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MALI RESEARCH BRIEF 4  
IPPG BRIEFING PAPER NO. SIXTEEN  
OCTOBER 2007

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## INSTITUTIONS AND PRO-POOR GROWTH IN MALI: THE CASE OF MICROFINANCE INSTITUTIONS

### ANALYSIS OF ECONOMIC GROWTH IN MALI

Although Mali has significant mining resources and great potential in terms of irrigable lands, it ranks among the least developed countries in the world. At a social level, according to the Malian Poverty Evaluation Survey (EMEP), 68% of Malians were living below the poverty threshold in 2001, of whom 81% were in rural areas. The average growth rate during the period 1994 to 2004 was 3.3%.

A sectoral analysis of the Malian economy shows that on average and in the majority of periods examined, the primary sector is the driving force behind economic growth, in spite of frequent fluctuations. During the period 1967–2002, the primary sector contributed an average of 2.5% to the country's economic growth – although at the beginning of the period it accounted for 4.0% of growth and produced up to 44.5% of the GDP. Statistics show that the performance of this sector is linked to the fairly regular growth of the agricultural sector, above all of cereals which comprise 40.9 % of the sector, and cotton which makes up 14.3%.

It is clear from the sectoral analysis that for many years the Malian economy has been dependent on

the primary sector. This supports the World Bank's analysis concerning the economies of sub-Saharan African countries: it found that the primary sector – and the agricultural sector in particular – has been the driving force behind economic growth over recent decades.

Providing capital for a predominantly agro-sylvo-pastoral economy remains problematic. Formal banks have not managed to provide services that are accessible to the vast majority of the population, leading to the emergence of a decentralised finance system.

### MICROFINANCE IN MALI

Microfinance has a very long history in Europe (Germany and Spain in particular); however, it was not until the second half of the twentieth century that this practice became widespread in Africa. More specifically, it was during the 1980s that Mali embraced the first initiatives to create savings and credit organisations. The first of these were self-managed village savings and loan banks. Indeed, it was following an evaluation of the informal sector of certain African countries – including Mali – conducted by the International Labour Office in 1980 that a network of mutual savings and loan

Paper prepared for the DFID-funded Research Programme, Institutions and Pro-Poor Growth (IPPG). The authors are grateful to DFID for the funding that made this research possible. The views expressed in this paper are entirely those of the author and in no way represent either the official policy of DFID or the policy of any other part of the UK Government.

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## DEVELOPMENT OF THE MICROFINANCE SECTOR

banks was set up in Mali. This network was created at the demand of Malian artisans within the member associations of the National Federation of Malian Artisans, but opened its doors to other professional groups: farmers, traders salaried employees, groups and associations.

Literature on development shows that microfinance institutions offer community services to the types of people who are generally excluded from the classic banking system. Such institutions are therefore seen as a means to fight poverty.<sup>1</sup> However, more and more questions have arisen concerning the real contribution of microfinance to reducing poverty.<sup>2</sup> Despite such questions, it should be noted that microfinance is making healthy progress in Mali, both in terms of numbers of members and of societies.

### THE STRUCTURE OF MICROFINANCE INSTITUTIONS

The Malian microfinance sector is in a period of strong growth. In December 2003 the Decentralised Finance System Support and Monitoring Unit (CAS/SFD) counted 831 institutions, grouped into 57 higher-level structures working within the regulations currently in force. These were of four types:

#### a) Credit Unions

These are systems in which saving precedes and provides funds for credit. The emphasis is placed on using savings to meet the demand for loans.

#### b) Self-Managed Village Savings and Credit Banks (CVECA - *Caisses Villageoises d'Épargne et de Crédit Autogérées*)

The CVECA approach took shape in the Dogon Country of Central Mali in 1986. The structure of the networks is highly decentralised, but linked to the banking system, mainly to the National Bank of Agricultural Development (BNDA), in order to access the funds needed to meet the demand for loans in the villages. The principles of group solidarity and informal social control, and linkages to development projects are all based on village-level social organisation.

#### c) Direct Credit Institutions based on Group Lending

This category comprises credit systems that do not require borrowers to deposit savings first. Within such institutions, access to credit is based around the collective guarantee of a joint liability group.

