' savings books) and procedural audits covering the managers, controllers and committee members.

While the first two levels deal with internal control, the third could be regarded as external, since the *Service Commun* is an independent entity. Ultimately, if the volume of refinancing increases consistently, the BNDA could call for an external audit by an approved local auditing company.

2.5.2 External regulation and supervision

2.5.2.1 Regulation and supervision under PARMEC

The established regulations only cover mutual savings and credit associations (MUTEC) approved under the PARMEC law.

- There is no minimum equity limit. A regulation sets the mandatory reserves at 15% of operating income.
- Standard liquidity is defined by a ratio of short-term assets/current liabilities > 80%
- The cover ratio is set at 2.
- Loans to managers must not exceed 20% of total lending.
- No single loan may exceed 10% of total lending.
- The MUTECs have to write off bad debts by 25% after 90 days, 50% after 6 months and 100% after a year.

The law requires internal controls, but does not impose an external audit on the MUTEC. Supervision is performed by the support unit *Cellule d'Appui et de Suivi des Structures Mutualistes ou Coopératives d'Epargne et de Crédit* (CAS/SMEC), an office in the Ministry of Finance which is responsible for monitoring the application of the law's provisions.

The support unit in Mali has to this day only very few human and material resources at its disposal to execute this function, although, in 1996, more than a hundred village-based mutual savings and credit associations and their federations were approved and are thus in need of supervision.

2.5.2.2 Provisions of the Convention-Cadre

The provisions of the Convention-Cadre (an outline agreement) dealing with non-mutual or non-cooperative DFS call for the enactment of standards to be drawn up by the Ministry of Finance in consultation with the Central Bank, but does not actually detail them. Furthermore, it seems that there have been no deliberations or studies on these standards to date. An annual report on operations has to be submitted to the Ministry, focusing on six approved key indicators:

- Total savings collected;
- Loans disbursed;
- Number and amount of loans outstanding;
- Number of members or users;
- Interest rate applied.

None of these are defined in precise terms or seem able to monitor, or warn of, poor performance or downturns in the overall situation. A proposal by the CVECA in the Pays Dogon is now being elaborated which aims to strengthen the contents of the Convention-Cadre in such a way that its signing will become equivalent to the signing of a legal agreement. In particular, it will, in addition to certain basic procedures, specify the type of data to be communicated, such as:

- Information on the level and conditions of activities;
- Indicators and ratios for steering and supervision;
- Evaluation and performance ratios;
- Prudential ratios.

2.5.3 Analysis of lessons learned from internal and external regulations and control mechanisms

2.5.3.1 Success factors

Even during the experimental phase, and well before the financial authorities set up regulations, the system of self-reliant village banks had laid down some prudential regulations of their own, adapted to the given context, that were both practicable and precise. Thus, from the very beginning, all the actors at all levels concerned have been used to observing certain standards geared to safeguarding this system of saving and protecting its members. It would indeed seem very important for DFS, especially those that collect savings, to set clear and strict rules and to ensure their application from the start. Such rules have to be adapted to the respective DFS context.

Thus, right from the start, both internal and external control principles have been agreed on and accepted by all those concerned. Furthermore, as the volume of lending gradually increased and the villagers became aware of the attendant risks, the demand for stronger control mechanisms and external control inputs became greater. The fact that these rules are provided in writing and incorporated into the internal regulations of the banks and associations, and that the control procedures are also laid down in written form, ensures their application.

Furthermore, in the case of such decentralized and self-administered structures as CVECA, training is a vital flanking measure that helps people understand the rationale behind the regulations and the need for their strict application. Such training inputs are costly but must be considered as investments in the system's overall safety.

2.5.3.2 Limitations and risks

The Ministry of Finance, mandated to supervise the DFS and the Central Bank, has to this day still not defined the norms to be applied to non-mutual DFS. The risk is thus that abstract rules will be formulated that take no account of the real conditions surrounding these systems and that these will be applied in a strictly top-down approach. To minimize this risk, the CVECA will try to have their own rules included in the agreement to be signed with the authorities.

