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Micro-Financing as a Means of Reducing Extreme Poverty: The Case of Senegal and The Gambia

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Micro-Financing as a Means of Reducing Extreme Poverty: The Case of Senegal and The Gambia

Aloysius Ajab Amin and Tharcisse Ntilivamunda[1]

Abstract

Microfinance as a system of delivering financial services to a previously ignored, excluded and disadvantaged population, who are also the poor, is expected to make changes in the lives of the poor. The poor, who lack access to funds to take advantage of the opportunities, should be able to generate income and accumulate assets as microfinance delivers the financial services. In the Gambia and Senegal, microfinance should reduce poverty, by offering the poor with necessary financial services. Yet it is important to note the employment activities generated by microfinance institutions. The study uses descriptive statistical analysis in investigating the main microfinance factors influencing poverty; the study shows that in both Senegal and the Gambia, micro credits do not reduce poverty. In fact, in the case of the Gambia, increasing micro credits to the poor seem to result to a worsening poverty situation. Two main factors explaining poverty were pointed out in the case of Senegal (i) income per capita and (ii) inequality in income distribution. Hence, the study makes some recommendations for the two countries (i) an improvement of the growth-led policy environment, (ii) the design and implementation of specific policies reducing income distribution within the population and (iii) enhancing the microfinance regulation and policy framework so as to provide sound financial services to the poor. There is also a need for capacity building in MFIs and general development of the sector to make it an effective tool for poverty reduction.

Keywords: Microfinance, Poverty reduction, Senegal, the Gambia
JEL Classification: I31, I32

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ABBREVIATIONS AND ACRONYMS

ACEP: Alliance du Crédit et d'Epargne pour la Production
ADF: African Development Fund
AFET: Association of Farmers, Educators and Traders
AGIB: Arab Gambian Islamic Bank
ASACASE: Association Sénégalaise pour l'Appui et la Création d'Activités Socio-économiques
BCEAO: Central Bank of West African States
BDS: Business Development Services
CBG: Central Bank of the Gambia
CBOs: Community Based Organizations
CDDP: Community Driven Development Project
CGAP: Consultative Group to Assist the Poor
CMS: Crédit Mutuel du Sénégal
CSOs: Civil Society Organizations
ESAM: Enquête Sénégalaise Auprès des Ménages
FASE: Fight Against Social and Economic Exclusion
FDEA: Femme Développement Entreprise en Afrique
GAMFINET: Gambia Microfinance Network
GAMSAVINGS: Gamstar Savings Company
GAMSEM: Gambians for Self-Employment
GARDA: Gambia Rural Development Agency
GAWFA: Gambia Women's Finance Association
GDP: Gross Domestic Product
GEC: Groupement d'Épargne et de Crédit
GOTG: Government of the Gambia
IBAS: Indigenous Business Advisory Service
IGAs: Income Generating Activities
ILO: International Labour Organization
LDB: Live Data Base
MDGs: Millennium Development Goals
MFIs: Microfinance Institutions
MFPC: Microfinance Promotion Centre
NACCUG: National Association of Cooperative Credit union of The Gambia
NASACA National Village Savings and Credit Association
NBFIs: Non-Banking Financial Institutions
NGOs: Non-Governmental Organizations
NYSS: National Youth Service Scheme
PAS: President's Award Scheme
PRSP: Poverty Reduction Strategy Paper
PSRP: Poverty Reduction Strategy Paper
RECEC: Réseau des caisses d'Epargne et de Crédit des Femmes de Dakar
REMECU: Réseau de Mutuelles d'Epargne et de Crédit de l'UNACOIS
RFCIP: Rural Finance Community Initiatives Project
ROSCA: Rotating Savings and Credit association
TARUD: Agency for Rural Development