#### d) Projects with a Credit Component

This category includes development projects that have an element of credit within them, without credit being the main focus of their work.

The analysis of the development of the microfinance sector relies on 2004 financial activity and performance indicators taken from annual reports and financial statements of the microfinance institutions (MFIs).<sup>3</sup>

### Membership

DFS	Total No. of Members, 2004	As percentage of MFIs %	% growth 2003-04
Credit Unions	468,136	70.2	8.8
CVECAs	126,384	18.7	5.1
Direct Group Lending Insts.	71,426	10.1	12.9
Other systems	695	0.1	17.4
Total	666,640	100.0	8.5

Credit Unions account for the great majority of all MFI members nationally. All four categories of MFI are showing strong growth in membership.

Across the sample as a whole, men make up 58% of members, with 38 % women and 4% of groups (themselves mainly composed of women members). Female membership is however growing faster, at 13% growth 2003-04 compared with 6% for men and 8% for groups. Female membership is particularly high within the direct group lending systems, for which they are the target group and where they make up 91% of the total, as compared with 35% in the CVECAs and 31% in the credit unions.

Penetration rates are calculated on the basis of the relation between the society's membership and its target population. Using this system, the rates fall within these ranges:

- Credit unions: from 12% to 43.75%
- CVECA: from 35% to 80%
- Group lending: from 5.19% to 84.28%

Members of MFIs represent around 6% of Mali's total population, but 35% of the total number of households. This rate is also growing: up from 33% in 2003.

MFIs are found across all regions of Mali, with credit unions concentrated in Bamako, Ségou and Sikasso, (which therefore have the highest total numbers of members, CVECAs in Kayes, Ségou and Mopti, and direct group lending in all regions apart from Gao and Kidal in the far north.

MFIs in 2004 directly employed 3,111 people, 78% of which were managers and cashiers and 22% of which were training staff. The great majority (47% and 45% respectively) were employed by credit unions and CVECAs. By comparison, the

1. M Chowdhury, P. Mosley and A. Simanowitz (2004) 'Introduction: The Social Impact of Microfinance'. *Journal of International Development*, 16(3), pp. 291-300.

2. For example, D. Hulme and P. Mosley (1996) *Finance Against Poverty*. London: Routledge; P. Mosley and J. Rock (2004) 'Microfinance, Labour Markets and Poverty in Africa: a study of six institutions'. *Journal of International Development*, 14(3), pp. 467-500; J. Sebstad and M. Cohen (2001) *Microfinance, Risk Management and Poverty*. Washington DC: USAID.

3. The 41 to have submitted reports, of the 57 higher-level MFIs mentioned above.

non-MFI banking system employs about half as many people.

### Deposits and Loans

	Total deposits (million FCFA)	%	% growth 2003-04
Credit Unions	24,884	89.3	18.4
CVECAAs	1,359	4.9	-15.7
Direct Group Lending Insts.	1,448	5.2	43.7
Projects	162	0.6	13.3
Total	27,853	100	17.2

Savings are growing rapidly for all categories of MFIs except the CVECAAs, and particularly for the direct group lending institutions.

#### Deposits by Type, 2004 (million FCFA)

	On-demand deposits		Term deposits		Other deposits		Total deposits
	Amount	%	Amount	%	Amount	%	
Credit Unions	16,233	92.17	2,294	65.90	250	93.46	23,767
CVECAAs	391	2.22	928	26.67	12	0.21	1,331
Direct Group Lending Insts.	957	5.43	133	3.82	350	6.23	1,440
Projects	29	0.16	125	3.60	5	0.08	159
Total	17,600	100	3,480	100	5,617	100	26,697
% of deposits	95.92%		13.03%		21.01%		100%

On-demand deposits make up 68% of the total for the credit unions, 66% for the direct group lending institutions, 29% for the CVECAAs and 18% for the projects.

#### Operational Loans, 2004 (million FCFA)

	Amount	% of total	% growth 2003-04
Credit Unions	29,997	82.4	12.2
CVECAAs	3,293	9.1	22.5
Direct Group Lending Insts.	2,928	8.1	27.8
Projects	178	0.5	-4.3
Total	36,327	100	14.1

The total value of operational loans has also increased by 14% between 2003 and 2004, most notably from the direct group lending institutions. About 5% of loans in 2004 were overdue, down from 7% in 2003, and without strong variations between categories of MFI.

