THE ROLE OF NGOs IN RURAL FINANCIAL INTERMEDIATION IN GHANA

A study prepared for USAID/Ghana

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EXECUTIVE SUMMARY

The Problem - A Market Failure in Rural Finance

Rural Ghana demonstrates both a high demand for credit and the capacity for savings. Yet few rural inhabitants receive loans and much of the surplus cash in rural Ghana remains outside the formal financial system.

To illustrate:

- A 1988 study by the World Bank estimated total demand for credit in the rural areas at $136 million. The Bank of Ghana reports that in 1993 formal sector credits to agriculture, forestry and fisheries totaled $26 million.

- The demand for saving opportunities in rural areas is great enough that people save even when they receive no or negative interest. Market vendors actually pay *susu* collectors 4% per month to collect their savings. Ghana's credit unions have mobilized over ¢2 billion in savings and pay no interest on the deposits.

- The cocoa crop, one of the main income earners in rural areas, generates revenue of ¢175 billion each year; yet only a small portion of this amount makes it into the formal financial system.

- Only 23 of the 123 rural banks have been rated "satisfactory" in performance. The rest have been rated "mediocre" or "distressed."

This market failure limits the growth of rural enterprises. This, in turn, leads to widespread unemployment and underemployment, forcing people living in rural areas to move to the city in an attempt to find work.

The Purpose of the Study - Can NGOs Play a Role?

The purpose of this study, initiated by the World Bank and financed by USAID/Ghana, is to examine whether NGOs can play a role in improving the delivery of financial services in rural Ghana.

To do this, we first profiled the work of fourteen NGOs in Ghana supporting the development of rural enterprises. We then reviewed fifteen NGO programs operating outside Ghana that gave further examples of the potential size and scope of successful NGO-managed financial intermediation programs.

From these two sets of profiles we derived six roles that NGOs could play in providing rural financial services. These roles were presented and reviewed in meetings with representatives of the Government of Ghana, the donor community, banks and NGOs. Based on our research and their suggestions, we have developed recommendations for donors in designing a program involving NGOs in rural financial intermediation.

NGOs in Ghana - Some Success, But Small Scale

Appendix A contains profiles of the 14 Ghanaian NGOs we reviewed. Of these, the Credit Union Association of Ghana (CUA), Women's World Banking, World Vision, TechnoServe, Freedom From Hunger, 31st December Womens' Movement and APPLE had the most extensive experience in supporting rural financial intermediation. Their programs have generated between ¢20 million and ¢5 billion in credit and between ¢10 million and ¢2 billion in savings. They have also achieved loan repayment rates of between 88% and 100%.

Despite this, all seven programs combine to meet only a minuscule amount of the total unmet demand for credit and savings facilities in rural areas. They lack the scale and the resources to have a national- or even a regional-level impact.

Box A - Ghana Programs

Ghanaian Programs Reviewed

Womens' World Banking/MASU
Freedom From Hunger
GECLOF
World Vision
TechnoServe
Credit Union Association
IFAD (with APPLE, WWB, 31st December)
GRATIS
CUSO
APPLE
Susu (GASCCS)
Action Aid
Sasakawa - Global 2000
31st December Womens Movement

External NGO Programs - Scale and Viability

Appendix B provides profiles of the 15 NGOs programs we reviewed from outside Ghana. Some key lessons from these NGOs include:

- **Scale:** Most of the programs we reviewed have reached national or regional scale. The others had clear plans on how they expected to reach large scale in the near future.

- **Financial Viability**: Almost all the programs we reviewed had a clear idea of how directly or indirectly they could continue providing financial services without continued grant funding.

- **Linkages to the Financial Sector**: Most of the NGOs we reviewed recognized that they operated within a larger context and developed explicit methods for linking their clients to the resources available in the formal financial sector.

Box B - External NGO Programs

International Organizations Reviewed

ACEP	Senegal
PRIDE	Kenya
Zambuko Trust	Zimbabwe
Community Development Trust Fund	Nigeria
Kenya Union of Savings and Credit Cooperatives	Kenya
Agricultural Bank of Sudan/TechnoServe	Sudan
Nile Bank/TechnoServe	Uganda
MBM	Indonesia
ADEMI	Dom. Republic
PRODEM	Bolivia
Grameen Bank	Bangladesh
ACDI/Cooperative Banks	Poland
ASKI	Philippines
FondoMicro	Dom. Republic
World Relief	Honduras

Similarities and Differences

Both the Ghanaian and the external programs used lending methodologies that are strikingly different from the traditional methods used by banks. They use incentives for repayment (such as peer pressure and access to larger loans) in place of collateral and employ various means of grouping clients to achieve greater efficiency. This allows the NGOs to lower the risk and the transaction costs of providing rural financial services.

The external programs differed from those in Ghana primarily in their focus on financial services, the degree of planning for larger scale and their level of financial viability. Most of the external programs we profiled focused solely on the provision of financial services or provided a separate management team for their financial service activity. They also operated on a national or regional level or had clear plans for reaching that level. Many of these programs were covering all of their operating costs with earned income.

In contrast, most of the Ghanaian NGOs operated other types of programs besides financial services. Their programs operated in scattered localities and generally lacked plans for scaling up. None covered all of their operating costs with earned income, but some provided benefits to the economy as a whole that exceeded their costs.

Lessons in Geography and Policy

When comparing programs, we found it important to distinguish between the type of rural area in which the NGO carried out its activities. We made a distinction between rural population centers, which we called Rural-Urban, and widely scattered population outside the population centers, which we called Rural-Rural.

Programs aimed at Rural-Urban areas provide credit and savings facilities for trading, service and light manufacturing businesses. With scale, they can become financially viable.

Programs in Rural-Rural areas focus on agricultural production and processing. They generally offer more technical assistance in management, marketing and production. Because of the intensive nature of their support and the wide dispersion of their clients, these programs usually cannot generate sufficient fee income to cover all their costs. However, they can develop viable rural enterprises that can make use of financial service from existing formal sector institutions.

Certain policy environments favored the development of NGO programs supporting rural financial intermediation. These programs operated most successfully where there was a liberalized policy on interest rates, low barriers to entry in the banking sector and low inflation.

Why NGO's?

Before we go too much further, we must acknowledge that NGOs are unlikely candidates for supporting financial services. That is a job usually given to the banking sector. If economically rational bankers won't take up the challenge, why should the job be given to NGOs?

A comparison of the incentives and methods of each type of organization shows how NGOs might be able to play a role in overcoming the market failure in rural areas.

> **Banks**: Private sector financial institutions operate with a profit motive. They must earn that profit on the margins between what they pay their depositors and what they earn on their investments. This makes them risk averse and very protective of their capital. Because of this they require hard collateral and conduct extensive loan investigations. High transaction costs eat into the banks' margins, so they prefer large loans and large, long term deposits.
>
> Rural areas generally have smaller businesses and fewer fixed assets. Rural economies often depend on a small number of activities and products. Thus, when banks look at the rural sector they see high risk, high transaction costs and low returns.
>
> **NGOs**: NGOs are not-for-profit institutions that operate with a development motive. Their continued income depends on their ability to convince donors that they are creating a positive and lasting impact with donor funds. They have operated for a long time in rural areas and know the needs and capabilities of people living in these areas. Some NGOs have specialized in providing financial services, recognizing that sustainable development depends on viable communities that generate their own income. Without short term pressure to generate a return for shareholders, NGOs were able to experiment with various forms of financial intermediation until they came up with programs that promoted enterprise development and could sustain themselves. These methods often

operate in direct contradiction to traditional bank practices, but have achieved high levels of loan repayment and savings mobilization.

When NGOs look at the rural sector, they see high levels of credit-worthiness, high savings potential and the opportunity for viable financial intermediation. However, NGOs have limited financial resources. Moreover, their programs barely dent the overall need for financial services in rural areas.

Thus, NGOs do have a role to play in rural financial intermediation, but they can't play it in isolation. The key to expanding financial services in the rural areas will be to match the successful methods developed by NGOs with the financial resources managed by the banks.

Six Roles for NGOs in Rural Financial Intermediation

Based on the NGO profiles, we have developed six potential roles for NGOs in rural financial intermediation in Ghana:

- **Direct Lender and Savings Mobilizer** - The NGO provides loans to and collects savings from people living in rural areas. It employs methods that allow it to cover all of its costs with earned income when it reaches adequate economies of scale. The NGO may borrow from the financial markets to increase the size of its revolving)an fund. Some NGOs playing this role have converted themselves into banks, bringing NGO methodology to the formal sector by becoming formal sector financial institutions themselves.

- **Matchmaker** - The NGO links rural borrowers and savers to the banks. The NGO takes on the tasks of organizing, training, assessing, monitoring and collecting from the clients. The bank provides loan capital and accepts savings deposits. The NGO receives income for the services it provides, either as a fee from the bank or by borrowing from the bank and relending the money to its clients at a higher rate.

- **Packager** - The NGO provides production, marketing, management and accounting assistance and training to rural enterprises to help them develop to the point where they can access financial services from a bank. The work of the NGO develops financially viable enterprises, but fees charged to rural enterprises for this service do not cover the full cost of providing the service.

- **Product Developer (R&D)** - The NGO experiments with innovative methods for providing financial services in rural areas. It develops credit and savings products that banks can implement profitably. It then teaches the banks how to use these products.

- **Trainer of Financial Institutions** - The NGO provides training to the staff and management of a bank, helping them to understand and implement successful methodologies for rural financial intermediation.

- **Trainer of NGOs** - The NGO provides training to other NGOs, helping them to acquire the expertise and financial disciplines needed to implement financial service programs. The NGO playing this role often serves as an apex institution, coordinating training and evaluations of several NGOs working in rural finance.

Assessing The Relative Merits Of These Roles

An assessment of the relative merits of these roles was carried out. Ideally, such an analysis would have provided a "no-brainer" solution to the market failure in rural financial intermediation in Ghana. Unfortunately, the results were less straightforward: What our analysis turned up was that the attractiveness of each NGO role varies with what it is one hopes to accomplish.

Our first step was to develop a list of potential goals which we considered to be of likely interest to the GOG and the international donor community. These included: financial viability of the NGO program; ability to deliver services to Rural-Rural clients; ability to significantly leverage donor funds; ability to support rural manufacturing and agro-processing; ability to tap into existing financial networks; reliability in delivering benefits to targeted clientele; ability to strengthen existing local institutions; ability to impact favorably on rural women; and ability to boost exports.

Our next step was to rate each of the roles in terms of its ability to accomplish each of these goals. Our analysis shows that the different roles have offsetting strengths and weaknesses: The Direct Lender/Savings Mobilizer, for example, is an ideal model if one is after financial viability and reliability of delivery of services. It is less than ideal, however, if one wants to extend services to Rural-Rural clients. The Packager, on the other hand, is ideal for reaching such out-of-the-way clients and for establishing rural agro-enterprises; but it cannot recover enough in client fees to fully cover its costs.

In sum, no one role clearly stood out as the best all-purpose answer to Ghana's problem.

Box C - Comparison of Strengths and Limitations of Roles

	Greatest Strengths	Greatest Limitations
Direct Lender/ Savings Mobilizer	• Financial Viability • Reliability of Delivery • Building Local Institutions • Impact on Women	• Remote Rural Areas • Using Existing Financial Network
Matchmaker	• Using Existing Financial Network • Impact on Women • Leverage • Building Local Institutions	• Promotion of Exports • Manufacturing and Agricultural Processing • Remote Rural Areas
Packager	• Remote Rural Areas • Manufacturing and Agricultural Processing • Using Existing Financial Network • Building Local Institutions	• Financial Viability
Product Developer	• Leverage • Using Existing Financial Network • Building Local Institutions • Remote Rural Areas	• Reliability of Delivery • Financial Viability
Trainer of Financial Institutions	• Using Existing Financial Networks • Builds Local Institutions • Leverage	• Reliability of Delivery • Impact on Women
Trainer of NGOs	• Builds Local Institutions • Impact on Women • Remote Rural Areas	• Financial Viability • Promotion of Exports • Manufacturing and Agricultural Processing

A Proposed Program for Ghana - Adding New Ingredients To The Soup...And Turning Up The Heat

As already stated, a basic finding of our research was that the state-of-the-art in rural financial intermediation by NGOs was behind that in many other countries. As a result, the scope of impact of these programs is very limited. One obvious solution to this might seem to be to simply train the existing NGOs -- no matter their role -- to do a better job. Our conclusion, however, was that this would not do the job. Our reasoning: It does not appear that the existing NGOs feel sufficient internal or external pressure to significantly change what they are doing. Therefore, we believe, training would not "stick".

Our proposal is that we should **create pressure for improvement** by doing two things:

(1) Raising the state-of-the-art by actively **demonstrating** what an experienced NGO with the right approach can accomplish within the Ghanaian context.

To achieve this, GOG and the donor community would, through an international RFP process, invite 2-3 experienced NGOs with a successful track-record in several countries to set up a rural financial intermediation scheme in Ghana -- this alongside 4-5 schemes managed by existing NGOs.

(2) Creating greater **accountability and impetus to change** via competition.

To achieve this, the GOG and donors would require participating NGOs to commit to specific performance targets and to report upon progress achieved on a quarterly basis. Progress would be reviewed not only by those funding this activity but also by a council comprised of peer organizations. We believe this scrutiny and inherent competition will spur NGOs to perform better.

Those failing to meet their goals would receive no additional funding until the underlying organizational causes of their failure had been addressed via training and adoption of improved systems and practices.

We envision a program lasting seven years and having two phases. In the first phase, lasting four years, four to eight local and international NGOs would receive grants to enable them to develop or expand rural financial intermediation programs. Working with donors and the GOG, they would establish specific performance targets relating to savings mobilized, loans made/recovered, rural revenues generated, rural jobs created, number of women clients assisted, etc. Their programs would be monitored throughout the four-year period for performance against these targets and, at the end, evaluated and ranked.

Those NGOs who met 85-100+% of their targets would receive additional funding for a three-year phase two. Those who met 60-85% of their targets would fall into "probation" but be provided with funds to purchase training geared towards the enhancement of overall management and information systems. Such NGOs could be "re-certified" and re-enter the funding pool. Those NGOs who failed to meet 65% of their targets would receive no additional funding.

Throughout the project life, loan funds will come from a combination of mobilized savings, formal financial sector credits (where necessary, prompted by partial and diminishing guarantees), and/or a project loan fund.

Recognizing that the management of six to eight NGO programs would generate a large workload for the GOG and donors alike, we propose that overall project management be provided by an independent, non-governmental Project Management Unit. This unit would work with NGOs to develop performance indicators, monitor NGO performance, develop and maintain a network of financial development NGOs, conduct evaluations and provide both advisory services and training.

Funding Requirements

Projected funding requirements for the proposed program are as follows:

Project Management Unit

Annual operating costs:	$300-350,000
Capital costs (LOP):	$250,000
Total LOP Estimate:	$2.35-2.7 million

NGO Grant Funding

Annual average grant per NGO:	$250-350,000
Total LOP Estimate (6-8 NGOs):	$10.5 - 19.6 million

Credit Needs (Direct and/or Guarantee)

Total LOP Estimate:	$15-20 million

Total Costs	$28-43 million

Potential co-financiers for such a large undertaking might include USAID, World Bank, CIDA, DANIDA and UNDP.

Results

The amount of lending and savings activity generated by this project will vary depending on the number of NGOs involved and the roles they play. Table A gives the estimated results of this program. We have based these estimates on the case study examples and assumed the project would included two Direct Lenders/Savings Mobilizers, two Matchmakers and one each of the remaining roles.

Table A - Estimated Results of a Rural Finance Program Using NGOs

	Seven Year Totals	Ten Year Totals
Loans Made	429.838	1.069.598
Amount Lent (US$)	$ 108.248.649	$ 295.442.356
Jobs Created	187.022	498.915
Jobs Sustained	469.763	773.380
Beneficiaries	4.506.763	8.450.462
Additional Wages and Profits (US$)	$ 182.640.278	$ 582.720.673
Loans Outstanding (US$)	$ 26.367.105	$ 32.316.978
Savings Mobilized (US$)	$ 10.659.273	$ 17.427.263

Project outputs would include, among others, the development of a cadre of professional financial development NGOs in Ghana, the development of a cadre of formal sector bankers armed with methodologies appropriate for the provision of rural financial intermediation services, enhanced rural financial intermediation, improved rural productivity, higher rural incomes, and more rural jobs, many of them in export-related enterprises.

Most important, this project would put in place a system of rural financial intermediation that could continue providing these benefits after the conclusion of donor funding.

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I. Introduction

A. Study Background

Development of the rural areas of Ghana will require an effective system of financial intermediation that channels cash surpluses from individuals and businesses into enterprises needing credit and investment. An effective system of financial intermediation will allow rural enterprises to start and expand operations, thereby increasing incomes and employment opportunities in rural areas. It will also provide rural savers with the opportunity to protect and earn income from their surpluses.

This study came about as a result of the continuing efforts by USAID and the World Bank to promote development in rural areas through improved financial services. It has been funded by USAID and will form part of the analysis that goes into the World Bank's Rural Finance II program.

The study is divided into two main sections -- one descriptive and the other prescriptive.

B. Statement of the Problem

1. The Paradox of Rural Savings and Credit in Ghana

A review of practices and available statistics in rural Ghana reveals a paradox -- a mismatch between the demand for and the availability of both savings and credit facilities.

First, a look at savings:

> On the one hand, through their demonstrated willingness to actually <u>pay</u> for the ability to build up investible funds via the *susu* system, or to lodge funds in rural enterprises whose financial futures are sometimes uncertain, it is clear that rural inhabitants in Ghana are in almost desperate need of secure and accessible savings mechanisms.
>
> On the other hand, few formal banking products exist which have been able to mobilize these savings -- as yet unquantified -- in any appreciable amounts. A good example of this is the cocoa crop. Each year cocoa generates ¢175 billion in revenue, and most of this goes to rural producers. Yet only a very small portion of this amount makes it into the formal financial system.

Next, a look at credit in Ghana:

> On the one hand again, estimates of the demand for rural credit range from a low of $48 million, using the production costs of maize, cassava, cocoa and cotton as proxy, to as high as $136 million using World Bank estimates of 1988.

On the other hand, formal sector credits outstanding to agriculture, forestry and fishery -- the chief components of rural sector economic activities -- in 1993 totaled only 17.3 billion cedis or, at the average exchange rate for that year, $26 million.

High demand for savings facilities. Low supply. High demand for credit. And, again, low supply. Clearly, a classic case of market failure in rural financial intermediation.

2. Limitations of the Major Formal Financial Institutions

The existing, major formal financial institutions in Ghana (e.g., Ghana Commercial Bank, Agricultural Development Bank, etc.), despite having access to significant funds via assorted concessional lines of credit, face several constraints in improving their rural financial intermediation due to, among others:

- high transaction costs because of the large number of clients with a narrow resource base they have to deal with,

- inflexible systems for dealing with the unique conditions found in rural areas, i.e., low literacy, poor infrastructure, lack of traditional forms of collateral, etc., and, arguably,

- a lack of understanding about the credit needs of rural inhabitants and the extent of their willingness/ability to save.

Some might add that the formal sector has also failed to intermediate rural finances as fully as it might due to a lack of competitive pressure to do so: Ample subsidized credit lines make saving mobilization a low priority; Treasury Bill rates of 27-30% make alternative uses of funds relatively unattractive.

3. Limitations of Smaller Private Institutions

By taking financial services closer to the rural communities, smaller-scale, private financial institutions such as the rural banks, credit unions, etc. have helped to mitigate circumstances, but even these groups have their problems:

- The rural banks have been plagued with poor credit management and, as a result, wholesale insolvency; as at late 1992, only 23 out of 123 have been classified as "satisfactory" in performance, the balance having been rated "mediocre" or "distressed."

- The credit unions, although blessed with low overhead operations, a savings-based orientation, and good access to rural communities, have been restricted by limited funds, limited scope for flexibility/ innovation, and a nonagricultural focus.

4. The NGO Experience

Meanwhile, the NGO community in Ghana (e.g., Women's World Banking, World Vision, TechnoServe, Freedom From Hunger, etc.) -- although hampered by limited financial resources -- has been helping rural inhabitants as well as the formal financial institutions to tackle the above-listed constraints by:

- organizing rural inhabitants into appropriate local-level institutions so that appropriate economies-of-scale are created.
- educating rural inhabitants in how to manage these institutions.
- helping the institutions to identify financially viable economic activities, including those that enhance productivity, add value and improve marketing,
- encouraging the institutions to mobilize savings from their membership as a tangible sign of commitment to sound enterprise management, and then either:
  - (i) lending directly to rural dwellers, or
  - (ii) linking them, through their organizations, with financial and other public and private institutions and resources.