However, the regulations implemented might not turn out to be sufficient to stand up to sociological phenomena such as "solidarity in the face of non-repayment," as has been seen already in certain networks in which the level of default is such that the borrowers reckon with the system's collapse and no longer have an incentive to repay their loans. Mechanisms still need to be found to preclude such situations in the future.

Whilst the internal control procedures are conducted at different levels in the network, external control activities are only implemented twice a year. It remains to be seen whether the *Service Commun*, with a reduced team, will be able to effectively reduce the risks associated with bank transactions during a phase of growth in lending and deposits handled by the village banks. It is quite clear though that some village banks will need this kind of growth in order to attain break-even.

2.5.3.3 Possibilities for replication

Replication does not seem to pose any problems in Africa where the regulatory framework for DFS is only just being formed in different countries or zones.

2.6 Analysis of the costs of mobilizing savings

While every operator of a decentralized financial system knows that mobilizing savings permits greater autonomy for financial institutions and contributes to their stability and sustainability, many hesitate to follow this route, partly because of restrictive legislative frameworks and partly - and particularly - because mobilizing savings would appear to be expensive. The costs involved in mobilizing savings in the case of the CVECA of the Pays Dogon are:

- The village infrastructure: physical structure of the bank, its equipment and particularly the safe;
- Management and controlling capacity: training cashiers and controllers, follow-up and control by external controllers and auditors;
- Interest on savings, which is higher here than the cost of refinancing through the banking system (20% compared with 8%);
- The various funds which have to be funded or set up to protect deposits and savers.

In this chapter, we will therefore take a close look at the ways in which these costs are spread out amongst the different receivers, the donors, the bank network (financial institution) and the depositors or members.

2.6.1 Accounting methods used for cost analysis

During the project phase, two distinct types of accounting methods were used:

- Project accounting in which donor subsidies are granted for investment and operating budgets.

- Accounting by the village bank network in which the banks have their own individual and joint accounts and in which the federations also have their own separate accounts. The only subsidies granted to the village banks are for initial investments in their buildings and equipment. No operating subsidies are allocated at this level.

The federations also receive investment subsidies for their buildings and equipment and also have degressive subsidies for operating costs. The level of subsidies would appear to be clear-cut and this method of accounting allows for cost analysis at all levels. In contrast, consolidation of accounts at the network level is purely theoretical and misleading, because decisions on the allocation of operating profit are not centralized but taken by each village bank and each federation individually, and are thus not covered by the regulations laid down for the funding of the *Service Commun*.

2.6.2 Ways of reducing costs for the financial institution

There are two principle methods that have been used consistently over time:

- The principle of subsidiarity, requiring that all tasks and functions which can be performed at a lower level should stay at this level and only be transferred to a higher level if the lower level is unable to handle them. This principle is in line with the CVECA principle of maximum decentralization, which avoids numerous transport costs, which are very expensive in very large and sparsely populated areas like the Sahel.
- The volunteer principle with participation and profit-linked payment, which keeps fixed costs to a minimum and only uses salaried employees for the most difficult technical tasks, thereby also reducing the number of such employees.

These methods have made it possible for the CVECA networks to run for 11 years with an extremely lean administrative structure.

The other principle which was also applied in the Pays Dogon is to have the tangible (buildings and equipment) and intangible (design, technical assistance, upgrading) investment costs assumed by the project and the financial donor, who is thus responsible for the costs incurred in setting up the system. The network meanwhile covers the recurrent operating costs and the costs of any subsequent extensions to the system.

2.6.3 Method of minimizing costs to savers

In the CVECA, the savers are net beneficiaries in terms of cost because the bank is located in the village, so that making a deposit does not involve any transport costs or time.

There is no minimum amount required and neither membership nor loans are subject to any obligation to save. There is no charge to sight depositors, although the bank provides them with a safeguard service involving written records and a savings book. As this type of deposit is not used to make loans, there is no administrative fee to depositors.