U-IMCEC: Union des Institutions Mutualistes Communautaires d'Epargne et de Crédit
UM/PAMECAS: Union des Mutuelles du Partenariat pour la Mobilisation de l'Epargne et le Crédit au Sénégal
UMEC: Union des Mutuelles d'Epargne et de Crédit
UMECU: Union des Mutuelles d'Epargne et de Crédit de l'UNACOIS
UNDP: United Nations Development Program
URR: Upper River Region
VISACAs: Village Savings and Credit Associations
WAEMU: West African Economic and Monetary Union
WISDOM: Women in Service, Development, Organization and Management
WWB: Women's World Banking

1. INTRODUCTION

Microfinance has been of a great interest in the recent past, particularly in the context of reaching the poorest families in a more effective way. The Micro credit Summit held in February 1997 in Washington DC reached a new peak as it was considered as the first step to a decade campaign that seeks to ensure delivery of credit for self-employment by 2005 to 100 millions of the world's poorest.

Microfinance include the provision of a range of financial services such as savings, insurance, credit, and money transfer to the poor, although micro credit and microfinance have come to be used interchangeably. It is generally defined as a system of delivering self-sustaining financial services to a previously ignored, excluded and disadvantaged population (African Union, 2008).

Modern development literature now stresses the importance of access to credit by the poor as a means of reducing extreme poverty. Microfinance Institutions (MFIs) are able to reach the population living below the poverty line with valuable financial services, including a very high number of women clients. It has been stated by the World Bank that over forty percent of the population of the world lives below the poverty line. There is great optimism as the growth of microfinance has shown that the poor are credit-worthy, while the formal banking institutions serve only investment-worthy clients who are non-poor. However, to eliminate poverty, microfinance must be carried out in a sustainable way and cheaply, reaching a massive scale of the poor, with continuous improvement in the quality of service delivery. Our study is therefore focusing on microfinance in Senegal and the Gambia.

2. PROBLEM STATEMENT AND OVERALL OBJECTIVE OF THE STUDY

There has been a lot of emphasis on the importance of access to financial services by the poor and marginalized as a means of reducing poverty in many forms. MicroFinance Institutions (MFIs) have been said to reach the population living below the poverty line with valuable financial services and mostly targeting a large number of poor. Has microfinance, therefore, contributed in the reduction of poverty in these two countries- Senegal and the Gambia?

The objective of this study is to evaluate microfinance interventions in reducing poverty in The Gambia and Senegal, and examining how the policy measures can be directed at enhancing the poverty reduction functions of microfinance in these two countries. These countries have seen an increase in microfinance activities and schemes, and it is expected that the microfinance activities will translate to poverty reduction. The study is also expected to make comparison of these two countries in order to draw relevant policy conclusions.

At the beginning of the new millennium, the World (leaders) from all countries of the World agreed on a set of eight goals – the Millennium Development Goals (MDGs) to be achieved by 2015; thus responding to the world's major challenges, with poverty as one of the goals to be halved by 2015 in these two countries. The most important commitments were made separately at the international conferences and summits in the 1990s with the recognition of the interdependence between growth, poverty reduction and sustainable development. Various strategies have been developed and initiated to address the MDGs. With developing countries suffering very much from poverty, greater stress has been put on this goal. Many believe that microfinance is one of the tools to reduce extreme poverty.

3. COUNTRY BACKGROUND ON SENEGAL AND THE GAMBIA

Mali, The Gambia, Guinea-Bissau, Guinea and Mauritania are countries sharing borders with Senegal- a French-speaking country. The Gambia (an English-speaking country) consists of a narrow strip of land 400 km long and 30 km wide on both sides of The River Gambia. The Gambia is surrounded on the three sides by Senegal and bordered on the West by the Atlantic Ocean. A brief confederation - the "Senegambia Confederation" - between Senegal and The Gambia came into existence in 1982 in order to promote a cohesive union of the two countries. Seven years later in 1989, the Confederation was dissolved and they become separate countries again.