Most important, NGOs in Ghana -- and perhaps even more so in other developing countries -- have shown both:

- a willingness to innovate, i.e., to develop financial products that meet the needs of rural dwellers -- farmers and traders alike, as well as in many, although, unfortunately, not all cases.
- a capacity to manage donor and community funds efficiently and responsibly.

5. The Challenge

Considering the above, and in the eyes of many, NGOs seem to hold great hope for the rural poor by providing a critical linkage between their communities and the formal financial sector.

But all is not rosy.

The rapid withdrawal of the public sector from commercial and financial activities, coupled with ambitious growth targets for the nation as a whole -- and agriculture in particular -- means that the demand on NGOs for the sorts of services listed above is going to increase dramatically, and rapidly.

Fueling the demand even further will be the added emphasis on bringing the rural sector into the national export drive, currently gaining momentum under the USAID/GOG Trade and Investment Program.

At issue is:

- whether, given the resources, the NGOs in Ghana possess the knowledge and the managerial capacity to scale up to meet this growing need, and
- whether, at a larger scale, they can continue to operate flexibly, efficiently and cost-effectively.

C. Study Objectives

Through this study we seek to examine the following questions:

1. Can NGOs play a role in rural financial intermediation in Ghana?
2. Can current NGOs in Ghana fill the rural financial gap?
3. If not, how can NGOs in Ghana be improved and expanded to fill the gap?

D. Study Methodology

To explore these questions the study team carried out the following activities:

1. **Review of Ghana NGOs** - We reviewed the program activities of fourteen NGOs involved in rural financial intermediation in Ghana. Profiles of each of these organizations are found in Appendix 1.

2. **Review of the best practices from outside Ghana** - We also profiled fifteen NGO programs operating outside Ghana, seven of these in Africa and eight from other continents. We selected these NGOs based on their recognized success and the lessons they provided in rural financial intermediation. These profiles are found in Appendix 2.

3. **Interviews and Presentations** - After compiling the profiles we conducted interviews with donor organizations, government officials, bank managers and NGO leaders to review the lessons the profiles provided. We also made two presentations, one to a small group of NGOs involved in providing financial services, the other to a larger group of representatives from government, banks, donors and NGOs. In these presentations we highlighted the key lessons from the study and sought comments and discussion from the people attending.

II. Description: Key Study Findings

The purpose of this section of the study is to describe the key findings of the study team. It will first highlight key findings inside Ghana, then review the programs from other part of the world. It will highlight the similarities and differences between the Ghanaian and non Ghanaian programs. The section will conclude with a review of the reasons for NGO involvement in rural financial intermediation and suggest appropriate roles for NGOs to play.

A. Key Findings

1. Ghana

Box 1 lists the fourteen Ghanaian organizations reviewed in this study. Appendix 1 contains summary statistics from these programs and Appendix A (under separate cover) contains case studies of these programs.

Box 1 - Ghana Programs

Ghanaian Programs Reviewed

Womens' World Banking/MASU
Freedom From Hunger
GECLOF
World Vision
TechnoServe
Credit Union Association
IFAD (with APPLE, WWB, 31st December)
GRATIS
CUSO
APPLE
Susu (GASCCS)
Action Aid
Sasakawa - Global 2000
31st December Womens Movement

In terms of scale of operations, the key NGOs engaged in rural financial intermediation in Ghana appear to be: the Credit Union Association of Ghana (CUA), Women's World Banking, World Vision, TechnoServe, Freedom From Hunger, 31st December Womens' Movement and APPLE.

Of these, only two -- CUA and Women's World Banking -- maintain activities whose sole focus is financial intermediation. World Vision and 31st December Womens' Movement, for example, operate nationwide, multi-faceted programs engaged in a wide array of relief and development activities. TechnoServe engages in a program of rural enterprise development that, while effective in mobilizing savings via mandatory equity contributions, nonetheless views credit as but one component among many necessary for ultimate business viability. Freedom From Hunger views credit -- and income generation -- as a means to generate sufficient funds for local communities to adopt improved nutritional practices.

Even leaving aside the issue of focus, the major existing NGO-managed rural financial intermediation schemes in Ghana are clearly limited in scope and in scale (see Table 2). Most are geographically limited: APPLE (IFAD) in part of Brong Ahafo Region; 31st December (IFAD) in Volta Region; Freedom From Hunger in Central Region; etc. And most can claim only limited numbers of beneficiaries, modest amounts of savings mobilized, and moderate amounts of credit disbursed either directly or indirectly -- especially when viewed in light of rural population totals and total savings and credit needs in Ghana. The key reason cited by these NGOs for their limited scope and scale is, inevitably: lack of financial resources.

To their credit, several NGOs have developed unique and effective products for their clientele: Women's World Banking's *susu* product clearly builds on traditional savings and credit practices and, just as clearly, meets the needs of program participants. Freedom From Hunger's credit groups and supporting informal guarantee scheme clearly benefits community members and rural banks alike. And TechnoServe's inventory credit program has proven enormously successful for those few who have been able to participate. Now the scheme has been adopted by a range of others, from the Agricultural Development Bank to IFAD to, possibly, in the near future, the World Bank.

Box 2 - Selected Statistics of Ghana Programs

Highlights of Ghana Programs
(in millions of cedis)

	Total Savings	Total Credit	Repayment Rate
WWB	¢ 160	¢ 260	88%
WVI	NA	¢ 330	90%
TNS	¢ 40	¢ 280	98-100%
CUA	¢ 2,200	¢ 5,500	98%
APPLE	¢ 60	¢ 330	82%
FFH	NA	¢ 20	100%
31 Dec.	¢ 10	¢ 200	47-100%

In sum, however, it appears that those very organizations who have proven themselves flexible and innovative enough to mobilize rural savings, and to both make and recover loans from their rural clientele in Ghana, lack the scale and the resources to have a national- or even a regional-level impact.

2. External Programs

Box 3 below gives a list of the 15 NGO-supported programs outside Ghana that we reviewed for this study. Appendix 2 contains summary statistics from these programs. Appendix A contains the case studies of these programs. We chose these programs based on their ability to effectively deliver financial service in rural areas. These cases taught us lessons on the potential for both scale and financial viability in NGO-managed rural finance schemes, the expertise required to run these programs and the linkages such programs can develop with the formal financial sector.

Scale: Most of the programs we reviewed have reached national or regional scale. Those that had not had clear plans on how they expected to reach large scale in the near future. Some examples:

- The Grameen Bank has lent over US$1 billion and has more than 1.7 million clients in 33,000 villages of rural Bangladesh.
- ADEMI has lent over $11 million to 28,000 clients in the Dominican Republic.
- TechnoServe has advised the Nile Bank of Uganda on innovative methods of providing mobile banking services throughout the country.
- Even a very small and young organization like Zambuko Trust in Zimbabwe has developed a national expansion plan that will establish branch offices in all eight provinces of the country over the next five years. Zambuko has also established the training systems for supporting this growth and lined up the donors who will provide the resources needed for expansion.

Box 3 - External NGO Programs

International Organizations Reviewed

ACEP	Senegal
PRIDE	Kenya
Zambuko Trust	Zimbabwe
Community Development Trust Fund	Nigeria
Kenya Union of Savings and Credit Cooperatives	Kenya
Agricultural Bank of Sudan/TechnoServe	Sudan
Nile Bank/TechnoServe	Uganda
MBM	Indonesia
ADEMI	Dom. Republic
PRODEM	Bolivia
Grameen Bank	Bangladesh
ACDI/Cooperative Banks	Poland
ASKI	Philippines
FondoMicro	Dom. Republic
World Relief	Honduras

Financial Viability: Almost all the programs we reviewed had a clear idea of how directly or indirectly they could continue providing financial services without continued grant funding.

- MBM in Indonesia received interest and fee income that exceeds its operating expenses by 39%.
- TechnoServe worked with the Credit Union Society of Kenya to help it develop policies and procedures that would enable the credit unions to operate profitably. ACDI provides similar training to cooperative banks in Poland.
- World Relief Honduras has been operating a village banking program for three years. Already it receives enough in interest income to cover all of its direct costs of developing and monitoring the village banks. Within another two years it expects to be able to cover the indirect management and support costs as well.
- PRIDE/Kenya's branch offices begin fully covering their costs within two years. With 25 branches operating, PRIDE can cover all branch and home office costs with earned income.

Expertise: All of the NGOs we reviewed had board and staff with expertise in financial services. Often NGOs who provided credit and savings facilities directly had bank presidents and vice presidents serving on their boards of directors. When NGOs served as advisors to banks and credit unions, they hired personnel with extensive banking experience to perform these tasks. The Grameen Bank uses people with masters degrees to manage its branch offices. However, some NGOs found banking experience was a detriment for someone providing financial services to the rural poor. Both Grameen and PRIDE/Kenya will not hire someone who has worked in a bank. They find these people are not able to understand the lives of the rural poor or the methods needed to serve them. Instead, these organizations provide their own training courses to develop appropriate expertise within their staff.

Linkages to the Financial Sector: Most of the NGOs we reviewed recognized that they operated within a larger context and developed explicit methods for linking their clients to the resources available in the formal financial sector.

- PRIDE/Kenya has an operating agreement with Barclays Bank. All of PRIDE's clients open bank accounts at Barclays where they maintain their savings and where PRIDE deposits their loans. This enables the clients to get used to working with bank staff and displays to the bank the financial integrity of PRIDE's clients.
- PRODEM in Bolivia has converted its operation into a bank called BancoSol. This bank provides loans and savings services and has expanded its loan fund by borrowing money on fixed deposits from corporations and wealthy individuals.
- ADEMI tried to graduate its successful clients to the banks, but found that there was still too large a gap between its largest loan and the banks' smallest. Instead it found that the banks were interested in lending to ADEMI and letting ADEMI handle the transactions with its clients.
- TechnoServe worked directly with banks and credit unions in the Sudan, Uganda and Kenya, providing them with systems and methods for reaching rural enterprises.

3. Key Similarities

NGO programs that had achieved some success providing financial services in Ghana employed similar methodologies to those used by their counterparts in other countries. Their credit delivery and savings collection methodologies ~~are~~ were strikingly different from the traditional methods used by banks. They ~~use~~ used incentives for repayment (such as peer pressure and access to larger loans) for collateral and employ various means of grouping clients to achieve greater efficiency. This ~~allows~~ allowed the NGOs to lower the risk and the transaction costs of providing rural financial services.

In addition, most of the programs in Ghana and those in other countries provided 50% or more of their loans to women. However, a closer look at lending to women shows a distinction in the size and type of loans given to women that holds up across countries. Those programs that provide most of their loans to women emphasize short term working capital loans for trading activities. Programs that made larger and longer term loans, and emphasized manufacturing businesses, usually provided the majority of their loans to men.

4. Key Differences

We also found some key differences between the programs operating in Ghana and the "best practices" we reviewed in other countries. These include:

- **Focus** - Most of the NGOs we reviewed outside Ghana focused solely on the provision of financial services or provided a separate management team for their financial service activity. In contrast, most of the Ghanaian NGOs operated other types of programs besides their financial service activity.

- **Planning for scale** - The NGOs outside Ghana were either operating on a national or regional scale or they had clear plans in place for reaching that scale. Those in Ghana are generally more localized and lacked clear plans for scaling-up.

- **Level of financial viability** - Reaching large scale allows the NGOs outside Ghana to achieve higher levels of financial viability. Almost all the NGOs outside Ghana either were covering all their costs with earned income, or had established plans for reaching a point where they could continue providing financial services to rural clients without continued outside support.

- **Information systems** - To be able to manage large scale financial intermediation services, the external NGOs developed information systems that report on savings deposits and loan repayments on a daily basis.

5. Other Lessons Learned

a. Not all rural areas are created equal

Comparing NGO activities in different countries and different types of locations within those countries also led to some additional lessons. When comparing programs, we found it important to distinguish between the type of rural area in which the NGO carried out its activities. We made a distinction between rural population centers, which we called Rural-Urban, and widely scattered population outside the population centers, which we called Rural-Rural. Box 4 below compares the characteristics, types of enterprises and financial services needed in these two areas.

Box 4 - Rural-Urban vs. Rural-Rural

Distinctions Between Rural Areas

	Rural - Urban	**Rural - Rural**
Characteristics	Population center Market center	Sparsely populated Widely dispersed
Types of Enterprises	Trading Services Light Manufacturing	Agricultural production Agricultural processing
Financial Services Required	Short term working capital loans Some longer term fixed asset loans Regular savings facilities	Agricultural input credit Fixed asset loans for storage and processing Post harvest savings facilities

These distinctions become important when looking at the potential for an NGO program to fully cover its costs with earned income. Those operating in rural population centers, providing credit and savings facilities for trading, service and manufacturing businesses, can often generate enough interest and fee income to cover the cost of their operations. NGO programs operating in Rural-Rural areas may become successful at developing viable rural enterprises which, in turn, generate economic benefits greater than the NGOs costs of service delivery. However, these programs can rarely generate enough income in fees to cover the costs of the training and management services they provide.

b. Nor are all policy environments

Government policies and the economic environment affected the ability of NGO financial intermediation programs to succeed. Government policies and economic conditions which encouraged the growth of NGO programs included:

- **Liberalization of interest rates** - Despite the methods used by NGOs to lower transaction costs, it still costs more to make a lot of small loans than to make a few large loans. To recover this cost, NGOs that provide loans directly need to charge interest rates that are equal to or greater than commercial rates. If government policies restrict maximum interest rates, NGOs could have trouble earning enough income to cover their costs.

- **Low barriers to entry in the banking sector** - Ease of entry into the banking sector enhances competition. This makes banks more willing to work with NGOs that can help them mobilize deposits and lower the transaction costs of rural loans. Low barriers also make it possible for rapidly expanding NGO lending and savings operations to convert into banks. (Note: Ease of entry into the banking sector needs to be accompanied with appropriate regulations that protects the interests of depositors.)

- **Low inflation** - High inflationary environments erode the capital base of lending programs and discourage savings. In times of rapid price escalation, many rural enterprises, other than trading businesses, find it difficult to earn returns that exceed the rate of inflation.

B. What Can NGOs Do to Support Rural Financial Intermediation?

Before examining the specific roles NGOs can play in rural financial intermediation, we first need to examine why NGOs should be involved in rural financial intermediation at all. After all, isn't this the job of the banks?

To decide whether there is a role for NGOs, we first must look at what causes the market failure in rural finance.

1. Banks' Aversion to Rural Areas

Private sector financial institutions operate with a profit motive. They receive deposits from individuals, organizations and companies that expect to receive their money back with interest. The financial institutions earn their income on the margin between what they pay their depositors and what they earn on their investments.

This structure of private sector financial institutions has several consequences:

- **Banks are risk averse.** They must protect the capital of their depositors. They cannot lend their depositors' money to individuals and businesses that may not pay it back.
- **Banks require hard collateral.** The best way for banks to insure their depositors' money is to guarantee their loans with collateral that will allow them to recover their capital even if the business fails. The best collateral for a bank is immovable and has an established market.
- **Banks conduct extensive loan investigations.** Banks protect their capital by making a thorough review of any planned investment. This often entails a full business plan, financial statements, market analyses and detailed management audits.
- **Banks prefer large loans and large deposits.** The difference in the amount of investigation required to make a $1,000 loan and a $1 million loan is marginal, but the difference in income is substantial. Banks limit their transaction costs by making larger loans. Similar economics apply to securing savings deposits.

In comparison, consider the conditions that prevail in rural areas:

- Smaller businesses, lower savings capacity per person and fewer fixed assets than in urban areas.
- Less business expertise and lower levels of literacy and numeracy.
- Economies that are dependent on a few activities and products.

Thus, when banks look at the rural sector they see:

- High risk, due to the low level of expertise and dependence on high-risk activities such as rain-fed agriculture;
- High transaction costs, due to the small size and wide dispersion of most rural business activities; and, therefore,
- Low returns.

Acting as economically rational institutions trying to maximize their profits, they avoid all but the largest and most secure rural enterprises.

Does this mean, then, that it is impossible to make money by providing financial services in rural areas? Not necessarily. The experiences of some NGOs profiled in this study show that they can provide financial services to rural clients in a cost-effective way. Some have even borrowed money from the commercial sector, lent it to rural clients, and covered all their costs with their interest income.

2. NGO Advantages in Rural Areas

Why have some NGOs succeeded where for-profit institutions have failed? The answer lies in the structure and motivation of NGOs.

As not-for-profit institutions, NGOs do not have shareholders demanding a financial return. They have been created to produce sustainable benefits for a targeted group of people. Their motivation for encouraging development, however, is not solely charitable. An NGO's survival depends on its ability to convince donors that it is making a positive and lasting impact with their money.

NGOs have operated for a long time in rural areas and know the needs and capabilities of the people living in these areas. Some NGOs have specialized in providing financial services, recognizing that sustainable development depends on viable communities that generate their own income. Without short term pressure to generate a return for shareholders, NGOs could experiment with various forms of financial intermediation. Many NGOs developed programs that promoted enterprise development and could sustain themselves with earned income. The methodologies developed by these NGOs differ markedly from the traditional methodologies of banks. For example:

- They eschew hard collateral and replace it with strong incentives for repayment, such as peer pressure and access to larger loans.
- They emphasize small and short term loans until a client has proven his or her ability to handle credit effectively.
- They do away with extensive investigation and make quick appraisals, often taking no more than a few days to make a loan decision.
- They tie lending to savings, often making loans calculated as a multiple of a person's accumulated savings.
- They organize clients into small groups of 5 and clusters of 50 or more to achieve economies of scale on small loans and small savings deposits.
- They bring the bank to the people, sending out loan officers and savings collectors to homes and work sites.

By applying these methods, NGOs came up with a much different view of the rural sector. When NGOs look at the rural areas, they see:

- High levels of credit worthiness;
- Strong savings potential; and, therefore,
- Opportunities for self-sustaining financial intermediation.

Of course, not all NGO attempts at financial intermediation have worked. Many NGOs lack the financial discipline and focus needed to pull this off. But what is remarkable is that, moving in where banks fear to tread, some NGO-led financial service efforts have succeeded. As the case studies show, a few have succeeded on a very large scale.

3. Strengths and Limitations of Banks and NGOs

Developing appropriate roles for NGOs in financial intermediation requires a careful look at the strengths and limitations of banks and NGOs in providing financial services to rural areas. Box 5 below makes this comparison.

Box 5 - Comparison of Banks and NGOs

Strengths and Limitations in Providing Rural Financial Services

	Strengths	**Limitations**
Banks	Extensive financial resources Large scale Marketplace discipline	Traditional methods inappropriate for rural clientele Need for short term returns
NGOs	Successful methods Knowledge of rural clientele Ability to experiment	Limited resources Small scale Lack of profit orientation

Banks, operating to maximize profits, prefer safe clients and large transactions. Poor people in rural areas are the last clients they will seek out. On the other hand, NGOs, seeking to maximize development, have made poor clients in rural areas their primary clients. Over time they have developed methods which make it viable to provide financial services to rural enterprises. But, with a few exceptions, these programs remain very small and cover a minuscule portion of the total number of people who want these services. Creating any real impact in rural financial intermediation will require uniting the successful methods developed by NGOs with the financial resources and scale of the formal financial institutions.

4. NGO Roles in Rural Financial Intermediation

Our study found six roles that NGOs currently play in linking methodologies appropriate for rural financial intermediation with the resources of the financial sector. These are:

- **Direct Lender and Savings Mobilizer** - The NGO provides loans to and collects savings from people living in rural areas. It employs methods that allow it to cover all of its costs with earned income when it reaches adequate economies of scale. The NGO may borrow from the financial markets to increase the size of its revolving loan fund. Some NGOs playing this role have converted themselves into banks, bringing NGO methodology to the formal sector by becoming formal sector financial institutions themselves.

- **Matchmaker** - The NGO links rural borrowers and savers to the banks. It takes on the tasks of organizing, training, assessing, monitoring and collecting from the clients. The bank provides loan capital and accepts savings deposits. The NGO receives income for the services it provides, either as a fee paid by the bank or by borrowing from the bank and relending the money to its clients at a higher rate.