The terms and conditions for time depositors are very flexible in order to better match their needs. They enjoy a very good return, even compared with savings in the form of livestock, which apparently yield 13-15%. This is undoubtedly the reason why the volume of savings has been increasing quite considerably over the past 3–4 years.

2.6.4 Cost analysis

2.6.4.1 Costs covered by the donor (KfW)

In 11 years, the financial resources provided by the donor (KfW) have amounted to some FF15 million (US$3 million or FCFA1.5 million) consisting of the following:

- Material investments (vehicles, safes, office equipment etc.).
- A team of project facilitators for training bank workers and monitoring and controlling bank operations.
- Technical assistance for CIDR in terms of design, training for managers and rural inhabitants alike, help in establishing suitable structures and institutionalizing activities, technical and methodological support, assessments and impact studies.
- Provision of various funds such as the insurance fund, the innovation fund and the equity fund for the Service Commun.

2.6.5 Costs covered by the financial institution CVECA in the Pays Dogon

The network covers two types of costs:

- Financial and administrative costs at village bank and federation level, payment of any inputs provided by the Service Commun, the establishment of a contingency fund and a guarantee fund.
- Non-apparent or non-valued costs, i.e. villagers' participation in the establishment and running of their banks.

Table 3: Direct costs paid by the network

Type	Amount in FCFA	in US$
Financial expenses for savers	139,722,000	279,450
Financial expenses for BNDA	23,690,000	47,400
Village Banks' administrative expenses	14,423,000	28,850
Federations' administrative expenses	4,921,000	9,800
Payments of inputs by *Service Commun*	17,954,000	35,900
Total	200,710,000	401,400

Source: *Service Commun*.

The method of minimizing financial costs at the network level has therefore quite rightly relied on participation by the villagers who thus make up for their small savings through the wealth of their social ties.[14]

This study focuses on the villagers' inputs:

- Participation in the construction of the bank office building;
- The decision to pay higher rates of interest to ensure the bank is successful and able to finance itself;
- Disciplined debt repayment.

It also highlights the work of the managers and committee members:

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[14] The value of this participation was worked out in a study conducted for the OECD in 1996 entitled "*Développer des services financiers en milieu défavorisé: le cas des Caisse Villageoises d'Epargne et de Crédit Autogérées du Pays Dogon* (Developing Financial Services in Disadvantaged Regions: The Case of the Self-reliant Savings and Credit Banks in the Pays Dogon)" by Renée Chao Béroff, published jointly by the OECD and FIDA in 1997, under the title "*Crédit pour les pauvres ?* (Loans for the Poor?)."

- The voluntary nature of committee-member work;
- The virtually voluntary nature of the manager's work during the first few years;
- The diligent approach to unpaid training sessions and work itself.

The efforts made by the persons responsible in the bank associations:

- The voluntary nature of their work;
- The time and responsibilities involved in travelling to other villages, even beyond their own zone, in order to seek refinancing loans and attend meetings,

A very precise figure has been put on these inputs, namely more than FCFA100 million (or FF1 million/US$200,000). In total, the financial institution has covered some US$600,000, tantamount to 20% of the subsidies.

2.6.5.1 Costs charged to the savers

It is evident that everything has been done to ensure zero costs for the savers. Given this fact, it can be said that the CVECA are working to mobilize savings amongst the poor.

2.6.6 Lessons learned from the cost analysis

2.6.6.1 Success factors

In spite of the fact that banking operations were launched as a project and thus with subsidies, the operators are constantly aware of the fact that they have to limit costs if the system is to become financially self-reliant on time. Thus, investments in bank office buildings have been modest, in keeping with local conditions, and operations are based to the maximum extent possible on voluntary participation by the villagers. Personnel productivity has always been encouraged as much as possible to avoid the kind of overstaffing frequent in projects. Although it has operated for over 11 years as a project, the prevailing culture has been one of an enterprise that has had to balance out its resources in order to be able to sustain in the long term.