The Senegalese economy has grown steadily over the past decade and seems to be an economic successful country in the West African region. This may be due to a rigorous economic reform programme put in place as from 1994 which included a devaluation of the CFA Franc, the West African currency. After a temporary decline due to dismantling of government price controls and subsidies removal, Senegal's economy grew with an average 2% of real GDP growth rate in 2006.

Private sector activity accounts for 82% of current GDP. The agriculture sector still provides the main source of economic activity for 77% of the labour force in Senegal but remains highly dependant on weather patterns which are increasingly unpredictable. Unemployment in both countries is still high particularly among the youth. The unemployment of youth has resulted to serious migration problems. Senegal's mainly exports peanuts, fish, phosphate and cotton while its industrial sector depends on agro-industries and mining. On the other hand, The Gambia's economy is mainly agrarian with continuous dependence on groundnut production for the past 43 years. In both countries, the poverty level is high and microfinance is seen as one of the tools to be used in reducing poverty. Table 1 below gives some indicators for Senegal and The Gambia.

Table 1: Selected indicators for Senegal and The Gambia

Selected indicators	Senegal	The Gambia
Population, total (millions)	12.1	1.7
Population growth (annual %)	2.5	2.8
Surface area (sq.km) (thousands)	196.7	11.3
Life expectancy at birth, total (years)	62.8	59.1
Mortality rate, infant (per 1,000 live births)	59.9	83.0
GNI (current US$, billions)	9.2	0.5
GNI per capita, Atlas method (current US$)	770.0	270.0
Active labour force in Agriculture (%)	77	75
Contribution to GDP (%)		
Agricultural Sector	18	32.7
Industrial Sector	19.2	13.7
Service Sector	62.5	53.6

Source: World Bank: African Development Indicators (various issues)

4. METHODOLOGY FOR THE STUDY

The study uses documents related to microfinance and poverty reduction in these two countries. The study uses descriptive statistics with both secondary and primary data. Secondary data are also collected through the review of relevant literature. Primary data are generated from existing surveys. This study uses macroeconomic data with available microeconomic data. Given the time constraints we could not undertake a comprehensive survey so as to collect relevant data from the beneficiaries. In the absence of relevant aggregate time series in the two countries for an econometric analysis, we used statistical available data to describe the main aspects and components of the microfinance industry in the two countries. From the functioning, weaknesses and strengths of the existing MFIs, we give some recommendations which can strengthen the sector so that it plays a better role in poverty reduction.

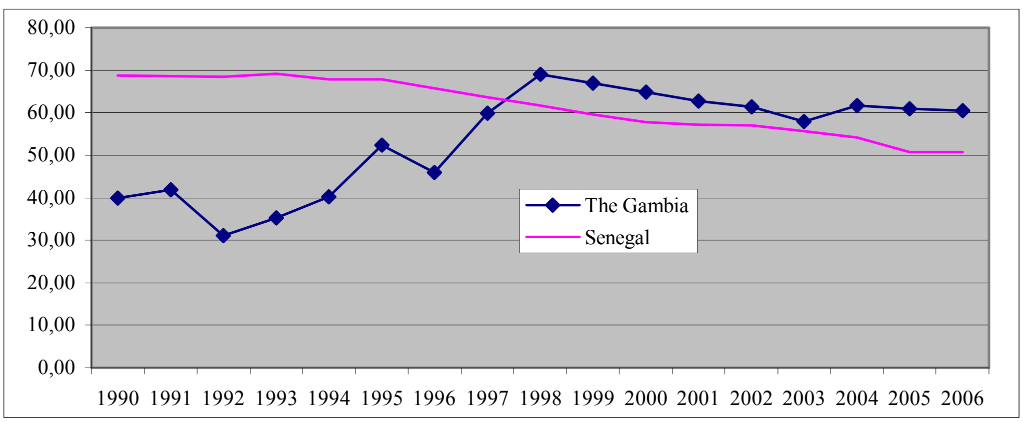
5. OVERVIEW OF POVERTY IN SENEGAL AND THE GAMBIA