- **Packager** - The NGO provides production, marketing, management, and accounting services to rural enterprises to help them develop to the point where they can access financial services from a bank. The work of the NGO develops financially viable enterprises which benefit the economy as a whole, but fees charged to rural enterprises for this service do not cover the full cost of providing the service.

- **Product Developer** - The NGO experiments with methods for providing financial services in rural areas. It develops credit and savings products that can be implemented by the banks on a profitable basis. It then teaches the banks how to use these products.

- **Trainer of Financial Institutions** - The NGO provides training to the staff and management of a bank, helping them to understand and carry out successful methodologies for rural financial intermediation.

- **Trainer of NGOs** - The NGO provides training to other NGOs, helping them to acquire the expertise and financial disciplines needed to implement financial service programs. The NGO playing this role often serves as an apex institution, coordinating training and evaluations of several NGOs working in rural finance.

III. Prescription: Study Recommendations

The purpose of this section is to provide prospective donors with a range of potential roles that NGOs might assume in Ghanaian rural finance and to propose a suggested project which capitalizes on all in a way that maximizes synergies and impact.

A. Key Considerations for Designing Prescriptions

1. Apply Key Success Factors

Any rural financial intermediation program in Ghana which proposes to work with NGOs will need to incorporate some of the key program components that have led to success (as explained in the program profiles). Some of these success factors apply to any NGO program, whatever the role being played, others are specific to credit delivery or savings mobilization.

a. General Success Factors

Most successful programs incorporated some or all of the following features:

- **Building Blocks** - Successful NGOs develop a model, a loan product or a savings mobilization system on a small scale and then repeat it many times to reach large scale.
- **Expert Leadership** - The board and top management in NGOs providing financial services must have financial expertise and a commitment to serving rural clientele.
- **Training Systems that Anticipate Growth** - In order to manage its growth the NGO needs to anticipate future staffing needs. It then must set up training programs which will develop professional and well-qualified staff for positions as they come open.
- **Timely Information Systems** - NGOs providing financial services need systems that generate information on payments and deposits, income and expenses, assets and liabilities. This information must reach all key decision-makers, from loan officers to board chairs, in time for them to make informed decisions.
- **Grassroots Operations** - The main function of the NGO must be to bring the bank to the people, enabling those living in rural areas to access financial services without feeling intimidated or having to travel long distances.

b. Success Factors in Credit Delivery

Successful credit delivery requires systems and methodologies appropriate to the level of enterprise being supported. Some common factors among successful programs included:

- **Simple loan assessment procedures** - The costs of assessing a loan should be kept in line with the income earned from the loan.
- **A system of organizing borrowers to reduce costs** - NGOs can use solidarity groups, village banks or clusters of individual borrowers to increase the efficiency of their loan officers and lower transaction costs. Whatever system of grouping clients is used, the

NGO needs to realize that organizing clients requires a lot of up front work to be done right.

- **Graduated lending** - Linking a client's ability to access larger loans to his or her repayment rates encourages timely repayments and limits risk to the lender.
- **Interest rates equal to or higher than commercial rates** - If rural enterprises are to access the formal financial sector, they need to be able to pay commercial rates. If NGOs are to cover all their costs of providing lending services, they may need to charge rates that are higher than those charged by commercial banks.
- **Linking lending to savings** - Tying loan sizes to savings deposits encourages savings and financial discipline by borrowers. It also reduces risks to the lenders, since the savings guarantees a portion of the loan.

c. Success Factors in Mobilizing Savings

To mobilize savings NGO programs need to understand what motivates people in rural areas to use savings facilities. Some key motivating factors, as explained by our project profiles, include:

- **Ease of Deposits** - Having to walk long distances, stand in long cues or complete complicated forms discourages savings deposits. Many successful rural savings mobilization programs take their lessons from the *susu* collectors and send deposit collectors to the places where people work and live.
- **Ready Access to Funds** - Rural life is filled with unexpected financial needs. Savers want to know that they will have access to their deposits when they need it.
- **Security** - Money kept at home or in the marketplace can be stolen or burned in a fire. Savers seek a place where they know their money will be protected.
- **Secrecy** - In the rural areas, savers seek to put their money in places where friends and relatives will not know about it. If friends and relatives don't know about it, they won't ask to borrow it.
- **Access to Loans** - The credit unions and others in Ghana have found that providing loans based on savings deposits gives rural people a strong incentive to save.
- **Interest rates** - All things being equal, savers would like to earn a return on their money. However, the factors listed above seem to provide more incentive to savers than interest rates (market women pay *susu* collectors 4% a month for their savings collection service).

2. Know the Key Constituents

Any program aimed at improving financial services in the rural areas needs to consider the needs and interests of all of the key constituents in the program. These include rural savers and borrowers, financial institutions, NGOs, the government of Ghana and the donors.

a. Rural borrowers and savers

Rural borrowers seek access to loans that will enable them to expand their businesses and increase their profits. This means the size of the loans must not be greater than what the borrower can profitably invest. The length of the loan must match the length of time it takes for the business to turn over its stock or pay back the investment it has made in capital. This means the sizes and terms of the loans will need to vary according to the purposes of the loan. Short-term working capital loans for trading enterprises, working capital and longer-term fixed asset loans for service, manufacturing and processing businesses, and seasonal loans for agricultural production.

Rural borrowers are concerned more with the total transaction costs they pay on a loan, rather than just the interest rates. The cost to the borrower includes the costs of transportation and time away from the business when applying for a loan and making payments. A long application process also places a cost on the borrowers, especially when the loan decision does not get made until after the optimum time for making an investment. This timing issue can be critical in rural enterprises where so much business activity relates to growing seasons.

Rural savers seek an easy way to make deposits, ready access to funds, security, secrecy and access to loans, as well as interest on their deposits. These factors have been explained more fully above.

b. Financial Institutions

Financial institutions seek secure investments in rural areas that provide them with a market rate of return. This means that the spread between their earnings on an investment and their total cost of lending, including transaction costs and allowance for bad debts, must equal or exceed the spread they can achieve in other investments.

Financial institutions also seek to increase their deposits. However, banks will not be interested in securing deposits in rural areas if the cost of mobilizing and maintaining them is greater than the cost at which they can obtain funds on the commercial market.

c. Government of Ghana

The Government of Ghana seeks a system of rural financial intermediation that will increase income and employment in the rural areas, thereby reducing urban migration. This system should promote the development of stable enterprises that promote the national economy as well.

The GOG also seeks to maximize the support of Ghanaian institutions and the employment of Ghanaians in any development project, and wants to make sure that the lessons learned through a development project remain within the country.

d. Donors

The donors, like the government of Ghana, seek a rural financial intermediation system that will support national development. Some donors place a special emphasis on promoting export trade. Donors want to support a system that will not require continuous subsidies, nor require a large amount of office time and paperwork to move small amounts of money.

e. NGOs

NGOs seek stable sources of financial support that will enable them to plan and execute large scale programs. They are willing to work with a variety of funding instruments, including grants, secondments and loans. However, they want to avoid situations where they expand based on donor assurances of funding, only to find that the funds have stopped before the program is completed.

NGOs would like to learn more from the experience of others, including those operating outside of Ghana. NGOs also seek to be recognized by the donor and financial community as having a legitimate role to play in rural financial intermediation.

B. Possible NGO Roles

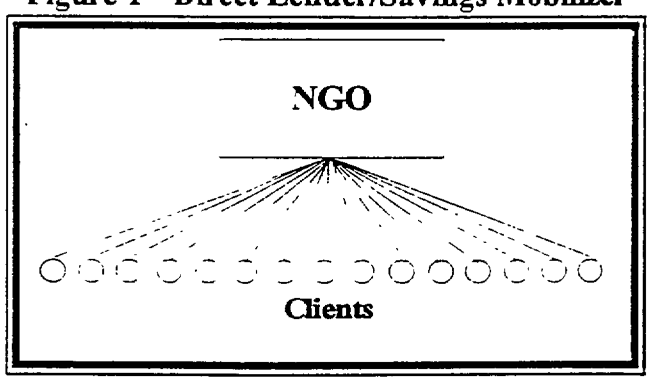
The following section gives a detailed description of the roles NGOs could play in promoting rural financial intermediation in Ghana. We have included tables summarizing the expected costs and potential impact of each role. The assumptions and calculations we used to develop these tables are given in Appendix 3.

1. Direct Lender/Savings Mobilizer

Goal: The NGO operating as a Direct Lender and Savings Mobilizer seeks to provide credit and savings services directly to rural individuals and enterprises.

Problem Addressed: The Direct Lender/Savings Mobilizer overcomes the problem of the lack of savings and credit facilities by providing these services directly. It uses methodologies and systems that reduce both the risks and the transaction costs of working in the rural areas.

Figure 1 - Direct Lender/Savings Mobilizer



Methodology/Structure: The Direct Lender and Savings Mobilizer will:

- Make loans directly to individuals operating rural enterprises.
- Prepare and organize its clients to receive these loans.
- Monitor loan recipients and make collections.
- Provide savings services to rural clients.

In its lending operations, the Direct Lender and Saving Mobilizer will need to employ methods which make it cost-effective to make small loans to rural borrowers. This will include organizing clients through solidarity groups, geographical clustering and/or village associations so that a single loan officer can meet with 100 or more clients each month.

In providing savings services the Direct Lender and Savings Mobilizer will need to provide savers ready access to their deposits and insure the security and secrecy of the deposits it receives. It may also link the loans it provides to the level of savings deposits received from a client.

In both savings and lending operations, the usage of the program by rural clients will depend on the ease with which they can access it. The NGO will need to locate its offices in market centers and/or employ collectors who go to the sites of business activity to collect loan repayments and savings deposits.

Examples: In Ghana, the Womens' World Banking MASU program operates as a Direct Lender and Savings Mobilizer. This program uses *susu* principles to mobilize savings through groups of market-traders. Those participating in the savings program also qualify to receive loans. Other examples in the case studies include Grameen Bank, ADEMI, PRODEM/BancoSol, PRIDE, Zambuko Trust, MBM and ASKI.

Participating Institutions: NGOs operating Direct Lending and Savings Mobilization programs will need to have experience providing lending and savings services in rural areas on a cost-effective basis. They will need to demonstrate the ability to develop a financially viable program that achieves wide scale.

These NGOs could work in cooperation with formal sector banks in several ways. At a minimum the NGO would need to operate bank accounts where it would deposit the funds it received from donors and clients. The NGO could also develop relationships with banks so that its clients could each have their own bank accounts for their business activities and savings. Loan amounts could be deposited directly into these accounts.

Direct Lenders and Savings Mobilizers could also work with other NGOs and governmental programs that provide business training to rural entrepreneurs.

Primary Beneficiaries: The primary beneficiaries of this activity will be rural entrepreneurs who receive loans and rural individuals who operate savings accounts. Other beneficiaries will include rural employees who receive jobs because of the expansion of rural enterprises.

Impact: Direct Lending and Savings Mobilization will:

- Create jobs in rural areas
- Increase the incomes of rural enterprises and their employees
- Recirculate rural savings into productive rural business activities

Table 1 - Estimated Impact of Direct Lending and Savings Mobilization

	7 Year Totals	10 Year Totals
Loans Made	78.667	202.167
Amount Lent (US$)	$ 23.600.000	$ 60.650.000
Jobs Created	47.200	121.300
Jobs Sustained	94.400	242.600
Beneficiaries	609.000	1.423.800
Additional Wages and Profits (US$)	$ 33.181.836	$ 108.002.129
Loans Outstanding (US$)	$ 3.650.000	$ 4.850.000
Savings Mobilized (US$)	$ 1.661.614	$ 2.843.542

Costs: The costs of operating a Direct Lending and Savings Mobilization Program include:

- Capital equipment needed to start and expand operations
- Operating subsidies to cover the difference between operating costs and interest income until the program can fully cover its costs.
- Funding for the revolving loan fund (these can be provided as a combination of grants and loans).

Table 2 - Estimated Costs of Direct Lending and Savings Mobilization
(in thousands of US$)

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Totals
Grants to Operating Costs	100	150	200	150	100	50	-	750
Grants to Loan Fund	100	150	250	300	350	400	-	1.550
Total Grants	200	300	450	450	450	450	-	2.300
Borrowings for Loan Fund	-	-	-	300	400	600	800	2.100

After a period of three to five years, this activity should be able to fully cover its operating costs through interest and fee charges. However, NGOs expanding this activity to new geographical areas will need to continue receiving grants for capital equipment and grants or loans to expand their revolving loan funds.

Strengths:

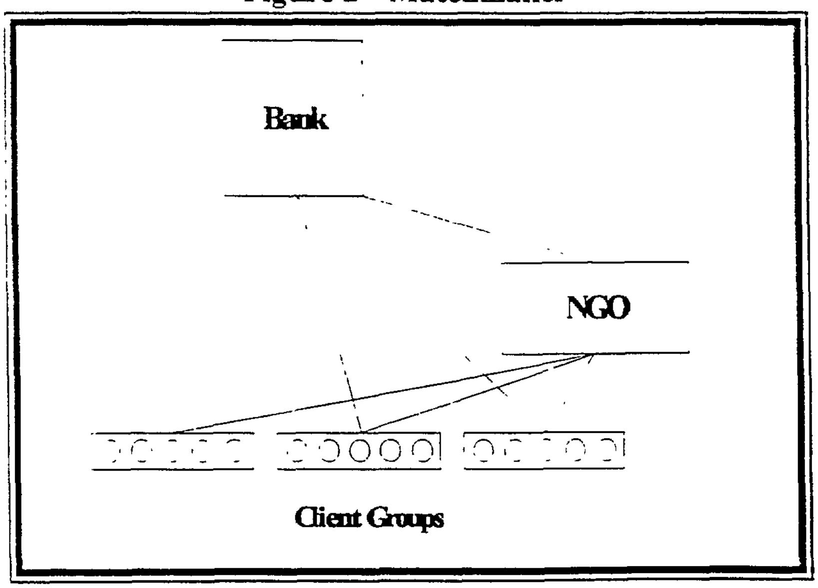
- Provides loans and savings facilities directly to rural clients through organizations committed to working with rural clients
- Provides financial intermediation services through organizations experienced in using cost-effective methodologies for reaching the rural sector.
- Uses organizations familiar with rural clientele which can develop relationships of trust with their clients
- Links rural savings directly with rural credit delivery, making sure that money from the rural sector does not get siphoned off into urban enterprises.

Limitations:

- Requires grants or equity to start the initial revolving loan fund, rather than resourcing all loans through the existing financial system. (Once they have established a track record, NGOs operating this way can leverage their equity by borrowing from the commercial market.)
- Many NGOs do not have experience operating at the scale required for this activity to be financially viable
- Likely to only prove viable in Rural-Urban areas

2. Matchmaker

Figure 2 - Matchmaker



Goal: The Matchmaker NGO links rural borrowers and savers to the existing formal financial system.

Problem Addressed: Matchmaking reduces the high transactions costs incurred, and the high risks perceived by financial institutions operating in rural areas.

Methodology/Structure: The Matchmaker NGO organizes and trains clients, mobilizes their savings, vets their credit applications and then presents these to the bank. The bank disburses the loans, often in one lump sum through the NGO. The NGO then monitors the loans and collects loan repayments and additional savings. Specific activities the NGO will undertake include:

- Organizing clients into groups or clusters
- Providing training in how to access the services of the bank
- Providing training in how to manage credit and savings
- Assessing and approving loan applications
- Disbursing loans
- Monitoring enterprises
- Collecting loan repayments and savings deposits

Examples: Freedom From Hunger (FFH) plays a matchmaking role with selected rural banks in Ghana. It establishes and trains groups of borrowers and savers and collects savings deposits from the clients during the training process. Once training is complete and the clients have shown their ability to save a set amount on a regular basis, the clients can apply for loans. These loans must be approved by everyone in the group. FFH deposits the savings in the rural bank and brings in the approved loan applications. The bank provides FFH a lump sum for all of the approved loan applications, which FFH disburses through its client groups. FFH provides regular monitoring on the client enterprises and collects weekly loan repayments, depositing these in the bank.

World Vision plays a similar role in Ghana by organizing local finance committees into credit unions in the communities it serves. These credit unions become members of the Credit Union Association of Ghana.

Participating Institutions: The NGO playing the Matchmaker role will need to have experience in organizing, supporting and monitoring rural credit and savings activities. It will also need to have or develop good working relationships with formal sector financial institutions.

This role also requires commercial banks, rural banks and/or credit unions to supply loans and hold deposits.

Primary Beneficiaries: Primary beneficiaries of these activities are rural enterprises and their employees, and also rural savers. This type of activity functions best in rural population centers. It can serve all types of businesses, but most often supports trading enterprises with high profits and quick turnover.

Financial institutions that participate with Matchmaker NGOs would also benefit by gaining access to the savings mobilized by the NGO.

Impact: The Matchmaking activity will:

- Create jobs in rural enterprises
- Increase the incomes of rural enterprise owners and their employees
- Assist rural financial institutions to become more profitable
- Help people living in rural areas learn how to work with banks and help banks learn how to work with rural clients.

Table 3 - Estimated Impact of Matchmaker

	7 Year Totals	10 Year Totals
Loans Made	101.776	243.416
Amount Lent (US$)	$ 20.355.111	$ 48.683.256
Jobs Created	29,079	69,548
Jobs Sustained	111.953	267.758
Beneficiaries	698.663	1.446.527
Additional Wages and Profits (US$)	$ 24.773.880	$ 77.706.278
Loans Outstanding (US$)	$ 2.715.363	$ 1.921.678
Savings Mobilized (US$)	$ 1.350.459	$ 1.700.803

Costs: The Matchmaking NGO will need funding for capital equipment and operating subsidies. Financial institutions will provide the loan funds out of their own resources.

Table 4 - Estimated Costs of Matchmaker
(in thousands of US$)

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Totals
Grants to Operating Costs	100	150	200	250	200	150	100	1.150
Additions to Loan Guarantee	100	-	-	100	100	100	100	500
Totals	200	150	200	350	300	250	200	1.650

The Matchmaking NGO could negotiate an arrangement with the participating financial institutions that would enable the NGO to earn income for the organizing, monitoring and collection service it is providing. This can be done in two ways. First, the bank could pay a service fee to the NGO based on the portion of the interest income it receives. Second, the bank could make a loan to the NGO at an interest rate that covers its costs of capital and administration and also its profit margin. The NGO could then relend this money to its clients, adding to the interest rate the cost of the services it provides. With sufficient scale, the NGO could recover all of the costs of providing the Matchmaker service.

Participating financial institutions may require a loan guarantee before they will enter a Matchmaking agreement with an NGO. The percentage cover provided by the guarantee should decline as the NGO proves its ability to mobilize savings and get loans repaid.

Strengths:
- Leverages existing resources in the financial sector
- Allows NGOs and rural financial institutions to both do what they do best
- Ties rural enterprises and rural savings into the existing financial network in rural areas
- Allows rural enterprise owners to establish a credit history with a bank

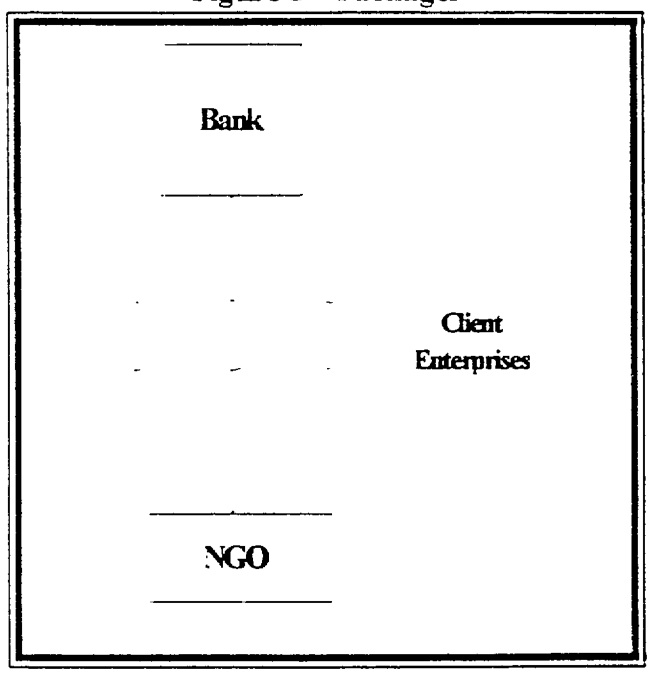
Limitations:

- Will only work where there is an existing financial institutions with the resources and willingness to participate with the NGO
- The higher interest rates needed to cover the costs of the NGOs services can limit the applicability of these programs to manufacturing business
- Limited financial viability in Rural-Rural areas.