## MICROFINANCE AND DEVELOPMENT OF THE INFORMAL SECTORS

A significant section of the active Malian population work in the informal sectors of agriculture, trade and crafts. The majority of households – including those with waged employment – also work in the informal sector to supplement their incomes.

The autonomous/informal sector is flourishing and adaptable (more than 80% of the population work within it or make use of it)

but its means are limited and its services costly and risky - hence the importance of microfinance to overcome financial difficulties that cannot be dealt with by formal banking. As informal work dominates the primary sector, its development necessarily depends on microfinance institutions. Taking into account the large contribution made by the informal sector to Mali's GDP (of which it makes up 60%), the microfinance system which deals with this sector plays a significant role, as shown by the fact that MFIs today have total operational loans of 36,327 billion FCFA and have 66,640 members.

Specifically, though it is hard to find reliable data, 5-10% of total MFI business is targeted at handicrafts and other small-scale industrial activities, including 80% of the portfolio of the Kondo Jiguima network set up by the Malian

National Federation of Artisans.

## PROBLEMS ASSOCIATED WITH SFD ACTIVITY

The remarkable benefits of microfinance institutions have been amply demonstrated, but they are nonetheless still staggering under the weight of the difficulties that beset them: their low capacity to raise long-term funding, the lack of harmonisation between different operations working within the sector, restrictions connected to the application of the PARMEC law passed by the Central Bank of West African States, administrative and legal problems, unrestricted competition between different institutions, problems of financial viability, restrictions concerning the extension of MFI activities into poor regions with low economic potential, the weakening of institutional and financial set-ups due to the de-affiliation of certain grassroots facilities from their overseeing bodies, the unreliability of the workforce and the non-repayment of debts.

MFI members, especially the poorer among them, equally experience problems such as meeting conditions for loan eligibility, interest rates at up to 36 % higher and sometimes double the 18% charged by the banks, short repayment periods, and delays in approving loan applications.

## MICROFINANCE AND THE REDUCTION IN POVERTY IN MALI

Almost everyone in the countryside has some land or herds, even though the quantity and the quality of them may differ widely. These differences generally go alongside arrangements for redistribution and family solidarity. Poverty cannot be defined simply as a level or a threshold of income. It is rather a complex socio-economic process, whose causes and effects need to be understood – including the question of exclusion from redistribution mechanisms. With such an analysis of social differentiation and the presence of wealth and poverty, it appears in general to be preferable to have open financial institutions, able to offer diversified products to a broad range of clients rather than to look for exclusive 'targets' such as women or 'the poor'. With a good system of monitoring and evaluation and specially adapted products it will be possible to discern whether poorer people really do have access to financial services and decision-making.

The highest incidences of income poverty in 2001 were to be found in the northern regions of Kidal, Gao and Timbuctu, with rates between 79% and 93%. Only a tiny fraction of MFI members were to be found in these regions. The MFIs are better represented in Bamako (26% of total national members), Sikasso (24%) and Ségou (22%), where the incidences of poverty are respectively 29%, 66% and 68%. Although MFIs are already more prevalent in rural areas and in the informal sector, more must be done to reach regions with higher poverty levels.

According to national economic accounts, the informal sector alone contributes FCFA 1,419 billion which accounts for 60% of GDP. As it is microfinance that finances the informal sector, its importance in the reduction of poverty is clear.

While MFIs cite the fight against poverty as a priority, the professionalisation of the sector has brought tension between financial rigour and the targeting of a poor client base that incurs high service delivery costs. It is important that research is conducted into finding innovative solutions to improve services and make microfinance institutions more sustainable.

Recent trends give grounds for cautious optimism, suggesting that growth will continue over the next few years. It is now reasonable to expect of the micro-finance sector that it be extended to the entire country, with each of Mali's 700 communes having at least one microfinance facility. Efforts must be made to sustain the growth in membership and savings and loan portfolios, and to seek support from government and donors to further lower their interest rates and increase the size of loans.