Poverty is also analyzed through various indicators such as incidence (P_0), depth (P_1) and poverty severity (P_2). The P_0 (head count); P_1 (depth); and P_2 (severity- the extreme poverty measure) are the Foster, Greer and Thorbecke (FGT) (1984) measures of poverty. The head-count ratio or incidence relates to the percentage of the population whose per capita incomes or expenditures are below the poverty line while depth or income gap ratio is defined as the difference between the poverty line and the average income or consumption of the population living under the poverty line. Calculated as the average value of the square of the depth of poverty is the severity of poverty which gives more weight to very poor than to less poor. Hence it is the percentage of population living in extreme poverty that is measured by P_2.

Senegal and the Gambia did not have the same experience in terms of incidence of poverty. However, it is recognized that, in the two countries, reducing the levels of poverty remains a top priority. In spite of the high level of the head-count ratio in Senegal as compared to that of the Gambia, Senegal experienced levels of poverty which were progressively decreasing since 1990 while the Gambia's indicator was rising in the same period. A decreasing trend was observed only in 1998 due, among other things, to the strategy for poverty alleviation (SPA I) put in place by the Gambia in 1994 (See graph below). In spite of the decreasing trend, the level remained higher than in Senegal. Surely, the new Poverty Reduction Strategy 2007/2011 (PRSP II)[2] aimed at creating an enabling environment for economic growth and poverty reduction is expected to address the issue more forcefully.

The results of the first and second Senegalese Household Survey (ESAM I & II) show that the incidence of poverty is still high, despite of falling between 1994 and 2002. The proportion of the population living below the poverty line dropped from 67.9 percent in 1994/1995 to 57.1 percent in 2001/2002. The trend is also confirmed by the recent Senegal Poverty Monitoring Report (ESPS, 2006), whose results indicate an incidence of poverty of 50.8 % in 2005/06. In fact, the incidence of poverty in Senegal has been decreasing since 1995 as it appears in the graph below.

Figure 1: Trend of the incidence of poverty in Senegal and the Gambia since 1990.



Source: ESPS, 2005/2006, ESAM I, 1994/1995 & ESAM II, 2001/2002 and estimations by the authors.

As observed in other countries, poverty remains a rural phenomenon in Senegal and the Gambia. Poverty indicators are higher in rural areas than in urban areas. For instance, from the table 2 below relating to the incidence of poverty in Senegal and The Gambia, it is observed that the living conditions worsened in urban and rural areas (except in Banjul where conditions improved) in The Gambia for the period 1992 - 2003. However, the

[2] Republic of the Gambia (2006), Poverty reduction strategy 2007/2011. Banjul, Department of State for Finance and Economic Affairs.

scale is more accentuated in the case of rural areas with about 54% of incidence growth rate against 43% in urban overall poverty (see table 2 below).

The same trend is noted in the case of Senegal in spite of a slight improvement of the incidence from 1994/95 to 2005/06. Indeed, the improvement rate is only 6% in the case of rural areas in Senegal, against 38 % in urban areas and 34% in the case of Dakar.

As stressed by IMF (2007), rural areas have needs different from those of urban areas, so requiring specific measures and actions in addressing poverty. These include significant investment in agriculture, health and education. On the other hand, urban areas would require as a matter of urgency, employment creation which could also be linked to health and energy.