3. Packager

Goal: The goal of the Packager NGO is to provide formal sector financial institutions with "bankable" enterprises which are both financially and organizationally sound by the time they reach the banker's desk for loan approval.

Figure 3 - Packager



Problem Addressed: The problem addressed by the program is the banks' dual concerns that:

- There are no profitable opportunities -- i.e., ones where revenues generated exceed costs of lending -- in the rural sector; and
- If there are such opportunities, the costs of organizing rural entrepreneurs -- who typically have limited prior formal business experience -- to effectively exploit them make these opportunities unattractive to pursue.

In essence, via technical assistance and training, the Packager does all the background work needed to bring a given project to the point where it is genuinely ready for bank consideration -- thereby relieving the bank of most loan investigation and processing costs, except perhaps those required for the "final touches."

Methodology/Structure: The Packager will work intensively with organized groups of rural entrepreneurs to ensure the commercial, technical and organizational feasibility of their joint undertakings before approaching the formal financial sector for assistance.

More specifically, working on-site and alongside its clients, the Packager will help them to:

- Assess local needs and resources
- Identify viable, profitable opportunities for using local resources to meet local needs
- Assess community readiness and commitment to the establishment of a viable business enterprise
- Develop internal management and administrative structures and procedures, e.g., supervision and control systems, meeting schedules, etc.
- Obtain legal status so as to be able to enter into formal agreements with banks, suppliers, etc.
- Understand the role of the formal financial sector and their responsibilities toward it
- Develop realistic business plans, including detailed production, marketing and human resource development plans, cash-flow projections, etc.
- Mobilize local resources in order to meet minimum project start-up criteria (minimum savings/equity levels, in-kind contributions, local guarantees, etc.)
- Hire competent managers and skilled/unskilled laborers, and to design/implement effective systems to motivate them
- Establish commercial relations with local banks, including the sourcing of necessary loans, be they working capital, inventory or investment in nature
- (Where necessary) Source and procure equipment/supplies
- Monitor intensively and ensure timely loan repayment

The NGO will administer both directly (using the Packager's own staff of qualified technical and managerial consultants) and indirectly (leveraging existing institutional support). To ensure maximum efficiency and cost-effectiveness, assistance will be product/sector-focused, allowing the NGO to build up product/sector-specific expertise. With time, the NGO can develop an enterprise "model" whose marginal costs decline considerably with each replication.

Because of the intensive nature of the assistance, the NGO playing this role will incur high costs. To insure that these costs benefit as many people as possible, the Packager will gear its assistance to small- to medium-sized projects/enterprises as opposed to microenterprises. As these enterprises will likely require larger and longer-term loans than traditional microenterprises, a guarantee fund will be established to encourage bank participation. This guarantee, however, will be partial and gradually diminished to ensure full bank participation in enterprise monitoring.

A formal Management Agreement will govern the relationship between the NGO and the client. This Agreement will clearly outline the responsibilities of each party. It will also detail the fee structure for assistance. Fees will be geared to "ability to pay" and may include a percentage of profits.

Where possible, the Packager NGO will negotiate a service fee to be paid to it by participating banks. This fee will recognize the fact that the NGO is, in essence, doing all of the preparatory work normally done by a bank loan officer.

Participating groups who fail to repay loans without legitimate reasons will face legal consequences and will be barred from further assistance. On the other hand, those who repay on-time (or early) will gain access to further financial and/or nonfinancial assistance.

Examples: TechnoServe performs the Packager role in its work with community-owned palm oil mills in rural Ghana. TechnoServe carries out all of the activities listed above, producing rural enterprises that receive loans from the Agricultural Development Bank. These enterprises also encourage rural savings by requiring a mandatory equity contribution from members of the community group.

Participating Institutions: Participating NGOs in Ghana will include those with a proven track-record in the provision of cost-effective technical assistance to small- to medium-scale rural enterprises.

Such NGOs will need to possess, at minimum:

- A knowledge base of viable rural enterprise development practices
- Prior experience in savings mobilization and providing loan guarantees
- Strong loan assessment, monitoring and collection capabilities

Other participating institutions will include formal sector banks, including rural banks.

Primary Beneficiaries: Primary beneficiaries will include organized groups of rural entrepreneurs -- male and female alike -- with the interest, commitment and capacity to establish and maintain profitable, small- to medium-scale enterprises.

Financial institutions will benefit from increased savings deposits and lower client development costs.

Impact: The establishment of small- to medium-scale rural enterprises geared to the responsible exploitation of local resources will:

- Create local jobs
- Increase local incomes, both at the enterprise and at the supplier/purchaser levels
- Spur increased rural productivity
- Enhance rural management/technical skills
- Foster improved linkages between rural communities and the mainstream economy
- Stem rural-urban migration

Table 5 - Estimated Impact of Packager

	7 Year Totals	10 Year Totals
Loans Made	95	95
Amount Lent (US$)	$ 475.000	$ 475.000
Jobs Created	9.500	9.500
Jobs Sustained	35.725	35.725
Beneficiaries	256.500	256.500
Additional Wages and Profits (US$)	$ 30.437.338	$ 43.302.016
Loans Outstanding (US$)	$ 310.000	$ 105.000
Savings Mobilized (US$)	$ 1.739.618	$ 2.454.851

Cost: The Packager will need funding for capital equipment and ongoing operating costs. including:

- Salaries for technical/managerial advisors and support staff
- Office rent. equipment and utilities
- Local travel costs (per diems and/or outstation allowance)
- Vehicle purchases. operations and maintenance

Additional costs will include a loan guarantee fund to secure the participation of banks.

Table 6 - Estimated Costs of Packager
(in thousands of US$)

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Totals
Grants to Operating Costs	250	275	300	325	350	350	350	2.200
Additions to Loan Guarantee	33	60	70	64	48	27	-	302
Totals	283	335	370	389	398	377	350	2.502
Cumulative Guarantee Fund	33	93	163	227	275	302	302	

The Packager NGO can recover part of these costs through management fees charged to clients and service fees charged to participating banks.

Strengths:

- Intensive. on-site approach is well suited to rural areas with low literacy rates and limited business experience
- Detailed community analysis and screening process reduce the risk of loan default

- Working with groups enhances cost-effectiveness of assistance
- Necessity of saving to leverage bank financing promotes a culture of savings and local financial discipline
- Linking rural community to banks creates opportunities for additional community lending if the group performs responsibly (i.e., "graduation")
- Development of sound business plans before financing ensures that loan amounts are based on ability to repay
- Use of partial, diminishing guarantee ensures bank commitment to client monitoring
- Close monitoring by NGO minimizes risk of default
- Provision of management training provides groups with skills to operate effectively and, eventually, to create new ventures without additional assistance

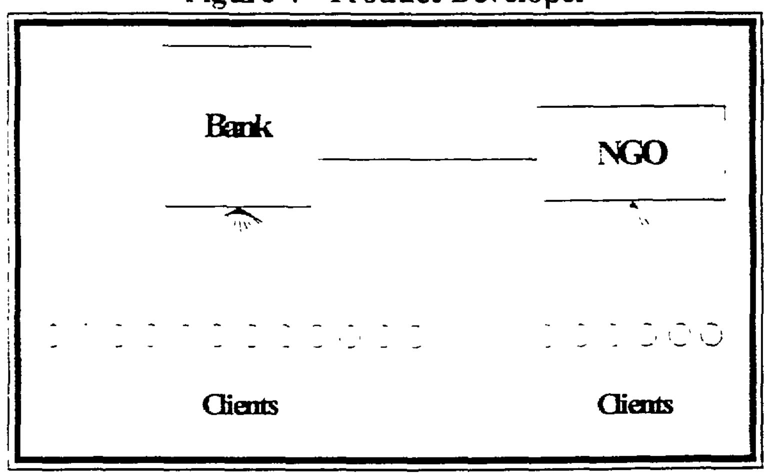
Limitations:

- Approach is probably not cost-effective for micro-scale enterprises (i.e., "micro" as traditionally defined)
- Cannot fully cover costs of services through internally-generated funds

4. Product Developer (R&D)

Goal: The goal of the Product Developer program is to provide formal sector financial institutions with new, field-tested and -proven products which, once adopted by this sector, will simplify the process of rural financial intermediation for all parties involved.

Figure 4 - Product Developer



Problem Addressed: The problem addressed by the program is the banks' inability to provide effective rural financial intermediation due to the inappropriateness of their traditional savings and credit products and/or the inflexibility of their current systems.

Methodology/Structure: The Product Developer will work intensively with rural entrepreneurs and formal sector bankers to design, field-test and document the effectiveness of a range of financial intermediation products which meet the needs of savers/borrowers and bankers alike.

More specifically, working on-site and alongside both its rural clients and its collaborating financial institutions, the Product Developer will help them to:

- Design a financial instrument or service that promotes the development of rural enterprise and/or the mobilization of savings
- Test the financial product with a limited number of rural clients
- Assess the results of the test and test again, if necessary
- Document guidelines for effectively implementing the financial product, including detailed step-by-step descriptions of procedures to be followed
- Train banks in the use of the product and follow up with them as they apply it to many more rural clients

Depending on the product in question, the NGO may have to provide participating financial institutions with a guarantee to leverage funds. This guarantee will be partial and will gradually diminish in order to encourage the adoption of full product responsibility by the banking sector.

Examples: TechnoServe began a system of inventory credit with some community groups with which it worked. In this system, the groups put their harvest in storage and waited to place the product on the market until they could get the maximum price. TechnoServe negotiated with the ADB to provide loans to cover the costs of storage and other expenses during the time between the harvest and the sale. TechnoServe developed a set of procedures that its community groups employ to ensure safe storage of their products and proper timing of the sale. Now the ADB and other organizations are beginning to make inventory credit loans to other clients that do not receive support from TechnoServe.

Participating Institutions: Participating NGOs in Ghana will include those with a proven track-record in product innovation and in the provision of cost-effective technical assistance and training to small- to medium-scale rural enterprises.

Other participating institutions will include formal sector banks, including rural banks

Primary Beneficiaries: Primary beneficiaries will include:

- Rural entrepreneurs -- male and female alike -- with the interest, commitment and capacity to establish and maintain profitable business enterprises.
- The formal financial sector which will benefit from the background product design, testing and refinement (truly, R&D) carried out by collaborating NGOs.

Impact: The establishment of rural enterprises geared to the responsible exploitation of local resources will:

- Create local jobs
- Increase local incomes, both at the enterprise and at the supplier/purchaser levels
- Spur increased rural productivity
- Enhance rural management/technical skills
- Foster improved linkages between rural communities and the mainstream economy

The development of new, field-tested and -proven products for rural financial intermediation will increase the outreach -- and the profitability -- of local banking institutions.

Table 7 - Estimated Impact of Product Developer

	7 Year Totals	10 Year Totals
Loans Made	4,383	9,403
Amount Lent (US$)	$ 21,916,667	$ 47,016,667
Jobs Created	17,533	37,613
Jobs Sustained	263,000	564,200
Beneficiaries	1,070,933	1,070,933
Additional Wages and Profits (US$)	$ 44,501,609	$ 126,698,825
Loans Outstanding (US$)	$ 8,366,667	$ 8,366,667
Savings Mobilized (US$)	$ 953,195	$ 1,524,308

Cost: The Product Developer will need funding for capital equipment and ongoing operating costs, including:

- Salaries for technical/managerial advisors and support staff
- Office rent, equipment and utilities
- Local travel costs (per diems and/or outstation allowance)
- Vehicle purchases, operations and maintenance

This program may also require a loan guarantee fund to encourage banks to adopt the new financial products.

Table 8 - Estimated Costs of Product Developer
(in thousands of US$)

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Totals
Grants to Operating Costs	300	325	350	375	350	300	250	2,250
Grants to NGO Loan Fund	50	100	150	250	350	400	400	1,700
Additions to Guarantee Fund	-	200	200	200	200	200	-	1,000
Totals	350	625	700	825	900	900	650	4,950
Cumulative Guarantee Fund	-	200	400	600	800	1,000	1,000	

Strengths:

- Provides a "painless" way for banks to view and consider potential new financial products
- Supports a continuing process of financial innovation

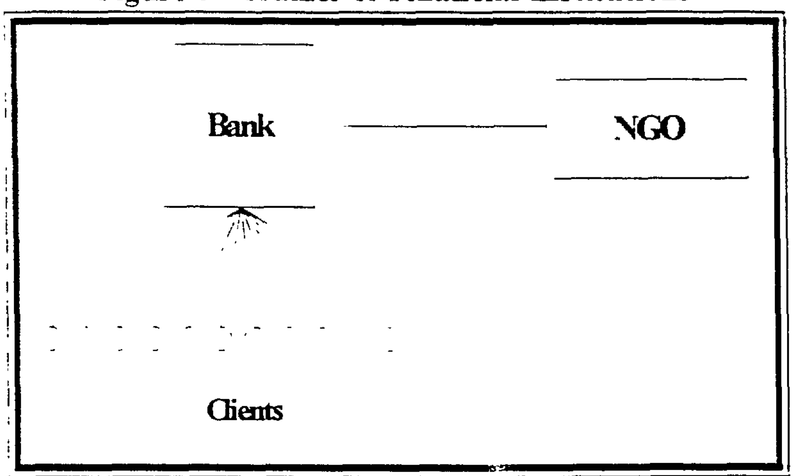
- Develops financial products designed specifically for rural clientele
- Linking rural community to banks creates opportunities for additional community lending if the group performs responsibly (i.e., "graduation")
- Use of partial, diminishing guarantee ensures bank commitment to client monitoring

Limitations:
- Success is wholly dependent on the formal financial sector's receptivity to product innovation.
- The research and development role carried out by the NGO cannot generate enough income to cover all its costs.

5. Trainer of Financial Institutions

Goal: The Trainer seeks to strengthen the capacity of formal sector financial institutions to provide user-friendly, cost-effective rural financial intermediation services.

Figure 5 - Trainer of Financial Institutions



Problem Addressed: The problem addressed by the program is the perceived lack of responsiveness of rural financial institutions to the specific savings and credit needs of their rural clientele.

Methodology/Structure: Training will be provided to rural financial institutions by NGOs with a proven track record in commercially-sound, rural financial intermediation either in Ghana or in settings similar to Ghana.

Training will be administered using the NGOs' own staff of qualified technical and managerial consultants. Where appropriate, such staff may be seconded to the trainee institution. Enforceable contracts which clearly delineate the responsibilities of trainers and trainees alike will govern the training programs. Training recipients will pay a fee for the training services.

The NGO will provide training on-site, on-the-job and directly to "front-line" bank staff, either at bank-selected "test branches," at headquarters, or at NGO project sites. In all cases, the NGO will include top bank management in key aspects of the training to ensure management "buy-in" to new concepts and procedures.

To ensure maximum benefit of the training, the banks will tie regular performance appraisals (i.e., those affecting promotion, salaries, etc.) of their staff to active participation in and ability to demonstrate full absorption of all aspects of training. To ensure the enduring benefit of the training, bank management will agree to keep trained staff in their current posts for a minimum of two years after the training ends.

Wherever appropriate, training will be hands-on, making use of "live" clients to test procedures and product innovations. In such instances, participating NGOs will work with these clients to ensure their understanding of all aspects of the procedures and to assess their reactions/concerns concerning the innovation being tested. NGO staff will train bank staff how to -- and the importance of -- doing the same. The NGO will fully document all training to ensure that trainees have a formal, thorough manual to refer to as the need arises.

Trainers will be evaluated based on the documented financial impact of their training on the trainees' balance sheets.

Examples: Agricultural Cooperative Development Inc. has provided training to the cooperative banks of Poland through its Cooperative Bank Development Project. Through this project ACDI seeks to establish the cooperative banks as a financial system free from government control. The cooperative bank system that develops should be able to operate profitably in an open market economy. ACDI has helped to establish the National Union of Cooperative Banks to serve as a trade association. ACDI has also developed comprehensive training programs in credit disbursement and monitoring; strategic and operational planning; personnel management; council member (Board of Directors) development; financial performance; and marketing. In addition, ACDI has produced and field-tested many training materials which include: manuals and kits for "Regional Bank Planning," a video series on "How to be an Effective Council Member of a Cooperative Bank," and loan officer training for "Farm Financial Analysis."

TechnoServe has played a similar role with the Agricultural Bank of Sudan, the Nile Bank of Uganda and the Kenya Union of Savings and Credit Cooperatives.

Participating Institutions: Participating NGOs in Ghana will include those with a proven track-record in product innovation and in the provision of cost-effective technical assistance to financial institutions and to small- to medium-scale rural enterprises alike.

Such NGOs will need to possess, at minimum:

- A knowledge base of viable rural enterprise development practices
- Prior experience in savings mobilization and loan administration;
- High caliber staff capable of dealing with qualified bank staff on a peer basis.

Other participating institutions will include formal sector banks, including rural banks, and possibly the Bank of Ghana and the Association of Rural Banks.

Primary Beneficiaries: Primary beneficiaries will include:

- Staff of rural financial institutions with an interest in improving their effectiveness in meeting the savings and credit needs of their rural clientele.
- Rural entrepreneurs -- male and female alike -- with the interest, commitment and capacity to invest their savings and establish and maintain commercially-viable rural enterprises.

Impact: The development of effective and responsive rural financial intermediators will:

- Create rural jobs
- Increase rural incomes
- Spur increased rural productivity
- Foster improved linkages between rural communities and the mainstream economy
- Increase the outreach and the profitability of rural banking institutions.

Table 9 - Estimated Impact of Trainer of Financial Institutions

	7 Year Totals	10 Year Totals
Loans Made	64.475	168.933
Amount Lent (US$)	$ 19.342.586	$ 50.680.003
Jobs Created	38.685	101.360
Jobs Sustained	77.370	202.720
Beneficiaries	564.004	1.382.374
Additional Wages and Profits (US$)	$ 30.723.819	$ 80.236.938
Loans Outstanding (US$)	$ 5.603.267	$ 10.301.956
Savings Mobilized (US$)	$ 1.942.314	$ 4.359.414

Cost: The Trainer of Financial Institutions will primarily need to cover the costs of the trained financial experts on its staff and the operating expenses associated with their activities. Depending on the policies of participating institutions, costs of assistance may include special allowances for trainees and logistical support for trainee movement to rural areas.

Table 10 - Estimated Costs of Trainer of Financial Institutions
(in thousands of US$)

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Totals
Grants to Operating Costs	150	150	200	200	300	250	150	1,400
Borrowed from Project Fund	125	164	292	465	632	684	935	3.297
Additions to Guarantee Fund	186	98	165	211	148	265	416	1,488
Totals	461	412	658	876	1,080	1,199	1,501	6,185
Cumulative Guarantee Fund	186	283	449	659	807	1,072	1,488	

The Trainer of Financial Institutions can cover some (if not all) of its expenses from fees charged to client institutions.

Strengths:

- Training of financial institutions supports a continued and sustainable process of rural financial innovation
- If training takes hold, process permits wholesale replication of successful training concepts/financial products introduced by resource-strapped NGOs
- On-the-job approach ensures training relevance and effective skill transfer
- Involvement of top management in at least key aspects of training ensures institutional "buy-in" to key concepts
- Full documentation of training concepts reduces risk of discarding the concepts after the trainer has left

Limitations: Project success is dependent on:

- The formal financial sector's general receptivity to product innovation and professional training administered by an NGO
- Upper management "buy-in" to innovation
- Trainee commitment to customer service

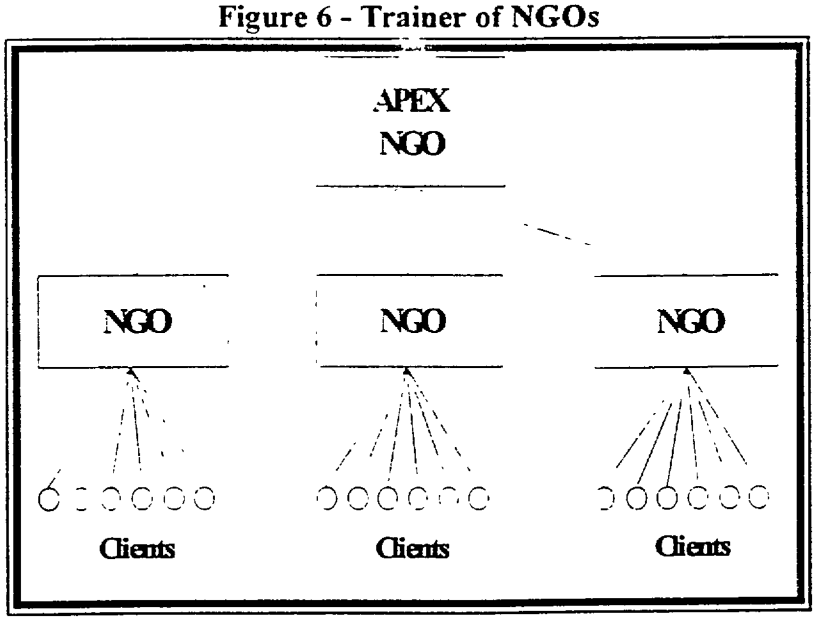
6. Trainer of NGOs

Goal: Develop within existing NGOs in Ghana the capacity to provide financial intermediation services throughout the rural areas. These NGOs could be assisted to play any of the previous five roles.