Aware of the fact that the Pays Dogon is a poor region with a number of impediments to project activities at the beginning, such as illiteracy, the exodus of young people (i.e. potential managers), the prevailing market constraints and a conservative society, the project opted to benefit from a donor-funded (KfW) investment phase to smooth the way. Donor funds were thus used for intensive training and upgrading, research into ways of diversifying activities, promoting an entrepreneurial approach and spirit etc. The results of these investments in the first seven years are quite convincing, both in quantitative and qualitative terms.

Since savings play a key role in the generating a feeling of identification and a sense of responsibility towards the system as well as ensuring it runs smoothly, every effort has been made to encourage savers who are, at the end of the day, the prime beneficiary of the village banks.

2.6.6.2 Limitations and risks

In a disadvantaged region, the implementation of a decentralized financial system entails a certain "surcharge" for the donor (or the state). Calculations based on the Pays Dogon have shown that this surcharge amounts to some 30–50% of the cost of implementation in a wealthier, more educated region with fewer access-related difficulties.

Are the decision-makers aware of this? Are they ready to consider these investments, in the form of subsidies, as prerequisites for the generation of banking services in isolated regions in which a system geared to fast profits would fail?

2.6.6.3 Possibilities of replication

Replication presupposes that donors and governments are aware of the costs and results of such investments and decide to push ahead with them within the framework of poverty reduction, with a view to granting disadvantaged rural inhabitants access to financial services.

The ongoing development of such thought-processes at both an international level (donor community) and national level (national development strategies for micro-finance in Mali and Burkina Faso, for example) illustrates that this approach is gaining weight and is in the process of leaving the sidelines and becoming a mainstream option.

3 CONCLUSIONS

With the particular emphasis on microcredits and the apparent ease of obtaining credit funds from donors to finance small loans, many NGOs working in microfinance do not consider savings as one of the financial services to offer their customers. Moreover, the legal restrictions imposed by the banking law and the lack of specific legislative frameworks for decentralized financial systems are further obstacles impeding the launch of such activities.

The CVECA in the Pays Dogon can therefore serve as a reference for these NGOs: In a region known to be poor and with no relevant legislation at the start of the operation, a clear choice was made to integrate savings services into the system.

3.1 Reasons for mobilizing savings

There are various reasons for a financial institution to mobilize savings: One possible reason is to offer customers or members facilities to safeguard small savings, promoting providence, better management of family budgets, encouraging savings at the level of both household and microbusiness. It is often apparent that financial systems offering opportunities for and encouraging saving have a greater and more lasting impact on the lives of their members or clients.

Another possible reason is to give the institution more stable local resources, providing a better negotiating basis for access to other commercial and banking resources. Equally, working with customer or member savings creates a strong sense of responsibility, encouraging more prudent and stringent management. If, in addition, the savings are used to make loans to individuals in the same community, there is a chance that social pressure to repay loans will be increased. Mobilization of savings accordingly promotes the sustainability of the institution.

Far from contradicting each other, these two reasons are often complementary, particularly if the institution is seeking to serve a disadvantaged population that does not normally have access to banking services. Both were incorporated into the design of the CVECA project and have helped it achieve the good results it has in terms of impact and acceptance, good management and negotiating capacity.

3.2 Savings capacity of the poor

For those who assume that the poor cannot save, there are now numerous examples demonstrating the contrary. It is precisely when people are in a precarious situation that they are particularly motivated to save in order to survive. Admittedly these are small and often short-lived savings. Mobilizing savings among poor groups should not be seen as aiming to rely solely on this local saving to fund all this population group's credit needs. Here, savings play an educational role, developing a sense of responsibility and providing a leverage and driving force. The institution should have access to other resources to meet demand for credit. Even if normally there has to be a link, in proportional terms, between the volume of savings mobilized and the volume of credit granted, experience has shown that it is more expedient to fix a ratio based on the clients' or members' capital-absorption and management capacities.

In the Pays Dogon, the CVECA have never made previous savings by a member a condition of access to credit, precisely in order not to exclude the poorest. They have never set a ratio of savings to borrowing at the individual level. This has, however, never had a negative effect on repayment ethics or led to excessive debts.