Table 2 : Percentage of population below poverty lines in Senegal and The Gambia

The Gambia				*Senegal*			
Areas	1992	1998	2003	Areas	1994/95	2001/02	2005/06
Banjul	17	21	11	Dakar	50	33	33
Urban	40	48	57	Other towns	63	43	39
Rural	41	61	63	Rural	66	58	62

Sources: ESAM I (1994/95), ESAM II (2001/02) and ESPS (2005/2006) for Senegal
IMF (2007) for the Gambia

The distribution of poverty differs from region to region. As shown in the table 3 below, regions of Kuntaur, Janjanbureh, Kerewan, Basse in the Gambia have the highest incidence of poverty. In Senegal, Kolda, Tambacounda, Kaolack and Ziguinchor show more than 70% (of the indicator of poverty). In terms of extreme poverty, two local Government areas in the Gambia, namely Kerewan and Kuntaur have more than 20% of people living in extreme poverty. In Senegal, four regions account for more than 15% of the population living in extreme poverty. They are: Kolda (19%), Kaolack and Ziguinchor (18% each) and Tambacounda (16%). The table 4 below gives details on incidence, depth and severity of poverty in the two countries.

Table 3: Poverty profiles per area

THE GAMBIA (2003 indicators)				SENEGAL (2005 indicators)			
AREAS	*Incidence*	*Depth*	*Severity*	*AREAS*	*Incidence*	*Depth*	*Severity*
Banjul	11	4	2	*Dakar*	61	24	11
Kanifing	59	25	14	*Ziguinchor*	73	32	18
Brikama	54	22	13	*Diourbel*	62	23	11
Mansakonko	61	20	9	*St Louis*	58	20	9
Kerewan	68	33	20	*Tambacounda*	76	31	16
Kuntaur	92	47	27	*Kaolack*	75	34	18
Janjanbureh	72	26	12	*Thies*	60	20	9
Basse	64	26	13	*Louga*	58	20	9
				Fatick	69	23	10
				Kolda	79	35	19

Sources: IMF (2007)[3] for The Gambia and Ndiaye (2005) for Senegal.

In Senegal, poverty generally affects women more than men; its incidence is lower among female-headed households. Calculations based on ESAM II data show that female-headed households are more favoured than male-headed households with 51% and 69% of incidence of poverty respectively. In terms of severity of poverty, it appears from table 4 below that 7% of female –headed households are extremely poor as compared with 13 % for male –headed households. The situation is not the same for the Gambia where poverty seems to have an important gender dimension as 63% of female –headed households are living below the poverty line as against only 48.2% for male-headed households. Furthermore, the depth and severity of poverty are higher in the case of male-headed households. Indeed, the table shows that 15.1% of female-headed households are extremely poor while the indicator is only 8.5% for male-headed households. As stressed by IMF (2007), the "feminisation of poverty" which defines the relationship between gender and poverty is increasingly becoming a reality in the case of the Gambia. The issue should be addressed as a matter of priority since 52% of the rural population in the Gambia are women as against 49% in urban areas according to IMF (2007).

[3] IMF (2007), the Gambia: Poverty Reduction Strategy: 2007-2011. IMF country report N° 07/308. Washington D.C.

The apparent advantage for female-headed households in Senegal could be the result of a difference in households' composition between the two categories, as well as the larger size and significance of transfers to female-headed households. Another explanation usually given is that women heads of households tend to be more autonomous and more enterprising than other women with a better access to resources.

Table 4: Poverty by gender of household heads in Senegal and The Gambia

SENEGAL			**THE GAMBIA**		
Indices	*Man*	*Woman*	*Indices*	*Man*	*Woman*
Incidence	0.69	0.51	Incidence	48.2	63.0
Depth	0.27	0.17	Depth	17.2	27.1
Severity	0.13	0.07	Severity	8.5	15.1

Source: *Calculated by authors from ESAM II (2002)*

Household sizes have also an impact on poverty levels. The bigger the household size, the higher the levels of poverty, poverty gap and poverty severity in Senegal and The Gambia. In the case of the Gambia, 73% of households with 10 persons and above are poor and more than 19% of them are extremely poor (see IMF 2007). The figures are almost the same in the case of Senegal since 77% of households with 10-14 persons live below the poverty line and 9% of them are very poor (see Ndiaye 2005).