Problem Addressed: The small scale of most existing NGO activities.

Methodology/Structure: The Trainer of NGOs could serve as an apex organization providing support services to several NGOs. The services provided by the Trainer would include:

Figure 6 - Trainer of NGOs



- Assisting NGOs currently involved in financial intermediation to develop strategic plans for scaling up their activities.
- Developing training programs for key positions such as Executive Director, Financial Manager, Loan Officer, Savings Mobilizer, etc.
- Developing information systems and computer software to help managers of NGO financial intermediation programs.
- Organizing conferences and workshops related to NGO roles in financial intermediation.
- Conducting ongoing research into NGO financial intermediation activities and evaluations of existing NGO activities.
- Organizing opportunities for leaders of existing NGO programs to visit successful programs in other countries.
- Maintaining a library of key information for NGOs providing financial services.

Examples: FondoMicro in the Dominican Republic was established by USAID to provide services and loan funds to microenterprise development agencies in the country. FondoMicro hired top caliber staff and soon established a reputation within the NGO community for providing much needed services in strategic planning, evaluation and systems development. FondoMicro also provides a line of credit from which NGOs that lend to microenterprises can borrow.

In Ghana, the Credit Union Association plays a similar role with its member credit union societies.

Participating Institutions: The NGO serving in the Training role would need to have the following capabilities:

- Expertise in carrying out rural financial services programs and in training others to carry out these programs.
- Expertise in organizing and implementing training programs.
- The ability to hire and retain financial professionals who can command respect from NGOs and the financial community.
- The ability to develop and maintain computer programs and information systems related to the management of financial services.

Also participating in this program would be the NGOs receiving training. For NGOs to make use of this training, the following conditions would need to be in place:

- They would need to sense a real need for the services offered by the Trainer.
- They would need to trust the Training organization to be unbiased in the way it dealt with NGOs and the information it received from them.
- They would need to believe that the services they could access from the Trainer were of higher quality and lower cost than what they could do on their own.

The Trainer would also work with existing financial institutions working in rural areas, encouraging them to link with the NGOs receiving support from the Trainer.

One way to encourage the commitment of existing NGOs to the services offered by the Trainer would be to create a new organization to perform the training role whose board was made up of the leadership of existing NGOs involved in financial intermediation. Also, existing NGOs would more readily work with the Trainer if they new that utilizing the Trainer's services somehow enabled them to gain access to more funds. Two ways to do this:

- The Trainer could manage a pool of funds that it would grant or lend to other NGOs. It would make allocations of those funds based on a set of defined criteria which included the demonstrated capability of the NGOs to implement large scale programs. NGOs could, in part, show their capability by successfully completing training programs and adopting information systems developed by the Trainer.
- The Trainer could build its reputation among the donor community to the point that its endorsement of a program would serve as a "Seal of Approval." Donors would then be more likely to fund NGOs that worked closely with the Trainer.

This also leads to another role this Trainer could play, that of an apex organization for donors. A Trainer that served this function would make funding of the sector more efficient for the donors. However, any donor setting up an organization to serve this purpose should look carefully at the lessons learned from the FondoMicro case study. Apex organizations set up by a single donor are unlikely to be able to entice other donors to work with them. If the organization is to serve as an Apex for donors, then all the donors who are expected to participate should be involved in its design.

Primary Beneficiaries: The direct beneficiaries of the Trainer will be those NGOs that receive its services. The Trainer's activities should result in greatly expanded rural financial services by these NGOs.

Impact: The activities of the Trainer will have a direct impact on the size and quality of services provided by existing NGOs. This will lead to an expansion of rural financial intermediation services provided directly or indirectly by NGOs. All of the impact achieved by this role will occur through other NGOs implementing one of the previous five roles. For this reason there is not separate table of impact achieved by this role.

Costs:
Capital Equipment: Office furniture, office equipment, computers, vehicles, training equipment

Operating expenses: Salaries for five professionals and support staff, office expenses, travel expenses, conference and workshop costs.

Support fund: The Trainer could manage an optional Support Fund that would provide participating NGOs the resources they would need to carry out the strategic plans and information systems they develop with the Trainer.

Cost recovery: The Trainer should charge fees for the services it provides and an interest rate on any loans it makes to NGOs. In the early stages income from these sources would cover only part of the operating costs. However, as the NGOs supported by the Trainer grew, they could pay larger fees and borrow larger amounts of money. Over time the Trainer could cover a majority, if not all, it operating costs from earned income.

Table 10 - Estimated Costs of Trainer of NGOs
(in thousands of US$)

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Totals
Grants to Operating Costs	300	325	350	350	325	300	300	2.250
Capital Expenditures	150	-	25	50	25	-	-	250
Totals	450	325	375	400	350	300	300	2.500

Note: The work of the Trainer will not be effective unless resources are also provided for NGOs to implement what they have learned. Funding for scaling up existing NGO activities could be provided through the Trainer or directly to those NGOs receiving ongoing support from the Trainer.

Strengths:

- Upgrades existing capacity in Ghana.
- Works through local organizations that have the best knowledge of rural communities in Ghana.
- Provides a system for the best of the lessons learned in programs from around the world to be applied in Ghana.
- Provides a system for long-term involvement and training, which will have a greater effect on local NGOs that periodic conferences and workshops.
- Spreads international expertise and specialized information systems across several organizations.

Limitations:

- Depends on existing NGOs recognizing their need for training and the ability of another organization to provide it for them (something NGOs are not always willing to do)
- Depends on existing NGOs having the will, capacity and resources to implement the recommendations of the Trainer.

C. Comparing the Roles

The six roles described above each generate different types of results have different areas of strength and limitations. In this section we will compare the outputs expected by each role and examine the performance of the roles against a set of nine goals for rural financial intermediation.

1. Comparing Outputs

Tables 11 and 12 below compare the estimated outputs of the five roles after seven years and after ten years (the role of Trainer of NGOs is not included since the impact of this role is achieved through other NGOs implementing programs utilizing one of the other five roles). We have estimated these outputs by using indicative programs from the case studies. Thus, these estimates indicate the possible results if an NGO performing each role in Ghana, operating at full capacity and achieving world class standards. Appendix 3 contains a full explanation of the assumptions used in these calculations.

The tables show that the roles of Direct Lender and Savings Mobilizer, Matchmaker, Product Developer and Trainer of Financial Institutions reach a large number of people in rural areas with financial services. In contrast, the Pacakger role works more intensively with a much smaller number of people.

Table 11 - Estimated Ouputs after Seven Years, By Role

	Direct	Matchmaker	Packager	Product Developer	Trainer of FIs
Loans Made	78.667	101.776	95	4.383	64.475
Amount Lent (US$)	$ 23.600.000	$ 20.355.111	$ 475.000	$ 21.916.667	$ 19.342.586
Jobs Created	47.200	29.079	9.500	17.533	38.685
Jobs Sustained	94.400	111.953	35.725	263.000	77.370
Beneficiaries	609.000	698.663	256.500	1.070.933	564.004
Additional Wages and Profits (US$)	$ 33.181.836	$ 24.773.880	$ 30.437.338	$ 44.501.609	$ 30.723.819
Loans Outstanding (US$)	$ 3.650.000	$ 2.715.363	$ 310.000	$ 8.366.667	$ 5.603.267
Savings Mobilized (US$)	$ 1.661.614	$ 1.350.459	$ 1.739.618	$ 953.195	$ 1.942.314

Table 12 - Estimated Outputs after Ten Years, By Role

	Direct	Matchmaker	Packager	Product Developer	Trainer of FIs
Loans Made	202.167	243.416	95	9.403	168.933
Amount Lent (US$)	$ 60.650.000	$ 48.683.256	$ 475.000	$ 47.016.667	$ 50.680.003
Jobs Created	121.300	69.548	9.500	37.613	101.360
Jobs Sustained	242.600	267.758	35.725	564.200	202.720
Beneficiaries	1.423.800	1.446.527	256.500	1.070.933	1.382.374
Additional Wages and Profits (US$)	$ 108.002.129	$ 77.706.278	$ 43.302.016	$ 126.698.825	$ 80.236.938
Loans Outstanding (US$)	$ 4.850.000	$ 1.921.678	105.000	$ 8.366.667	$ 10.301.956
Savings Mobilized (US$)	$ 2.843.542	$ 1.700.803	$ 2.454.851	$ 1.524.308	$ 4.359.414

Explanation of Terms
Job Created: A new position created in a business receiving a loan.
Job Sustained: The existing positions in a business receiving a loan.
Beneficiaries: Includes those who benefit directly from the loan (the owner of the business and his or her employees) and those who benefit indirectly (the family members of those employed in the business).
Additional Wages and Profits: Increases in business profits and salaries paid to employees.

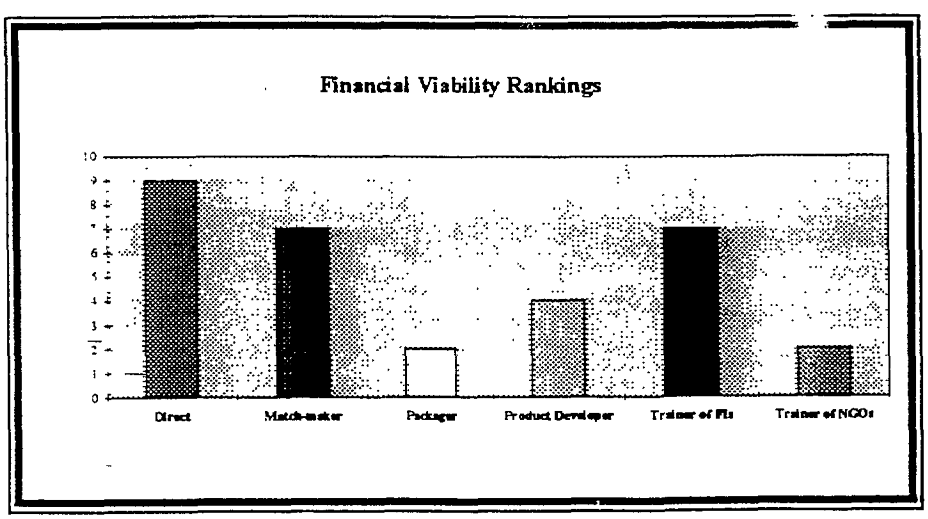
2. Comparing Ability to Accomplish Goals of a Rural Finance Program

Gross output numbers alone do not provide a sufficient comparison of the roles. We still need to examine who what types of individuals and businesses benefit from the role and how this compares to the goals that the government of Ghana, donor agencies and rural inhabitants would have for a rural financial program. To make this comparison we have developed a list of nine goals for a rural finance program. We then assigned a score to each role based on its ability to meet the goal. The nine goals are:

- Achieving Financial Viability
- Reaching Remote Rural Areas
- Gaining Leverage on Donated Funds
- Supporting Manufacturing and Agricultural Processing Businesses
- Using the Existing Financial Network
- Reliably Delivering Benefits
- Building Local Institutions
- Providing Benefits to Women
- Promoting Exports

a. Financial Viability

Financial Viability measures the ability of a given role to cover all of its operating costs out of earned income.



Direct Lender/Savings Mobilizer - Several of the case studies of international NGO's demonstrated that these programs could cover all of their operating costs out of interest and fee income, once they reached sufficient scale.

Matchmaker - The Matchmaker NGO sets a fee for its services that is charged either to the banks or the clients. This fee should fully cover the costs of providing matchmaking services. However, few programs have yet reached sufficient scale to cover all of their costs from earned income.

Packager - The Packager NGO can recover some costs through user fees and, potentially, through charging the bank a fee for its services. However, because of the intensive nature of the technical services this NGO provides, the income it receives does not pay the full costs of providing the services.

Product Developer - The Product Developer generates loan products that can be profitably implemented by financial institutions. It may be contracted by the financial institutions to develop the concept further and prepare manuals and training programs. However, the Product Developer is not able to recover the full costs of designing, developing and transferring the loan product.

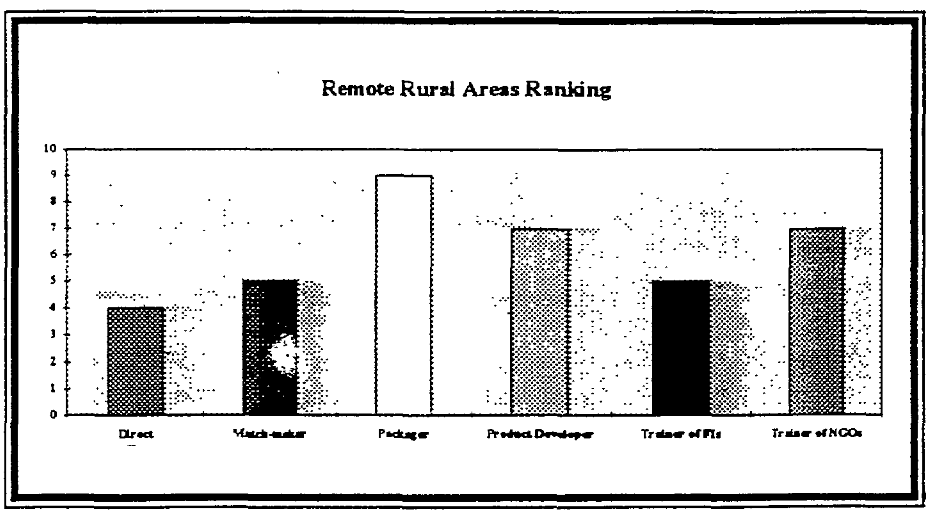
Trainer of Financial Institutions - Once the Trainer proves its ability to provide services that make a difference to the bottom line of financial institutions, it should be able to charge these institutions the full costs of its services.

Trainer of NGOs - The NGOs supported by this Trainer would probably not be able to pay for the full cost of the service provided. It they could, the source of their funds would most likely be some other grant.

b. Reaches Remote Rural Areas

This measures the ability of the program to operate in sparsely populated rural areas.

Direct Lender/Savings Mobilizer - The Direct Lender and Savings Mobilizer can only achieve economies of scale in more densely populated areas. However, once a program has



reached a large scale it can sometimes operate satellite branches in less densely populated areas.

Matchmaker - The Matchmaker uses grouping mechanisms to reduce the costs of organizing and screening borrowers. It needs to operate in areas where group of 30 to 50 borrowers can meet. This can be both in Rural-Urban areas and the market centers of Rural-Rural areas.

Packager - The focus of the Packager's activity is among agricultural producers in Rural-Rural areas.

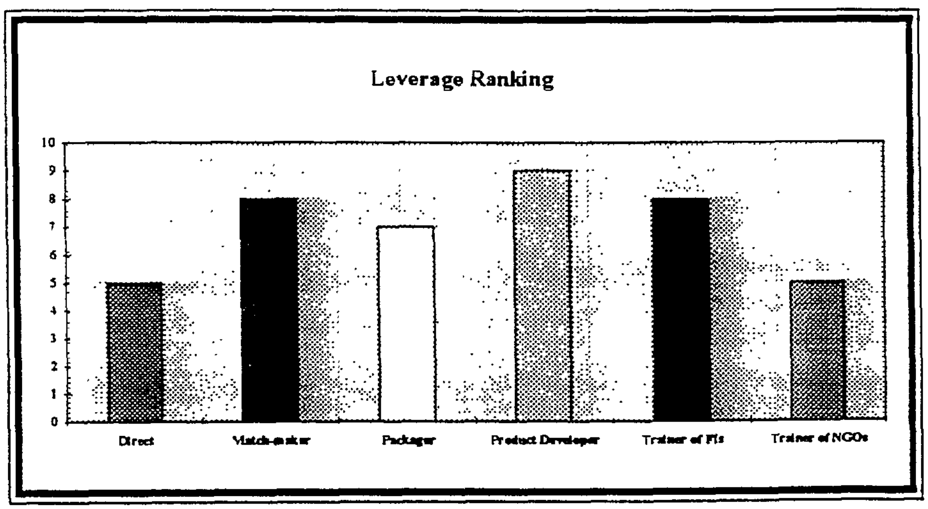
Product Developer - Loan products such as inventory credit and mobile banking are geared for use in Rural-Rural areas.

Trainer of Financial Institutions - Existing financial institutions are spread throughout the Rural-Rural and Rural-Urban areas. However, those located in the Rural-Urban areas have the best prospects for operating profitably.

Trainer of NGOs - The focus of activity for many NGOs in Ghana is in Rural-Rural areas.

c. Gains Leverage on Donated Funds

Leverage measures the ability of a program to draw non-donor resources into the rural financial system.



Direct Lender/Savings Mobilizer - In the initial stages almost all of the funds employed by the Direct Lender/Savings Mobilizer will come from grants or money borrowed from the project. In the latter stages, these NGOs will be able to attract savings and borrow from the commercial sector.

Matchmaker - The Matchmaker achieves high leverage by utilizing existing bank finances for its lending activities and by generating savings deposits from its clients. However, some of the lending by the banks will need to be guaranteed by project funds.

Packager - The Packager NGO utilizes existing bank funds for lending to its clients and generates savings. Since it works with larger community enterprises, the average size of the loan provided to its clients is much larger than loans provided by the Matchmaker or Direct Lender. However, much of the bank lending in the early stages will need to be guaranteed by project funds.

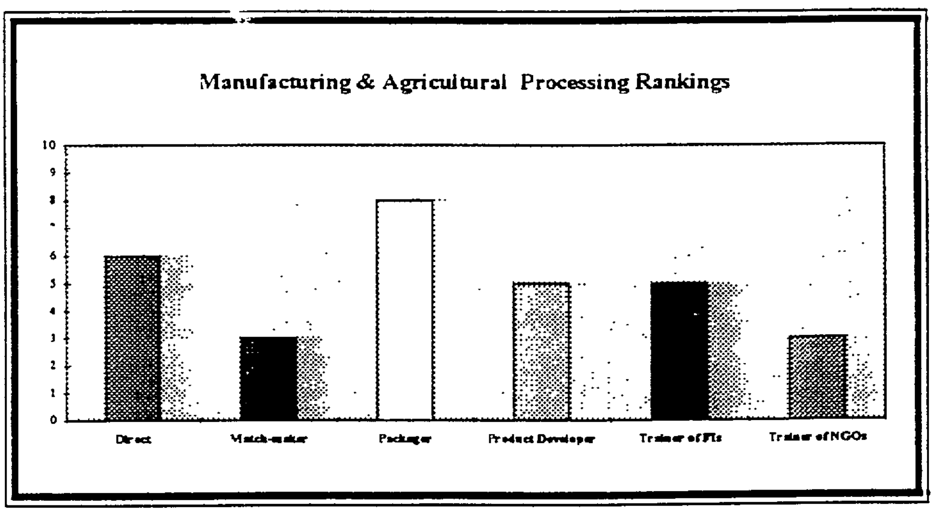
Product Developer - The Product Developer will use project funds to develop a lending product, which will then be employed by banks and replicated on a much larger scale using their own funds.

Trainer of Financial Institutions - This Trainer will achieve high leverage by showing banks how to utilize their own funds more effectively and how to mobilize more savings deposits.

Trainer of NGOs - The NGO Trainer leverages the existing capacity of other NGOs, but most of these NGOs have limited financial resources to add to the project.

d. Supports Manufacturing and Agricultural Processing Businesses

This index measures the ability of the NGO to support businesses involved in manufacturing or agricultural processing, as opposed to services and trade.



Direct Lender/Savings Mobilizer - The proportion of manufacturing businesses supported by a Direct Lender depends largely on the type of lending methodology employed. Those lenders that provide individual loans for fixed assets can support a high percentage of manufacturers. Lenders that provide mostly working capital group loans find that trading activities predominate in their portfolio.