The prudential ratios enforced by the institutions must not have any negative repercussions on the clients. The institution is obliged to set strict regulations in order to protect its savers: at this level, it is the knowledge of the client, his/her capacities and personal qualities that play a greater role than anything else.

3.3 Savings products

Mobilizing savings does not entail any greater risk than in many other development activities based on village-level support provided that there is a detailed product concept to ensure adaptation to the savers' needs and their envisaged time scales. In-depth training in financial savings, coupled with the sensibilization and training of managers, controllers and committee members help them understand the importance of their functions for the bank's sustainability, and thus allow them to grasp the rationale behind the extra work and attention they are required to provide.

However, the DFS that are mobilizing savings should, right from the start, establish strict prudential regulations and systems of internal and external control providing optimal protection for their savers, even in the absence of legislation and regulations issued by the monetary authorities. This will facilitate integration into a legislative framework in due course and the introduction of supervision by regulatory authorities once they have been established.

One possible avenue worthy of exploring in an attempt to both mobilize savings by NGOs operating in the microfinance sector, and to secure these deposits to maximum effect, could be the generation at a national level between DFS of a savings insurance fund, as is the case between banks.

3.4 Regulations and supervision

Ultimately, promoters are often hesitant to mobilize savings owing to the restrictive legislative frameworks, even though such a service might seem necessary and useful to disadvantaged populations.

There should therefore be a study at the global level to collect information on this subject so as to generate suitable proposals that will make the authorities aware of the legislative vacuum or obstacles restraining access by certain categories to a service that is essential for their development. A description of actual conditions can often give rise to new laws and NGOs can play an important role in encouraging the evolution of such legislative frameworks. Indeed, the CVECA have contributed to legal thinking in West Africa, and have thus been able to integrate themselves into a framework which favors their evolution and sustainability.

3.5 Cost of mobilizing savings

Regarding the generally accepted idea that mobilizing savings is expensive because it requires the creation of an infrastructure and extensive training for management, the experience of the CVECA in the Pays Dogon shows that, although investment was higher at the start, mobilizing savings locally for use as local credit has been a pre-condition for the success of this highly decentralized financial system. In a context where distances are large, the cost of transport (for example, transporting funds for lending and collection) quickly becomes a decisive element of profitability. With local resources providing a financial basis for activity, there is a constant flow of money. With training, local self-administration of the system permits rapid disbursement and collection at minimum cost. Travel is thus limited to refinancing (twice a year) and external control (twice a year).

Mobilizing savings and self-administration are instrumental in lowering the operating costs of a system and hence contribute to its self-financing and sustainability. In areas that are remote, difficult to access and poor, this type of investment would certainly seem to be extremely relevant and effective.

4 REFERENCES

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5 ANNEXES

5.1 Annex 1: Macroeconomic, financial and social data

	1985	1994	1995	1996
Macroeconomic data:				
GDP (in US$ billion)	1.1	1.9	2.5	n.a.
GDP/per-capita (US$)	140	200	250	n.a.
Sectoral distribution of GDP				
• Agriculture (%)	47.30	40.20	44	n.a.
• Industry (%)	14.80	16.30	16	n.a.
• Services (%)	37.90	43.50	40	n.a.
Financial data:				
Inflation rate (%)	8	24.80	12.40	6.50
Exchange rate US$	400	300	500	500
Savings rate/GDP (%)	-14.30	6.60	8.80	n.a.
Investment rate/GDP (%)	19.60	26.50	26	n.a.
Bank interest rate	n.a.	n.a.	n.a.	n.a.
• Sight deposits	-	-	-	-
• Time deposits (%)		6	4	4
• Short-term loans (%)		15	15	13
Social data:				
Population (in millions)	7.3	9.6	9.8	n.a.
% rural	80	74	74	n.a.
% urban	20	26	26	n.a.
Population density in inhabitants/km²	5.96	7.4	7.4	n.a.

N.B.: In 1994, the FCFA was devalued by 50% against the FF, thus going from FCFA50 for FF1 to FCFA100 for FF1.