Occupation has also a positive impact on poverty reduction. In the case of Senegal and based on ESAM 2, it is clear that household heads with a job have a low incidence of poverty (44.5%) than those unemployed (59.9%) or inactive other than retired persons (63.0%). Retired persons have a relatively favourable situation (47.6%) probably because of their pension or because they live with wage-earning children. In the case of the Gambia, more than 60% of peasant agricultural workers, unqualified workers, craft and related trade workers as well as unemployed are poor. They also have the higher percentage of the extremely poor.

The findings show that poverty in Senegal or in the Gambia has almost the same causes. Some of the causes are on the level of households themselves while other involves the society as well as public action and policies. For instance, lack of ownership of physical assets, types of economic activities put in place as well as household characteristics including gender characteristics would lead to poverty. On the other hand, lack of essential public services including education and health as well as unstable macroeconomic environment, political instability and low access to markets also create poverty conditions particularly for the vulnerable and handicapped population. This explains why public policies dealing with employment, education and training, have to target handicapped populations, particularly women and young people through the promotion of income-generating activities (IGA), which are important priorities for poverty reduction. On the household level, the challenge for the poor is how to access the required capital or money with a view to funding some income generating activities or other activities as a strategy for survival, going out of poverty and poverty reduction. This seems to be the rationale of Microfinance Institutions (MFIs).

6. LITERATURE REVIEW

Modern development literature now stresses the importance of access to credit by the poor as a means of reducing extreme poverty. Microfinance Institutions (MFIs) are said to be able to reach the population living below the poverty line with valuable financial services. As indicated by Krishna (2003), considering the net change in poverty over any period of time, it is noted that some previously poor people escape from poverty, while other non-poor people become poor at the same time. And the idea that microfinance is a tool of reducing extreme poverty is contentious.

Karnani (2007) argues that microfinance does not reduce poverty, as microloans benefit borrowers who are above the poverty line rather than those people below the poverty line. The poor cannot afford to take any risk that could increase their income flow but they can take conservative loans to protect their subsistence. And accordingly microloan may "do more harm than good to the poorest". This is partly because of the high interest rate charged. Karnani goes further to stress that what the poor need is jobs and greater productivity.

Roodman and Morduch (2009) review the literature on the impact of microfinance on the poor particularly in Bangladesh and rigorously replicate some major studies they reviewed. The reviewed studies reinforce the idea that microcredit reduces poverty in general especially on poor women, but the extreme poor people benefit much more from microcredit. Roodman and Morduch, however, doubt the causality from credit to household consumption, the claim that microcredit assists the extreme poor. They have misgiving on the magnitude, direction and sign of the reported effects of microcredit. According to them nothing in the replicated study contradicts the microcredit idea reinforced in the various studies they replicated. They, however, state that there is no "decisive statistical evidence in support of the microcredit idea as reinforced in those studies. But the study of the impact of microfinance has been hampered by the dearth of what Roodman and Morduch call "clean quasi-experiment and randomized trials". It is not optimal to rely on one type of research; ways should be sought to improve how research is input into policymaking.

According to WWB (2007) many African countries are undergoing important positive changes towards meeting the MDGs, as almost half of the African population which is more than 900 million is still living below the poverty line. It is therefore believed that financial services to the low income households would break the vicious cycle of poverty as financial services create tools that "enable low-income households to improve their living conditions" p1. The diagnostic of microfinance taken by WWB also stated that the difference between traditional microfinance and larger financial system is becoming blurred as microfinance is being integrated into the larger financial systems as well as reducing poverty among the poor. But reducing poverty through microfinance supporting productive activities of the poor must be accompanied by the provision of water, sanitation, health, education and market access as noted by the report. This is similarly to the situation in Sierra Leone where there is much reliance on microfinance as a key mechanism to assist in poverty reduction. The Government there has put in place some schemes which should increased access of the poor to productive micro credit (Business

World, 2008). Microfinance faces a high cost environment in Africa: the "high costs of delivering services with poor infrastructure, regulatory and policy issues, and the need to develop institutional leadership" tend to be the major constraints in developing microfinance in Africa (Gupta, 2008).