Matchmaker - Matchmaker lending usually utilizes group methodologies that provide short term working capital loans. The large majority of borrowers in this group operate trading enterprises.

Packager The Packager works with larger, community-based enterprises in more remote rural areas where agricultural processing businesses predominate.

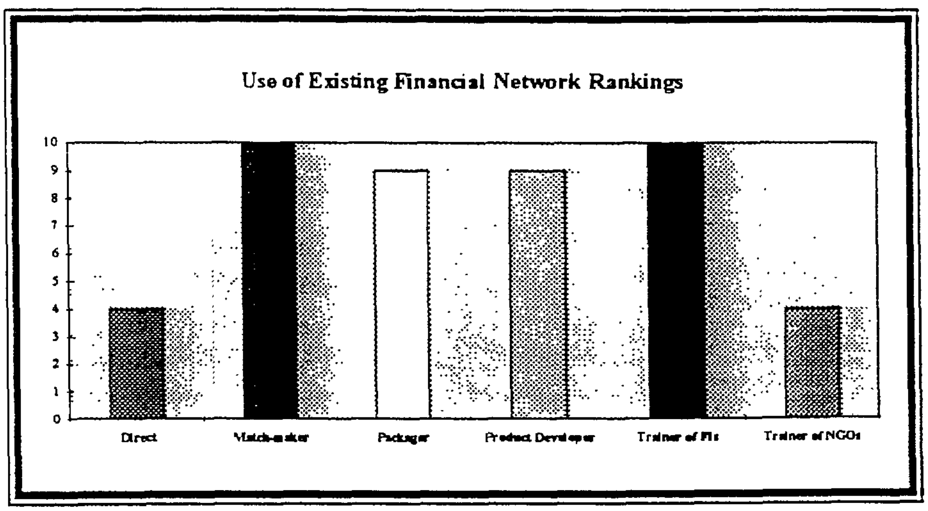
Product Developer - Different lending and savings products will have different levels of impact on manufacturing and agricultural processing businesses. For example, inventory credit supports an important link in the marketing of grains, while mobile banking supports all types of business activities.

Trainer of Financial Institutions - The level of support for manufacturing and agricultural processing depends largely on the business activities that predominate in the area where the financial institution operates.

Trainer of NGOs - The Trainer of NGOs helps to support and expand existing NGO activities in financial intermediation. These tend to support primarily trading, handicraft and agricultural production activities.

e. Uses the Existing Financial Network

This measures the extent to which the role utilizes the existing resources in the financial network.



Direct Lender/Savings Mobilizer - In the early stage the Direct Lender and Savings Mobilizer uses the existing financial network only for a current account to run its operations. As the program develops it may begin borrowing from the commercial market.

Matchmaker - The Matchmaker depends on local financial institutions to provide loans to its clients.

Packager - The Packager also depends on local financial institutions to provide loans to its clients.

Product Developer - The Product Developer designs and test products that are to be implemented by existing financial institutions.

Trainer of Financial Institutions - This trainer works exclusively with the existing financial network.

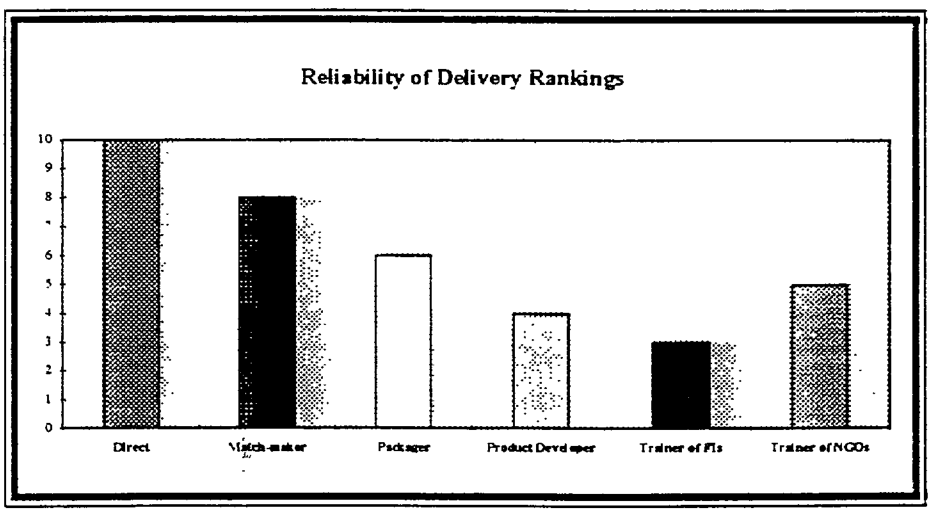
Trainer of NGOs - Many NGO financial service activities operate outside the existing financial network.

f. Reliable in Delivering Benefits

Reliability of Delivery measures the likelihood that the role can be successfully implemented to provide benefits to enterprise owners and employees in rural areas.

Direct Lender/Savings Mobilizer - Since the Direct Lender and Saving Mobilizer deals directly with rural clients, there is little possibility for project funds to be used elsewhere.

Matchmaker - The Matchmaker depends on existing financial institutions to provide loans. The impact of the program will depend on the level of support provided by these institutions.



Packager - Like the Matchmaker, the Packager depends on existing financial institutions to provide loans. It also works with higher risk clients than the Matchmaker.

Product Developer - The long term benefits of the Product Developer depend entirely on existing financial institutions adopting the product and employing it on a large scale.

Trainer of Financial Institutions - For this activity to have a lasting impact in rural areas. the financial institutions receiving training must acknowledge a need for training, adopt new methods and employ them successfully over time.

Trainer of NGOs - This activity relies on successful adoption and implementation by NGOs. These NGOs will have a commitment to serving the rural population. Lasting benefits will hinge primarily on their ability to implement financial service programs.

g. Builds Local Institutions

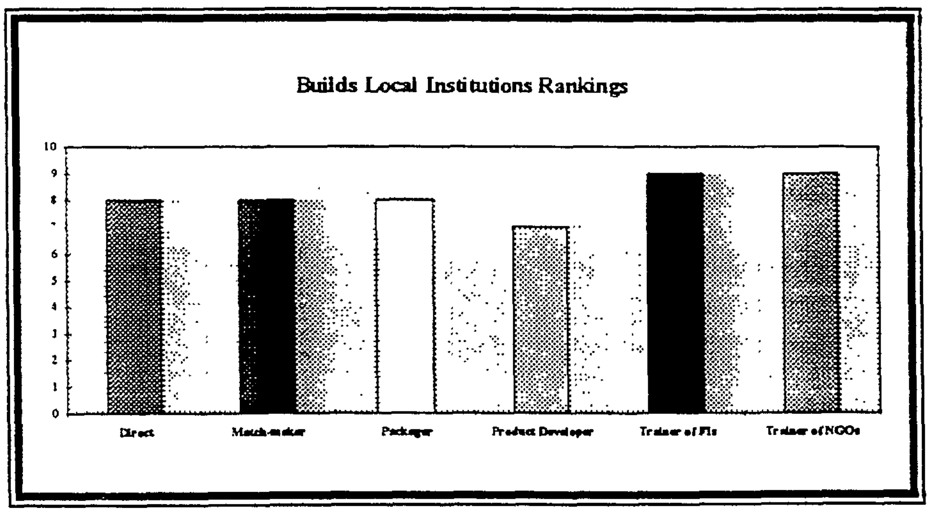
This measure the extent to which the role increases the ability of local institutions to carry out rural financial services.

Direct Lender/ Savings Mobilizer - The Direct Lender and Savings Mobilizer will work with an existing institution or create a new one to deliver credit and mobilize savings.

Matchmaker - The Matchmaker builds and institutions to provide the matchmaking services and works with existing financial institu·· ›ns that provide loans.

Packager - The Packager builds community-based enterprises (community institutions) and works with local banks which provide the financing.

Product Developer - The product developer must work closely with existing financial institutions which will be implementing the new products developed.

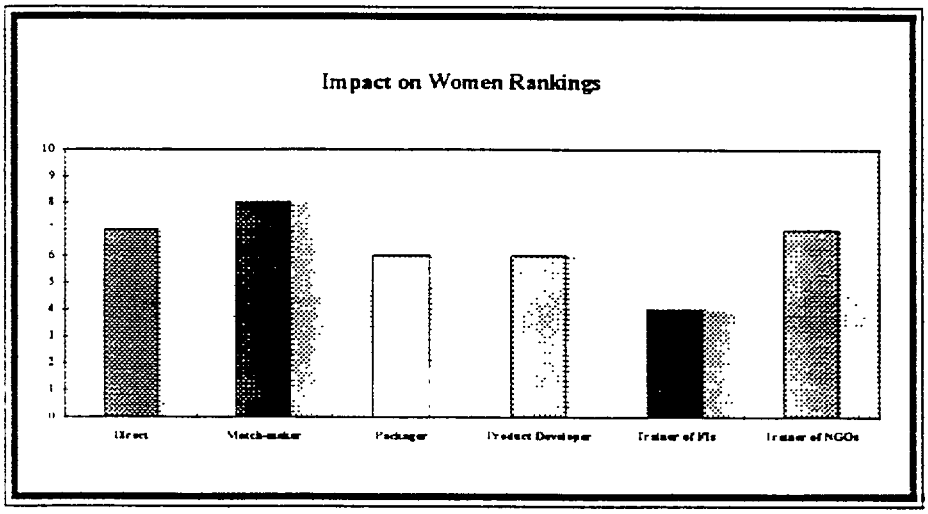


Trainer of Financial Institutions - The mission of this Trainer is to build up existing financial institutions.

Trainer of NGOs - Likewise, the NGO Trainer works to build up existing NGOs.

h. **Provides Benefits to Women**

This measures the ability of the role to provide an equal or greater amount of benefits to women as it does to men.



Direct Lender/Savings Mobilizer - The impact on women of the Direct Lender and Savings Mobilizer varies by methodology. Programs that emphasize small working capital loans for trading enterprises have a high percentage of female clients. Those that make larger individual loans to manufacturing enterprises have a higher percentage of male clients.

Matchmaker -These programs usually have a very high percentage of female clients.

Packager - The Packager generally creates benefits for both men and women. In the case of palm oil mills, most of the jobs in the mills went to men, while most of the jobs for preparing the fruit for processing went to women.

Product Developer - The relative impact on men and women depends largely on the type of product being introduced. Lending products for manufacturing enterprises generally favor men, while a savings and lending product aimed at market traders would primarily benefit women.

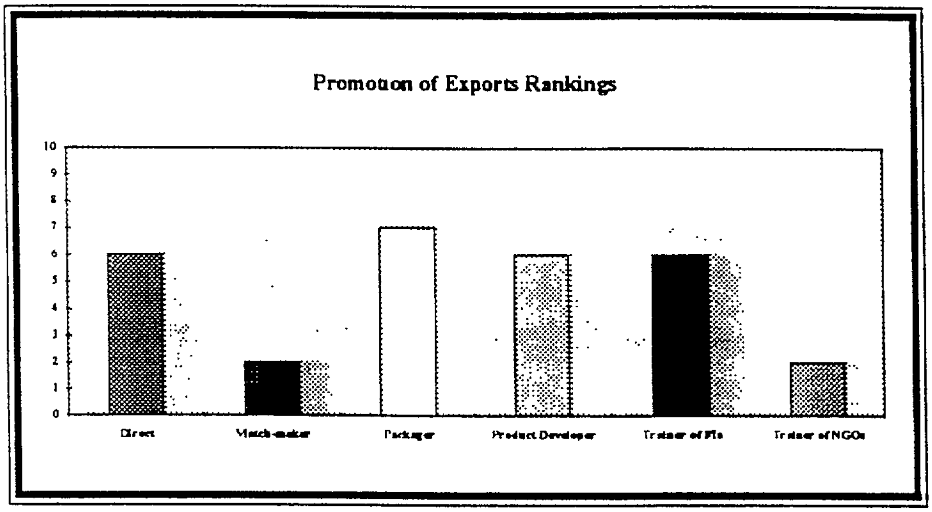
Trainer of Financial Institutions - Existing lending patterns of rural banks favor men. The trainers would need to work with these institutions to overcome this imbalance.

Trainer of NGOs -Many NGO programs emphasize women as the primary beneficiaries.

i. Promotes Exports

This measures the capacity of the role to support the production of export products in rural areas.

Direct Lender/Savings Mobilizer - The Direct Lender will be able to provide loans for fixed assets to manufacturing enterprises, enabling them to meet the quantity and quality standards of the export market.



Matchmaker - The lending of the Matchmaker tends to go largely to trading enterprise that are not involved in exports.

Packager - The Packager is able to work with community-based enterprises that could produce products that move into the export chain (cassava chips, for example).

Product Developer - The Product Developer could design a loan product especially geared toward export oriented businesses. However, our case studies revealed few examples of this happening.

Trainer of Financial Institutions - Many existing financial institutions have the capacity to finance larger, export oriented firms in rural areas. However, few of these firms exist at present. Expanding the number of these businesses would require the help of a Packager.

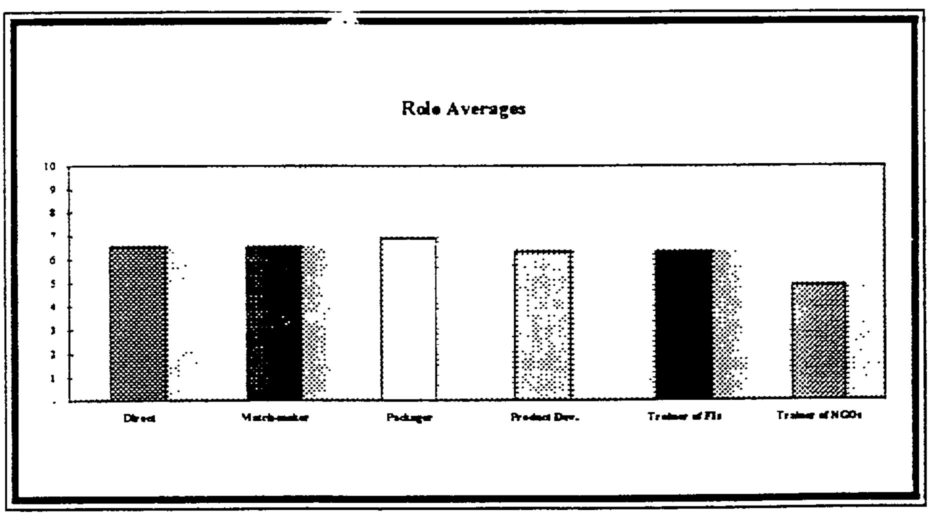
Trainer of NGOs - In most of the cases we examined, NGO's operating in Ghana did not support a large number of export-oriented businesses.

3. NGO Role Rankings and Average Scores

Table 13 - Summary of Role Rankings

	Direct	Match-maker	Packager	Product Dev	Trainer of FIs	Trainer of NGOs
Financial Viability	9	7	2	4	7	2
Remote Rural Areas	4	5	9	7	5	7
Leverage	5	8	7	9	3	5
Manufacturing & Ag. Processing	6	3	8	5	5	3
Uses Existing Financial Network	4	10	9	9	10	4
Reliability of Delivery	10	8	6	4	3	5
Builds Local Institutions	8	8	8	7	9	9
Impact on Women	7	8	6	6	4	7
Promotion of Exports	6	2	7	6	6	2
Average	6.56	6.56	6.89	6.33	6.33	4.89

Table 13 above gives the scores for each NGO role in each category. The graph below depicts the average score for each role. These show that the different roles have offsetting strengths and weaknesses. When averaged out, less than one point separates the first five roles.



The Trainer of NGOs role received a much lower average score than the other five. This reflects the limited capacity and growth plans of most NGOs we reviewed in Ghana. This does not mean that NGOs participating in a rural financial program would not need training. Rather, that it would be better to focus training on a few NGOs with large scale expansion plans performing one of the other five roles than to provide a training service for all NGOs involved in financial intermediation.

Box 6 below compares the greatest strengths and limitations of each of the six roles. As this chart illustrates, assigning funding priorities among the roles would depend on the relative weighting donors and government officials would place on factors such as financial viability, the ability to reach remote rural areas, using the existing financial network, impact on women and promotion of exports. One clear area of divergence is between financial viability and ability to reach remote rural areas. Those roles which scored most strongly in financial viability were among the weakest at being able to reach remote rural areas. Those roles that provided the level of services needed to be effective in remote rural areas could not generate enough income from their clients to fully cover their costs. Thus, a program which works with the most needy clientele in the country, agricultural producers in remote rural areas, will not be able to cover its costs from earned income, while programs that can achieve financial viability will likely have limited impact on the most needy clientele.

Box 6 - Comparison of Strengths and Limitations of Roles

	Greatest Strengths	Greatest Limitations
Direct Lender/ Savings Mobilizer	• Financial Viability • Reliability of Delivery • Building Local Institutions • Impact on Women	• Remote Rural Areas • Using Existing Financial Network
Matchmaker	• Using Existing Financial Network • Impact on Women • Leverage • Building Local Institutions	• Promotion of Exports • Manufacturing and Agricultural Processing • Remote Rural Areas
Packager	• Remote Rural Areas • Manufacturing and Agricultural Processing • Using Existing Financial Network • Building Local Institutions	• Financial Viability
Product Developer	• Leverage • Using Existing Financial Network • Building Local Institutions • Remote Rural Areas	• Reliability of Delivery • Financial Viability
Trainer of Financial Institutions	• Using Existing Financial Networks • Builds Local Institutions • Leverage	• Reliability of Delivery • Impact on Women
Trainer of NGOs	• Builds Local Institutions • Impact on Women • Remote Rural Areas	• Financial Viability • Promotion of Exports • Manufacturing and Agricultural Processing

D. Possible Program Scenarios

1. Background Considerations in Program Design

Having made the case that NGOs clearly have a role to play in rural financial intermediation, the task becomes how to design a program which:

(a) builds on their inherent strengths in dealing with rural inhabitants, and

(b) permits them to significantly impact the rural sector.

In taking on this task, however, we must recognize two challenges relating to those NGOs currently operating in the financial intermediation field Ghana:

Challenge #1: You Can't Help Someone Who Doesn't Think He Has A Problem

In a meeting with the key players in NGO financial intermediation here in Ghana, we were struck with the fact that few seemed to sense that there was anything lacking in their programs -- this in spite of the fact that NGO impact in Ghana is clearly limited in scope, especially when viewed in relation to the size of the need. All expressed a need for more funds; but few had plans in place which projected anything but incremental growth in product delivery.

This lack of recognition that there may be room for truly significant improvement in NGO performance in rural financial intermediation is a real hurdle if one's goal is to upgrade the services currently offered in the marketplace. Simply put, you can't train someone who doesn't feel a need for training.

Challenge #2: NGO Accountability Is Limited

A related challenge is this: While perhaps painful to admit, it is a fact that many NGOs operate in a void when it comes to objective, critical evaluation of their programs. In many, if not all cases, either they are evaluated (a) by internal teams with little to gain by being openly critical of their programs or else (b) by external evaluators with insufficient time, or even skills, to dig below the surface of their programs. As a result of this "kid gloves" approach to NGO evaluation, many continue to operate programs which, if held up to the harsh light of cost-effectiveness or sustainable impact, may prove indefensible.

This cocoon-like existence, and the complacency it engenders in some organizations, is yet another hurdle to the upgrading of NGO financial services in the rural sector. After all, why bother to change, i.e., to take advice or training seriously, if donors seem to like you as you are?

2. Addressing The Challenges Head-On

To address these challenges, we are proposing a program which can:

(a) clearly **demonstrate** to the existing NGO players in Ghana that their programs are in need of a tune-up, if not a complete overhaul, and

(b) expose them to the healthy rigors of **competition** through regular peer review and performance-based contracting.

We call this program:

"Add A Few New Ingredients To The Soup and Turn Up The Heat"

Stripped to its bare essentials, under this program the GOG and the donor community would support a mix of (a) 4-5 existing NGOs plus (b) an invited (via international RFP) group of 2-3 external NGOs with a proven track-record in rural financial intermediation.

The idea is to allow the increased competition to raise the level of the in-country state-of-the-art.

3. Program Phasing

We propose that the total program extend over seven years and be broken down into two phases, with funding contingent on performance, as follows:

Phase 1

In this phase, the program would support 6-8 NGOs through a combination of grants, loans and/or loan guarantees from the GOG and donor community to pursue a four-year program of rural financial intermediation.