5.2 Annex 2: Institutional data

	1994	1995	1996
General information:			
No. of banks	54	54	52
No. of personnel	10	10	10
Balance sheet structure:			
Assets (US$)	359,800	601,600	1,065,000
• Bank	35,100	60,900	71,200
• Financial assets	31,700	61,900	129,000
• Loans outstanding	263,800	450,200	836,800
Liabilities (US$)	359,800	601,600	1,065,000

	1994	1995	1996
• Deposits	142,000	246,500	347,000
• Loans	112,500	199,500	464,000
Capital and reserves	34,500	52,300	76,700
Loan portfolio			
No. of loans outstanding	n.a.	4,625	5,685
• Female clients	n.a.	1,317	1,557
• Male clients	n.a.	3,308	4,128
Volume of loans outstanding (US$)	n.a.	450,200	836,800
• Female clients	n.a.	60,200	90,900
• Male clients	n.a.	390,000	745,900
No. of total loans granted per year	9,767	11,288	13,213
Volume of total loans granted (US$)	422,200	757,800	1,305,500
Nominal interest rate	40%	40%	40%
Saving facilities:			
No. of sight-deposit accounts	n.a.	876	809
• Female clients	n.a.	167	141
• Male clients	n.a.	709	668
Volume of sight deposits (US$)	n.a.	20,000	30,000
• Female clients	n.a.	798	1,234
• Male clients	n.a.	19,198	28,765
No. of term-deposit accounts	n.a.	1,941	2,610
• Female clients	n.a.	340	475
• Male clients	n.a.	1,601	2,135
Volume of time deposits (US$)	n.a.	226,568	317,025
• Female clients	n.a.	21,999	16,945
• Male clients	n.a.	204,569	300,080
Ratio sight-deposit acc./term-deposit acc.	n.a.	0	0
No. of deposits per year	n.a.	5,971	5,603
No. of withdrawals per year	n.a.	3,698	4,114
Interest rate on sight deposits	0	0	0
Interest rate on time deposits (%)	20	20	20

5.3 Annex 3: Performance indicators

	1994	1995	1996
Operational efficiency:			
1. Av. sight deposits/personnel	5,500	12,700	18,000
2. Av. no. of sight-deposit accounts/personnel	-	-	-
3. No. sight deposits/personnel		262	200
4. No. sight-deposit withdrawals/personnel		118	131

		1994	1995	1996
5.	Sight + time deposits as at 31 December /personnel		49,600	69,300
6.	Withdrawals sight and time deposits as at 31 December/personnel		31,000	44,700
7.	No. of deposits/personnel		597	560
8.	No. of withdrawals/personnel		370	411
9.	No. of loans granted/personnel	977	1,129	1,321
10.	Total volume granted/personnel US$	42,200	75,800	130,500
11.	Av. no. of loans outstanding/personnel		462	568
12.	Av. Volume of loans outstanding (US$)/personnel		37,900	83,500
Liquidity:				
13.	Av. liquid assets/assets	0.8	0.9	0.95
14.	Av. liquid assets/short-term liabilities	1.1	1.2	1.18
Risk assets:				
15.	Capital adequacy ratio (%)	19	15	15
16.	Av. Defaults/av. loans outstanding (default = payment more than 30 days late) (%)	96	99	99
17.	Av. capital/av. Defaults	-	-	-
18.	Provision for losses/av. loans outstanding (%)	1.10	0.50	0.08
Quality of financial mediation:				
19.	Net financial margin/av. assets (%)	14.90	15.30	19.40
20.	Other products	-	-	-
21.	Margin (%)	14.90	15.30	19.40
22.	Administrative costs/av. assets (%)	15.90	10	7
23.	Provision for losses/av. assets (%)	1	0.40	0.09
24.	Net usable margin/av. assets (%)	-2	4.90	12.30
25.	Financial revenue from loans/av. assets (%)	43	42	46
26.	Financial charges/av. loans outstanding (%)	19	21	22
27.	Interest differential (%)	24	21	24
Profitability:				
28.	Earnings on assets (%)	8	8.60	9
29.	Earnings on capital (%)	83.80	97.60	108.80