The interest rates on microcredit may tend to be high because there are mainly three types of costs that are covered by interest rates: the risk cost- that is in case of loan default; the administrative cost which include identification with screening and monitoring, loan application processing, loan disbursement, repayment collection, and follow up on payment; and the cost of money to be given out on loans. Hence microcredit tends to be high not because high risk to poor clients. Studies have shown that microcredit programmes have very low relative rates of default than the regular commercial banks. The repayment rates tend to quite high despite the high delivery costs of small transactions which even required personal contacts – face-to face interaction. In fact, the cost of making smaller loans is always higher than the cost of making bigger loans (CGAP, 2004). At the same time CGAP (2004) do advocate the subsidisation of neither interest rate nor imposing ceiling on interest rates as those measures tend to hurt the poor. Instead, they argue that governments should use consumer education and protection legislation to address abusive lending practices.

The goal of sustainability (cost recovery and eventually profit) could be a key not only to institutional permanence in lending, but also to making the lending institutions more focused and efficient. Sillah and Jammeh (2007) find that to make the microfinance interventions viable and sustainable, there should be "full cost recovery' for microfinance service delivery at all levels of operations". Full cost recovery is done by factoring in all the variables that help in determining sustainable interest rates. Such variables include the administrative/management expenses, cost of funds, average loan losses, desired capitalization rate and the investment income envisaged. These are initially quite difficult to cover.

Moly (2002), in the Thesis Research Study: *Microfinance for the Rural Poor in Cambodia,* examines the availability and impact of microfinance service in the rural area of Cambodia. He focuses mainly on the demand, supply, utilization and level of credit recovery with benefits and satisfactions that people get from the microfinance. Three Microfinance organizations were selected to understand their credit services, delivery system and especially, compulsory saving. The results showed that each village could easily have access to MFIs services but the MFIs do not always benefit the poorest and the poor people. The study also showed that the non-poor have more advantage in microfinance service, such as the tendency to get bigger loan amount and lower interest rate than the poor and non-poor. The study further revealed that compulsory savings service with no-interest rate was often tied to the group loan, and the majority of the people borrow for agriculture, trade and service sector.

It was also found out from the Cambodia study that people do not always use loans in line with the purpose for which they borrow. The repayment rate of respondents was quite high but sometimes the poorest groups repay by disposing their assets and properties, which are not desirable. Some poorest sell their property, get money from their own savings and even borrow from other MFIs to repay their debt. Despite the higher concentration of microfinance program in the area, borrowers were sometimes found to turn to non-formal money lenders for their alternate source of credit with higher interest rates than the MFIs. The overall results of that study concluded that people felt neutral towards satisfaction about the microfinance services and they requested the MFIs to lower the interest rate for the credit, while they expected higher interest rate for their voluntary savings. The poor did not tend to benefit from the microfinance services.

Godquin (2004) in her treatise titled *Microfinance Repayment Performance in Bangladesh: How to Improve the Allocation of Loans by MFIs*, argued that the success or usefulness of MFIs is largely due to their specific institutional arrangements, which make them different from the formal banks. She said the MFIs are often considered to usually get relatively high repayment rates because of the peculiar specificities associated with MFIs such as the use of group-lending methodologies, through which the members of a given group become jointly liable for their repayments. But it is important to note that microfinance is not a panacea for poverty alleviation, where one would expect microfinance to pull the poor out of poverty, even the extremely poor. Such an argument is usually made on the premise that the poor can easily get access to microfinance facilities. However, MFIs work on the basis of full cost recovery if they are to be sustainable and the unit cost on their small loans is extremely large. As a result, MFIs may be tempted to charge very high interest rates to fully cover their costs, thus making it unbearable for the poor to borrow money from them.