Through the NGO selection process, donors would attempt to cover the whole spectrum of NGO roles as highlighted in prior sections above, i.e., direct lender, matchmaker, packager, etc. -- this to ensure coverage in rural-rural as well as rural-urban areas, in trading as well as in manufacturing and agro-processing. Donors would screen NGOs according to their prior experience in rural finance, demonstrated technical competence, managerial capacity and a range of other criteria of specific interest including, for example, impact on women, impact on export development, etc.

After selection and before obligation of donor funds, each participating NGO would commit to specific performance targets geared to measurable performance indicators such as:

Total savings mobilized
Total credit disbursed
Total loan recovery
Total jobs created
Total rural revenues generated
Percentage of costs recovered
Number of women assisted

Such targets, especially cost recovery, would necessarily be tailored to the target beneficiary group, i.e. rural-urban versus rural-rural, farmers versus traders, etc.

Performance against goals would be monitored quarterly by both (a) a Project Management Unit (see below) and (b) a council of peer NGOs. Introduction of the latter component, we believe, will keep NGOs on their toes -- ever cognizant of the fact that their perceived "competitors" may be out-performing them.

Performance would be formally evaluated after two years, with a concrete plan of action for identified weaknesses a requirement for continued funding.

Phase 1 would end with another evaluation -- and, this time, a ranking -- of the NGOs relative to performance against agreed-upon objectives. NGOs would fall into three groups:

High Achievers	Met 85%-100+% of goals
Salvageable	Met 60%-85% of goals
Non-Performing	Met less than 60% of goals

This evaluation and ranking would include a detailed assessment of institutional strengths and weaknesses. In consultation with the NGO, the PMU would develop a well-defined, mutually-agreed-upon program of action, including training, required to address all weaknesses.

Phase 2

In this phase, those NGOs who had met 85-100% of their performance goals, i.e., the High Achievers, would receive additional support for a second, three-year period. Support, however, would be conditional upon the signing of an agreement to address, within an agreed-upon time frame, all institutional weaknesses identified by the Phase 1 evaluation.

Those who had not attained this level of performance but who had met over 60% of their goals, i.e. the Salvageables, would receive no additional grant, loan or loan guarantee funds from the project. They would, however, enter a period of probation, and, receive an Institutional Strengthening Grant -- a mechanism which would (a) give them time to restructure as necessary and (b) permit them to purchase necessary training services. NGOs could "graduate" from their probationary status at any time, become "certified" as having met all other preconditions to continued assistance, and, assuming a reasonable amount of time remains in Phase 2, reapply for program funds.

Non-Performers would receive no additional support.

4. Loan Funds

Throughout the program life, loan funds would come either from:

(a) client savings, e.g., with direct savings/credit programs, or

(b) via the formal financial sector, e.g., with the Matchmaker or Packager -- prompted, where necessary, by partial and diminishing guarantees, or

(c) via a line of credit established by the program.

Loan Access

The program line of credit would be made available to both NGOs and banks involved in making loans to rural clients on a first-come, first-served basis. The amount provided to these institutions would depend on their proven ability to deliver credit in rural areas and achieve high repayment rates. The use of the "first-come" mechanism is to generate proactive competition to provide financial services to rural clients.

Avoiding Loan Fund Paralysis

The donors must put in place a system to ensure that there is no repetition of recent experiences in Ghana in which certain banks agreed to take part in similar projects in principle but made little effort to support NGOs operating under strict project schedules in practice.

For example, participating financial institutions could be required to sign formal contracts with the PMU, guaranteeing minimum performance in terms of loan processing turnaround, loan monitoring, etc. In some instances, donors would require that participating banks would agree in advance to a diminishing guarantee scheme -- obviously with room for escape in instances where an NGO is clearly not performing effectively. In exchange for these commitments, of course, the banks must be able to expect sound monitoring from the PMU and professional performance from the NGOs.

5. Project Management

Recognizing that the sort of intensive, fully-dedicated management oversight required for such a project to succeed is often unavailable at the donor level, we propose that the donors create a Project Management Unit (PMU) to fulfill this function.

Legal Status

This PMU would not be a governmental unit, but rather a private one. Private status will allow contractor NGOs to pursue project goals unimpeded by short-term political considerations/distractions.

Staffing and Capital Needs

The PMU would consist of a small but expert team in rural financial intermediation. This would include a senior credit specialist with broad international experience in NGO-administered rural financial intermediation, a local-hire institutional development specialist, and approximately five support staff (administrative assistant, secretaries, drivers).

PMU capital needs would include 2-3 vehicles and 3-4 computers.

Program Responsibilities

Specific activities to be undertaken by the PMU would include:

<u>Phase 1</u>

- Pre-screening of eligible NGOs
- Development of NGO-specific performance indicators
- Development and administration of grant agreements/contracts
- Development of MOUs with cooperating banks
- Quarterly monitoring of NGO activities
- Development of a rural financial intermediation network, including a regular (quarterly) meeting of all project participants to share experiences and "best practices"; perhaps even a network newsletter
- Provision of advisory services to participating NGOs
- Regular liaison with participating banks and relevant GOG agencies/departments
- Mid-term and end of Phase 1 evaluations, including NGO rankings

<u>Phase 2</u>

- Development of training plans for participating NGOs, including training required for re-certification of "Salvageable" NGOs
- Development of training manuals and tools for NGO staff
- Provision of regular training and advisory services for all grantees/contractors

- Maintenance of the rural financial intermediation network, including continued regular (quarterly) meetings of all project participants to share experiences and "best practices"
- Regular liaison with participating banks and relevant GOG agencies/departments
- End of project evaluation

6. Estimated Project Inputs

Project costs may be broken down into the following components:

1) PMU
2) NGO Grant Funding
3) Credit Needs

Order of magnitude estimates for each, assuming a seven-year life-of-project (LOP), are as follow:

PMU

Annual operating costs:	$300-350,000
Capital costs (LOP):	$250,000
Total LOP Estimate:	$2.35-2.7 million

NGO Grant Funding

Annual average grant per NGO:	$250-350,000
Total LOP Estimate (6-8 NGOs):	$10.5 - 19.6 million

Credit Needs (Direct and/or Guarantee)

Total LOP Estimate:	$15-20 million

Potential co-financiers for such a large undertaking might include USAID, World Bank, CIDA, DANIDA and UNDP.

7. Estimated Project Outputs

Estimating the total amount of credit and savings generated by this project depends on several assumptions about the roles employed and the mix of NGOs involved. In a working session held on September 27 with the leading NGOs in rural financial intermediation in Ghana, we made an effort to estimate the amounts of savings which might be mobilized and credit disbursed under such a project. Unfortunately, differences in definitions and, in some instances, problems in conceptualization by participating NGOs, meant that the effort was inconclusive.

Instead, we have made projections based on the following assumptions:

- The project employs NGOs performing all six roles, with two NGOs operating as Direct Lenders/Saving Mobilizers, two as Matchmakers and one each as Packager, Product Developer and Trainer of Financial Institutions. The PMU would operate as the Trainer of NGOs.

- The project would invite international NGOs to participate, raising productivity levels to those achieved in the external programs we profiled.

Table 14 shows the estimated outputs for the project based on these assumptions.

Table 14 - Estimated Outputs of a Rural Finance Program Using NGOs

	Seven Year Totals	Ten Year Totals
Loans Made	429,838	1,069,598
Amount Lent (US$)	$ 108,248,649	$ 295,442,356
Jobs Created	187,022	498,915
Jobs Sustained	469,763	773,380
Beneficiaries	4,506,763	8,450,462
Additional Wages and Profits (US$)	$ 182,640,278	$ 582,720,673
Loans Outstanding (US$)	$ 26,367,105	$ 32,316,978
Savings Mobilized (US$)	$ 10,659,273	$ 17,427,263

As for the Ghanaian rural and national economies, potential outputs of the recommended project package would include:

- Development of a cadre of professional financial development NGOs, some of whom can cover the costs of their operations either by or prior to project completion
- Development of a cadre of formal sector bankers armed with methodologies appropriate for the provision of financial services in rural areas
- Improved rural financial intermediation, as demonstrated by enhanced rural savings mobilization and credit delivery/recovery
- Improved rural productivity, stemming from (a) the creation and/or strengthening of hundreds of rural enterprises and (b) the resultant new markets for rural products created by these enterprises
- Increased rural incomes deriving from strengthened rural micro- and small-scale enterprises operating in a wide range of sectors, from trading to blacksmithing, maize storage for domestic marketing to cassava chipping for export
- Enhanced opportunities for rural employment, both at the enterprise- and the enterprise support services- (i.e. transport, packaging, storage, etc.) level
- Increased rural value-added through investment in storage and agro-processing

- Enhanced linkages between rural entrepreneurs and commercial/ governmental support services, including banks, extension services, transporters, etc.
- Strengthened group and individual decision-making, leadership and management skills via group-owned and sole proprietor business training programs

Most important, this project would put in place a system of rural financial intermediation that could continue providing these benefits after the conclusion of donor funding. Table 14 shows how the outputs of the program continue to grow after the seven-year funding period has ended.

APPENDIX 1: Summary Statistics of Ghana Programs

NGO Rural Financial Intermediation Study
Ghana Program Summary Profile Matrix

NGOs OR PROGRAMS	WWB-MASU	GECLOF	WVI	TECHNO SERVE	CUA	IFAD	GRATIS	CUSO	APPLE	SUSU GASCC*	FFH	ACTION AID	SG 2000	31ST DEC
Country	GHANA	GHANA	GHANA	GHANA	GHANA	GHANA	GHANA	GHANA	GHANA	GHANA	GHANA	GHANA	GHANA	GHANA
Year started	1991	1978	1979	1987	1968	1991	1987	1988	1976	1988	1987	1990	1986	1982
Primary sectors	Commerce & service.	Service & agriculture	Prod'n & trading.	Ag. proc., storage & mktg	Prod'n & domestic	Production storage, processing & mktg	Man.u & repairs.	Production processing & marketing.	Production marketing & artisanal activities.	Varied	Varied short gestation activities.	Ag. inputs (seeds).	Agricul-ture	Process-ing
Geographic focus	Urban	Peri-urban & Rural.	Rural	Rural	Rural & Urban.	Rural	Rural & Urban.	Rural	Rural	Rural & Urban.	Rural	Rural	Rural	Rural & Urban
Gender of clients	W: 80% M: 20%	W: 55% M. 45%	W: 50% M: 50%	W: 25% M: 75%	N/A	W: 69% M: 31%	W: 8% M: 92%	W: 100% M: Nil	W: 80% M: 20%	W: 70% M: 30%	M: 100% W: Nil	W: 55% M: 45%	W: 35% M: 65%	W:100% M:Nil
Type of intermediation	Savings & Credit	Credit	Credit	Savings & Credit	Savings & Credit	Savings & Credit	Credit	Savings & Credit	Credit	Savings & Credit	Credit	Credit	Savings & Credit	Savings& Credit
Total savings	¢138 m	Nil	Nil	¢ 39 m	¢2,202 m	¢94 m	Nil	¢3 m	Nil	¢3 m	N/A	N/A	¢11 m	¢1.1 m
Avg. savings	W¢50,000 M¢80,000	Nil	Nil	N/A	¢30,000	¢5,000	Nil	¢70,000	Nil	¢70,000	N/A	N/A	N/A	¢20,000
Total credit	¢76 m	¢123 m	¢332 m	¢279 m	¢5,500 m	¢708 m	¢185 m	¢118 m	¢37 m	¢0 2 m	¢23 m	¢17 m	¢222 m	¢63 m
Avg. loan size	W:¢0.4 m M:¢0.3 m	¢1 m	¢0.08 m	¢0.9-¢5 m	¢0 03 m	¢0.04 m	¢ 3 m	¢0.03 m	N/A	¢0 01 m	¢ 0.02 m	¢0.001 m	N/A	¢ 5.5 m
Max. loan size	N/A	N/A	N/A	¢5 m	N/A	N/A	¢ 5 m	¢1 m	N/A	¢0 01 m	N/A	¢0.001 m	N/A	¢10 m
Avg. ln. term (mnths)	6	36	12	10	9	12	12	7	Unspec.	1	4	8	N/A	72
Max. ln. term (mnths)	18	60	12	60	36	48	42	36	N/A	1	4	8	12	72
Nominal interest rate	25%	20%	Farm 0%, Trade30%	20-29%	23-24%	26-29%	20%	26%	Nil	3.3%	35%	16.67%	26%	10%
Effective interest rate	28%	20%	Ag 10%, Trade 36%	24-34%	24-30%	26-29%	20%	26%	Nil	3.3%	42%	16.67%	29%	13%
Recovery rate	88%	98%	90%	98-100%	97-98%	47-117%	65-92%	58-100%	**	100%	100%	96%	30%	5-100%
Sustainability ***	B	A	A	C	B	B	C	C	C	A	A	A	C	C

* Average monthly data per SUSU Collector.

** Project recovered 5% at the end of project. Groups failed to recover loans to establish the proposed revolving fund.

*** Sustainability rating:
- "A" Means program is covering all costs.
- "B" Means program aims at covering all cost but is yet to achieve that level.
- "C" Means program objective is not to cover all costs but rather to ensure that program clientele achieve self-sufficiency.

APPENDIX 2:

Summary Statistics of International Programs

NGO Rural Financial Intermediation Study
Summary Profile Matrix on International Programs

	ACEP	ADEMI	ASKI	Fondo Micro	Grameen	MBM	PRIDE	PRODEM/ BancoSol	WRH	Zambuko	TNS/ABS*	NCDTF	TNS/ KUSCCO*	TNS/Nile Bank*	ACDI/ Poland*
Country	Senegal	Dom. Rep.	Philippines	Dom. Rep.	Bangladesh	Indonesia	Kenya	Bolivia	Honduras	Zimbabwe	Sudan	Nigeria	Kenya	Uganda	Poland
Year Started	1986	1983	1987	1990	1976	1981	1989	1986/1992	1991	1991	1986	1993	1977	1992	1992
Primary Sectors	Trade, Ag., Man. and Svcs.	Man.. Trade, Svcs. and Ag.	Man.. Trade, Svcs. and Ag.	Lends to NGOs	Ag., Ag. Processing and Trade	Trade, Ag. and Svcs.	Trade, Svcs., Ag. and Man.	Trade, Svcs., Ag., and Man.	Trade, Ag. and Svcs.	Man.. Trade, Ag. and Svcs.	Ag.	Comm. Dev. Assoc.	Credit Unions	Bank	Coop. Banks
Geographic	Urban and Rural	Urban and Rural	Rural	Urban and Rural	Rural	Urban and Rural	Rural Pop. Centers	Urban and Rural Pop. Centers	Urban and Rural	Urban and Rural	Rural	Rural and Urban	Urban and Rural	Rural	Rural
% Female Clients	23%	35%	50%	NA	94%	35%	50% +	70%	100%	55%	12%	50% +	NA	NA	NA
Type of Intermediation	Credit	Credit	Credit and Savings	Credit	Credit and Savings	Credit and Savings	Credit and Savings	Credit and Savings	Credit and Savings	Credit and Savings	Bank Trainer	Apex Inst., Trainer of NGOs	Trainer of Credit Unions	Prod. Dev., Bank Trainer	Bank Trainer
Total Savings	NA	NA	$33,000	NA	$77 m	$25,000	$35,000	$36 mill	$215,000	$35,000	NA	NA	NA	NA	NA
Avg. Savings	NA	NA	NA	NA	$40	NA	NA	$225	$66	$20	NA	NA	NA	NA	NA
Total Credit	$3.9 m	$11 m	$1.6 m	$4.5 m	$1,000 m	$1.5 m	$.5 m	$110 mill	$1.1 m	$.5 m	NA	NA	NA	NA	NA
Avg. Loan Size	$2,800	$544	$600	$1 m	$125	$300	$90	$500	$85	$182	NA	NA	NA	NA	NA
Max. Loan Size	$20,000	$5,000	$5,000	NA	$300	$5,000		$20,000	$400	$5,000	NA	NA	NA	NA	NA
Avg. Loan Term	8 months	6 months	10 months	NA	12 months	9 months	12 months	6 months	5 months	6 months	NA	NA	NA	NA	NA
Max. Loan Term	16 months	36 months	18 months	NA	12 months	12 months	12 months	12 months	6 months	18 months	NA	NA	NA	NA	NA
Nom. Int Rate	16%	34%	25%	80% of Prime	20%	30%	20%	30% US$ 48% Bs	36%	35%	NA	NA	NA	NA	NA
Effect. Int. Rate	28%	56%	25%	NA	35%	51%	35%	Same	58%	58%	NA	NA	NA	NA	NA
Recovery Rate	98%	99%	100%	100%	98%	99%	99%	99%	100%	97%	NA	NA	NA	NA	NA
Sustainability Rating**	B	A	B	B	A	A	B	A	B	B	C	B	C	C	C

Notes:

* The NGO played a training or facilitating role and was not directly involved in making loans or collecting savings.

** Sustainability Ratings
- A - NGO is covering all costs with earned income
- B - NGO does not yet cover all costs with earned income, but intends to
- C - NGO's objective is not to cover all of its costs with earned income but to insure that its clientele reach self-sufficiency

APPENDIX 3:

Calculations of Role Outputs

Direct Lender and Savings Mobilizer

Description

The Direct Lender and Savings Mobilizer receives grants to cover operating costs and both grants and loans to establish a revolving loan fund. From this fund it makes loans to micro and small businesses. These businesses expand their activities, increase their income, increase the time worked by existing employees, add new employees and increase their profits. The business puts a portion of the loan amount and a portion of the increased profits in savings. Some of the employees in these businesses save a portion of their income.

Key Assumptions

Average Loan Term: 6 months

Average Loan Size: $300

Dollars Lent per New Job Created: $500

Jobs Sustained per Loan: 1.2

Bad Debts: Total 3% of the portfolio and are paid for out of operating income.

Beneficiaries: Beneficiaries include the family members supported by the people employed in the businesses receiving loans. On average, each employed person supports seven family members.

Profits: Each business makes an average of $400 in profits per year, and these profits increase by 25% as a result of the loan.

Wages: Each employee earns an average of $300 per year. Existing employees experience a 15% increase in wages due to working more days after the business receives the loan.

Savings: On average, each business saves 10% of the loan the receive (some lending programs require savings of at least this amount). The business also saves 5% of its profits. In aggregate, employees save 5% of their increased wages.

Direct

Assumptions	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Grants to Operating Costs	100,000	150,000	200,000	150,000	100,000	50,000	-	-	-	-
Grants to Loan Fund	100,000	150,000	250,000	300,000	350,000	400,000	-	-	-	-
Borrowings for Loan Fund: Project		-	-	300,000	400,000	600,000	800,000	-	-	-
Borrowings for Loan Fund: Commercial								300,000	400,000	500,000
Bad Debt %	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Avg Loan Term	6	6	6	6	6	6	6	6	6	6
Avg. Loan Size	300	300	300	300	300	300	300	300	300	300
$ Lent per Jobs Created	500	500	500	500	500	500	500	500	500	500
Jobs Sustained per Loan	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Beneficiaries per Employee	7	7	7	7	7	7	7	7	7	7
Avg. Profits/Year	400	400	400	400	400	400	400	400	400	400
Avg % Increase from Loan	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Avg Wages/Employee	300	300	300	300	300	300	300	300	300	300
Avg Increase/Existing Emp	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Savings per Loan Amount	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Savings Per Add'l Profits	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Savings Per Add'l Wages	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Repeat Borrowers	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%
Percentage Savers	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
Loan Fund Size, BOY	-	100,000	250,000	500,000	1,100,000	1,850,000	2,850,000	3,650,000	3,950,000	4,350,000
Loan Fund Size, EOY	100,000	250,000	500,000	1,100,000	1,850,000	2,850,000	3,650,000	3,950,000	4,350,000	4,850,000
Loans Made	333	1,500	3,333	7,000	13,500	21,833	31,167	37,500	40,833	45,167
$ Lent	100,000	450,000	1,000,000	2,100,000	4,050,000	6,550,000	9,350,000	11,250,000	12,250,000	13,550,000
Jobs Created	200	900	2,000	4,200	8,100	13,100	18,700	22,500	24,500	27,100
Jobs Sustained	400	1,800	4,000	8,400	16,200	26,200	37,400	45,000	49,000	54,200
Beneficiaries	4,200	18,900	42,000	88,200	170,100	275,100	392,700	472,500	514,500	569,100
Additional Profits Generated	33,333	175,000	464,583	1,048,438	2,136,328	3,785,579	5,955,851	8,216,888	10,246,000	12,201,166
Additional Wages Generated	48,000	252,000	669,000	1,509,750	3,076,313	5,451,234	8,576,426	11,832,319	14,754,240	17,569,680
Savings Mobilized	14,067	66,350	156,679	337,909	665,632	1,116,841	1,661,614	2,127,460	2,475,012	2,843,542
Number of Borrowers	222	1,000	2,222	4,667	9,000	14,556	20,778	25,000	27,222	30,111
Number of Savers	180	810	1,800	3,780	7,290	11,790	16,830	20,250	22,050	24,390
New Borrowers	222	833	1,472	3,000	5,500	7,806	9,861	9,417	8,472	9,694
New Savers	180	820	1,402	3,264	5,736	8,820	11,958	13,042	14,180	15,931
New Jobs Sustained	400	1,400	2,600	5,800	10,400	15,800	21,600	23,400	25,600	28,600
New Beneficiaries	4,200	14,700	27,300	60,900	109,200	165,900	226,800	245,700	268,800	300,300

Matchmaker

Description

The Matchmaker organizes clients (usually into groups), reviews their business activities and loan applications, approves loans, collects savings and loan repayments and monitors business activities. The Matchmaker works with a local banks which provides loan funds for the clients organized by the Matchmaker. This bank will require a guarantee to make these loans, but the size of this guarantee will decline as the clients build their savings accounts and credit histories. The businesses supported by the Matchmaker will increase their profits, improve the jobs of current employees and add new employees. Matchmaker clients will be required to save a certain percentage of their loan amount before receiving a loan and will also save a portion of their increased profits. Some of the employees of these businesses will also save a portion of their increased income.

Key Assumptions

Average Loan Size: $200

Average Loan Term: 4 months

Dollars Lent per New Job Created: $700

Jobs Sustained per Loan: 1.1

Guarantee Requirements: The bank requires an 65% guarantee in the first year, but this falls to 50% by the fourth year.

Bad Debts: Total 3% of the portfolio and are paid for out of operating income.

Beneficiaries: Beneficiaries include the family members supported by the people employed in the businesses receiving loans. On average, each employed person supports eight family members.

Profits: Each business makes an average of $300 in profits per year, and these profits increase by 25% as a result of the loan.

Wages: Each employee earns an average of $250 per year. Existing employees experience a 15% increase in wages due to working more days after the business receives the loan.

Savings: Each business is required to save 10% of the loan amount before receiving the loan. The business also saves 5% of its profits. In aggregate, employees save 5% of their increased wages.

Assumptions	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Grants to Operating Costs	100,000	150,000	200,000	250,000	200,000	150,000	100,000	-	-	-
Amount of Loan Guarantee	100,000	100,000	100,000	200,000	300,000	400,000	500,000	-	-	-
Savings Used for Guarantee		21,229	95,953	151,693	280,046	517,142	857,681	1,350,459	1,856,954	1,921,678
Guarantee Percentage	65%	60%	55%	50%	50%	50%	50%	50%	50%	50%
Bad Debt %	0.03	0 03	0 03	0 03	0 03	0 03	0 03	0 03	0 03	0 03
Avg. Loan Term	4	4	4	4	4	4	4	4	4	4
Avg. Loan Size	200	200	200	200	200	200	200	200	200	200
$ Lent per Jobs Created	700	700	700	700	700	700	700	700	700	700
Jobs Sustained per Loan	1.1	1 1	1 1	1 1	1 1	1 1	1 1	1 1	1 1	1 1
Beneficiaries per Employee	8	8	8	8	8	8	8	8	8	8
Avg. Income/Year	300	300	300	300	300	300	300	300	300	300
Avg. % Increase from Loan	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Avg Wages/Employee	250	250	250	250	250	250	250	250	250	250
Avg. Increase/Existing Emp.	15%	15%	10%	10%	10%	10%	10%	10%	10%	10%
Savings per Loan Amount	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Savings Per Add'l Profits	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Savings Per Add'l Wages	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Repeat Borrowers	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%
Savers	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
						Totals				
Loan Fund Size, BOY	-	153,846	202,049	356,278	703,386	1,160,093	1,834,285	2,715,363	2,708,141	1,856,954
Loan Fund Size, EOY	153,846	202,049	356,278	703,386	1,160,093	1,834,285	2,715,363	2,708,141	1,856,954	1,921,678
Loans Made	769	3,318	4,812	8,861	16,351	26,573	41,091	54,271	49,907	37,463
$ Lent	153,846	663,587	962,425	1,772,219	3,270,252	5,314,564	8,218,218	10,854,230	9,981,376	7,492,539
Jobs Created	220	948	1,375	2,532	4,672	7,592	11,740	15,506	14,259	10,704
Jobs Sustained	846	3,650	5,293	9,747	17,986	29,230	45,200	59,698	54,898	41,209
Beneficiaries	8,527	36,782	53,346	98,232	181,265	294,579	455,524	601,634	553,253	415,301
Additional Profits Generated	57,692	292,115	579,995	1,099,579	2,051,028	3,531,233	5,730,256	8,368,028	10,019,037	10,323,980
Additional Wages Generated	59,203	299,765	529,019	956,912	1,751,317	2,993,270	4,842,496	7,062,584	8,451,766	8,707,002
Savings Mobilized	21,229	95,953	151,693	280,046	517,142	857,681	1,350,459	1,856,954	1,921,678	1,700,803
Number of Borrowers	513	2,212	3,208	5,907	10,901	17,715	27,394	36,181	33,271	24,975
Number of Savers	513	2,212	3,208	5,907	10,901	17,715	27,394	36,181	33,271	24,975
New Borrowers	513	1,827	1,549	3,501	6,470	9,540	14,108	15,635	6,136	22
New Savers	513	1,699	1,509	4,398	6,502	11,213	16,181	20,000	13,272	11,703
New Jobs Sustained	846	2,804	2,490	7,257	10,729	18,501	26,699	32,999	21,898	19,311
New Beneficiaries	8,527	28,254	25,092	73,140	108,125	186,453	269,071	332,564	220,690	194,611

Packager

Description

The Packager projections are based on the example of TechnoServe's support for palm oil mills. In this example the Packager organizes a community-based enterprise that processes palm oil. It trains the members and leaders of this enterprise in business management and the operation of the palm oil press. The Packager also prepares a business plan which it takes to a bank for financing. The bank requires a guarantee to make the loan, but the level of this guarantee diminishes over time. The palm oil mill generates profits and also increases employment in the production, preparation, processing and transport of the palm oil. The mill generates savings in the form of retained earnings. Those receiving or expanding employment as a result of the mill also save a portion of their income.

Key Assumptions

Average loan size per enterprise: $5,000

Average loan term: Five years

Average number of owners per enterprise: 35

Equity investment required: 25% of loan amount

Average number of clients using equipment: 35

Income: Each owner of the enterprise receives an average income of $300 per year. This income increases 25% as a result of mill operations. Each client who uses the enterprises equipment raises his or her income by an average of 95% through the value added to their production. The mill also earns an average return on investment of 20%.

Savings: The enterprise saves 50% of its profits as retained earnings. Those employed as a result of the mill save an average of 5% of their increased income.

Job Creation: Each mill creates 100 new jobs in the production, preparation, processing and transporting of palm oil. The average income of a person receiving a new job is $250 per year.

Enterprises Assisted: In the first three years the Packager will support 10 new enterprises each year. In the fourth year this will increase to 15 new enterprises, and then 20 enterprises each in years five through seven.

Assumptions	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Grants to Operating Costs	250,000	275,000	300,000	325,000	350,000	350,000	350,000			
Average loan size/enterprise	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Average Loan Term	5	5	5	5	5	5	5	5	5	5
Grace Period	1	1	1	1	1	1	1	1	1	1
Average members/enterprise	35	35	35	35	35	35	35	35	35	35
Average clients/enterprise	35	35	35	35	35	35	35	35	35	35
Equity/Saving Requirement	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Base Income	10,500	10,500	10,500	10,500	10,500	10,500	10,500	10,500	10,500	10,500
Average Increase in Income/Owners	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Average Increase in Income/Clients	585	585	585	585	585	585	585	585	585	585
Average Return	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
Average Retained Earnings	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%
Number of Enterprises Supported	10	10	10	15	15	15	20	-	-	-
Level of Guarantee Required	65%	60%	50%	33%	20%	10%	0%	0%	0%	0%
Beneficiaries/Member	10	10	10	10	10	10	10	10	10	10
Avg. Savings of Increased Income	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Jobs Created/Enterprise	100	100	100	100	100	100	100	100	100	100
Avg Income/New Job	250	250	250	250	250	250	250	250	250	250
Percentage Savers	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Loan Fund Size, BOY	-	50,000	100,000	140,000	195,000	240,000	270,000	310,000	245,000	170,000
Loan Fund Size, EOY	50,000	100,000	140,000	195,000	240,000	270,000	310,000	245,000	170,000	105,000
Guarantee Required	32,500	60,000	70,000	64,350	48,000	27,000	-	-	-	-
Loans Made	10	10	10	15	15	15	20	-	-	-
$ Lent	50,000	50,000	50,000	75,000	75,000	75,000	100,000	-	-	-
Jobs Created	1,000	1,000	1,000	1,500	1,500	1,500	2,000	-	-	-
Jobs Sustained	350	1,700	3,050	4,575	6,600	8,625	10,825	-	-	-
Beneficiaries	13,500	27,000	40,500	91,125	121,500	151,875	256,500	-	-	-
Additional Profits Generated	10,000	17,500	23,125	32,344	39,258	44,443	53,333	53,333	53,333	53,333
Additional Wages Generated	1,373,500	2,403,625	3,176,219	4,442,414	5,392,061	6,104,295	7,325,222	5,493,916	4,120,437	3,090,328
Savings Mobilized	86,175	227,606	410,480	667,522	975,504	1,321,691	1,739,618	2,040,980	2,273,668	2,454,851
Number of Borrowers	10	10	10	15	15	15	20	-	-	-
Number of Savers	203	405	608	911	1,215	1,519	1,924	-	-	-
New Borrowers	10	10	10	15	15	15	20	-	-	-
New Savers	203	203	203	304	304	304	405	-	-	-
New Jobs Sustained	350	1,350	1,350	1,525	2,025	2,025	2,200	-	-	-
New Beneficiaries	13,500	13,500	13,500	50,625	30,375	30,375	104,625	-	-	-

Product Developer

Description

The variety of options available to the Product Developer make projections difficult. For these projections we have used the example of inventory credit. In this example the NGO organizes a group of cereal growers. At harvest time these growers put their excess grain in storage and receive a loan from the bank based on the current market value of their production. The bank requires a declining guarantee. The NGO sells the grain at a later date when the price is much higher. From the proceeds of the sale the NGO repays the loan from the bank and returns the remaining funds to the growers. This activity produces significant increases in the farmers income and modest increases in employment (to prepare the grain for storage). A portion of the farmer's increased income goes into savings.

The NGO also develops a set of standard procedures for analyzing and monitoring inventory credit loans. Through its relationship with the bank, the NGO transfers this knowledge to the banks, which then begin making inventory credit loans without the involvement of the NGO.

Key Assumptions

Average Loan Size: $5,000

Average number of members per group: 60

Income: Before the loan, each group member receives an average of $250 in income per year. As a result of the inventory credit each members' income increases 20%.

Savings: On average, the members save 5% of their increased income.

Job Creation: Each inventory credit loan creates 4 new jobs.

Guarantee Requirement: The banks require a 65% loan guarantee initially, but this declines to 15% by the seventh year.

Bank Adoption: The banks will take on the lending scheme and will lend up to the level of the guarantees provided.

Assumptions	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Operating Costs	150,000	150,000	200,000	200,000	300,000	250,000	150,000			
Bank Loan Capital	30,000	37,500	46,875	58,594	73,242	91,553	114,441	143,051	178,814	223,517
Deposits	250,000	578,440	1,163,332	2,093,497	3,357,368	4,724,733	6,594,013	9,195,728	12,484,252	16,946,410
% Lent to Rural Enterprises	50%	50%	50%	55%	60%	60%	60%	60%	60%	60%
Guarantee Required	70%	60%	50%	40%	30%	30%	30%	0%	0%	0%
Borrowing Rate	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%
Cum. Amount Borrowed	125,000	289,220	581,666	1,046,748	1,678,684	2,362,366	3,297,006	3,297,006	3,297,006	3,297,006
Avg. Loan Term	9	9	9	9	9	9	9	9	9	9
Avg. Loan Size	300	300	300	300	300	300	300	300	300	300
$ Lent per Jobs Created	500	500	500	500	500	500	500	500	500	500
Jobs Sustained per Loan	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Beneficiaries per Employee	8	8	8	8	8	8	8	8	8	8
Avg. Income/Year	400	400	400	400	400	400	400	400	400	400
Avg. % Increase from Loan	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
Avg. Wages/Employee	200	200	200	200	200	200	200	200	200	200
Avg. Increase/Existing Emp.	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Savings per Loan Amount	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Savings Per Add'l Profits	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Savings Per Add'l Wages	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Additional Savings Rate	50%	40%	30%	20%	10%	10%	10%	10%	10%	10%
Additional Savings	125,000	231,376	349,000	418,699	335,737	472,473	659,401	919,573	1,248,425	1,694,641
Repeat Borrowers	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%
Savers Rate	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%
Loan Fund Size, BOY		265,000	472,190	897,549	1,648,732	2,690,302	3,573,454	4,959,712	5,603,267	7,597,839
Loan Fund Size, EOY	265,000	472,190	897,549	1,648,732	2,690,302	3,573,454	4,959,712	5,603,267	7,597,839	10,301,956
Guarantee Amount	185,500	283,314	448,775	659,493	807,090	1,072,036	1,487,914	-	-	-
Loans Made	1,178	2,099	3,989	7,328	11,957	15,882	22,043	24,903	33,768	45,786
$ Lent	353,333	629,587	1,196,732	2,198,310	3,587,069	4,764,605	6,612,950	7,471,023	10,130,452	13,735,942
Jobs Created	707	1,259	2,393	4,397	7,174	9,529	13,226	14,942	20,261	27,472
Jobs Sustained	1,413	2,518	4,787	8,793	14,348	19,058	26,452	29,884	40,522	54,944
Beneficiaries	16,960	30,220	57,443	105,519	172,179	228,701	317,422	358,609	486,262	659,325
Additional Profits Generated	141,333	188,876	359,020	659,493	1,076,121	1,429,382	1,983,885	2,241,307	3,039,136	4,120,782
Additional Wages Generated	579,467	805,871	1,531,817	2,813,837	4,591,448	6,098,694	8,464,575	9,562,909	12,966,979	17,582,005
Savings Mobilized	203,440	353,516	581,166	845,172	1,031,628	1,396,807	1,942,314	2,368,951	3,213,733	4,359,414
Number of Borrowers	785	1,399	2,659	4,885	7,971	10,588	14,695	16,602	22,512	30,524
Number of Savers	848	1,511	2,872	5,276	8,609	11,435	15,871	17,930	24,313	32,966
New Borrowers	785	810	1,610	2,891	4,307	4,610	6,754	5,581	10,060	13,640
New Savers	848	551	2,108	2,777	5,194	5,394	9,302	7,300	15,212	15,313
New Jobs Sustained	1,413	1,105	3,682	5,111	9,237	9,821	16,630	13,254	27,268	27,676
New Beneficiaries	16,960	13,260	44,183	61,336	110,843	117,858	199,564	159,045	327,217	332,109

Trainer of NGOs

All of the impact of the Trainer of NGOs would occur through NGOs operating one of the programs listed above. For this reason we have not calculated separate outputs for this activity.

Inventory Credit Example	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Operating Costs	300,000	325,000	350,000	375,000	350,000	300,000	250,000			
Grants to NGO Loan Fund	50,000	100,000	150,000	250,000	350,000	400,000	400,000	-	-	-
Cum NGO Loan Fund	50,000	150,000	300,000	550,000	900,000	1,300,000	1,700,000	1,700,000	1,700,000	1,700,000
Loan Guarantees	-	200,000	400,000	600,000	800,000	1,000,000	1,000,000	-	-	-
Guarantee Requirement	65%	60%	50%	40%	30%	20%	15%	0%	0%	0%
Bank Loans	-	333,333	800,000	1,500,000	2,666,667	5,000,000	6,666,667	6,666,667	6,666,667	6,666,667
Average Loan Size	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Base Income/Enterprise	24,000	24,000	24,000	24,000	24,000	24,000	24,000	24,000	24,000	24,000
Avg. Increase in Income	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
Avg. Savings	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Employees per Business	60	60	60	60	60	60	60	60	60	60
New Employees per Loan	4	4	4	4	4	4	4	4	4	4
Avg. Income/Employee	250	250	250	250	250	250	250	250	250	250
Beneficiaries	10	10	10	10	10	10	10	10	10	10
Percent Savers	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Loan Fund Size, BOY	-	50,000	483,333	1,100,000	2,050,000	3,566,667	6,300,000	8,366,667	8,366,667	8,366,667
Loan Fund Size, EOY	50,000	483,333	1,100,000	2,050,000	3,566,667	6,300,000	8,366,667	8,366,667	8,366,667	8,366,667
Guarantee Required	-	200,000	400,000	600,000	800,000	1,000,000	1,000,000	-	-	-
Loans Made	10	97	220	410	713	1,260	1,673	1,673	1,673	1,673
$ Lent	50,000	483,333	1,100,000	2,050,000	3,566,667	6,300,000	8,366,667	8,366,667	8,366,667	8,366,667
Jobs Created	40	387	880	1,640	2,853	5,040	6,693	6,693	6,693	6,693
Jobs Sustained	600	5,800	13,200	24,600	42,800	75,600	100,400	100,400	100,400	100,400
Beneficiaries	6,400	61,867	140,800	262,400	456,533	806,400	1,070,933	1,070,933	1,070,933	1,070,933
Additional Income Generated	48,000	500,000	1,431,000	3,041,250	5,704,938	10,326,703	15,777,027	19,864,771	22,930,578	25,229,933
Additional Wages Generated	10,000	104,167	298,125	633,594	1,188,529	2,151,396	3,286,881	4,138,494	4,777,204	5,256,236
Savings Mobilized	2,900	30,208	86,456	183,742	344,673	623,905	953,195	1,200,163	1,385,389	1,524,308
Number of Borrowers	10	97	220	410	713	1,260	1,673	1,673	1,673	1,673
Number of Savers	96	928	2,112	3,936	6,848	12,096	16,064	16,064	16,064	16,064
New Borrowers	10	87	133	277	437	823	850	823	850	823
New Savers	96	832	1,280	2,656	4,192	7,904	8,160	7,904	8,160	7,904
New Jobs Sustained	600	5,200	7,400	11,400	18,200	32,800	24,800	-	-	-
New Beneficiaries	6,400	55,467	78,933	121,600	194,133	349,867	264,533	-	-	-

Trainer of Financial Institutions

Description

For this example we have assumed that an NGO provides training and consulting service to three rural banks. These services include training bank staff in new methods for organizing clients, reviewing and approving loans, monitoring loan recipients, collecting payments and mobilizing savings. This will result in the banks increasing their savings on deposit and their lending activities in rural areas. The banks will also be able to borrow from the project to increase their level of lending. The banks will continue with these activities after the NGO has stopped providing training.

Key Assumptions

Average Loan Term: 9 months

Average Loan Amount: $300

Capital and Deposits: Each of the three banks starts with $10,000 in capital and $80,000 in savings deposits. They are lending 50% of this amount to rural enterprises.

Guarantee Requirements: The rural banks will require a guarantee for increased lending to rural enterprises. This guarantee will start at 70% of the loan amount and decline to 30% by the fifth year.

Borrowing Amount: The bank will increase its funds available for lending by borrowing form the project an amount equal to 50% of its savings on deposit.

Jobs Created and Sustained: On average, each loan sustains 1.2 jobs and every $500 lent creates one new job.

Increases in Profits and Wages: Businesses receiving loans will increase their profits by 30%, on average. The wages of existing employees in these businesses will increase by 15%.

Savings: Businesses will save 10% of their increased profits and employees 5% of their increased wages. In addition, the techniques taught by the NGO to bank will allow it to mobilize additional savings equal to 50% of the existing savings deposits in year one, declining to 10% in year seven.