7. MICROFINANCE SECTOR IN THE GAMBIA AND SENEGAL

Undertaking a comparative analysis of Microfinance sector in Senegal and the Gambia remain very difficult. Indeed, the two countries are using different data systems since belonging to different linguistic blocks, and furthermore paucity of data in the two countries further complicates the task. On another hand, since Senegal has earlier experienced a microfinance development policy than the Gambia, data are more available in this country. Nevertheless, we will try to harmonize the presentations throughout.

7.1 Structure, size and general performance in the two Countries

Microfinance industry in Senegal and the Gambia has taken some significant strides in recent years with rapid growth of the number of institutions, groups and various players in the industry. These include: practitioners/direct lenders, microfinance intermediary funders, facilitators/promoters, network institutions, microfinance clients/beneficiaries and a regulator and supervisor. Informal money lenders may not belong to this group because of their excessive cost (including high interest rates) of lending money or giving out credit.

Savings and credit structures are the dominant models in the Gambia's microfinance industry. The structural framework for microfinance operations in the Gambia also includes wholesalers (SDF, RFCIP and commercial banks), retailers (NGO MFIs, VISACAs and credit unions) and buyers (clients/beneficiaries). The structure of the

Gambia's microfinance industry comprises of projects/programmes, NGO MFIs, umbrella CBOs, VISACAs, credit unions, associations/kafos, network institutions, regulation and supervision bodies and other facilitators. The actual size of the Gambia's microfinance market is relatively small compared to Senegal. The microfinance market share for different categories from 2000 to 2004 is summarized in **Table 5.** The table also indicates the relative market shares (in percentage terms) of various agencies within the different categories of the Gambian microfinance industry.

It is evident from Table 5 that the commercial banks have the largest market share for credit in the Gambia (64.80%), but most of their services are geared toward the formal sector. MFIs address only 35.20 % of the credit needs. In this regard, NACCUG and GAWFA (two licensed NGO MFIs in the Gambia) with relatively large market shares (i.e.11.22% of total market are the most important with 50.8% and 49.2% respectively of the category that they operate in the market for credit). IBAS, AFET, FACs and ACP combined are the market leaders in the category of micro credit agencies that are either NGO or Government institution. Indeed, they totalize more than 85% of micro credit in their category. The 61 assessed VISACAs and 67 Credit Unions control only 8.56% and 5.69% of the overall Gambian credit market respectively.

The potential microfinance market size for the Gambia could be far more than what table 5 depicts because studies have shown that the demand far exceeds the supply. Several studies conducted in the Gambia show that the demand for credit far exceeds its supply[4]. Furthermore, it has been estimated that the total credit clientele currently being served only forms about 20% to 25% of the Gambia's population. With over 50% of the population below or at the poverty level in the country, one could estimate an increase of 25% to 30% in the potential market size for microfinance in The Gambia over the years as the industry emerges from its infant stage of growth. ADF (2006) is of the opinion that, under some hypotheses, there is a need for an increase in credit supply of 60% to meet the existing demand. Furthermore, about 30% of rural households were receiving credit in 2003/2004.

[4] See for instance (i) Sahel Invest International *(2006), National Strategic Framework for Microfinance (NSFM)* and Development Management Consultants International (2002), *A proposal for Transforming the RFCIP Revolving fund into an Agricultural Development Fund (ADF).*

Table 5: Microfinance Market and Performance in the Gambia

Institutional Type	TOTAL credit (DAL)	Credit (Percentage)	Total net savings (DAL)	Savings (percentage)
1. WHOLESALERS	**69,250,000**	**11.33**	NA	NA
SDF	48,000,000	69.3	NA	NA
RFCIP	21,000,000	30.3	NA	NA
AGIB	250,000	0.4	NA	NA
2. NGO MFIs (NBFIs)	**68,569,540**	**11.22**	**63,985,983**	**5.34**
GAWFA	33,766,169	49.2	9,700,000	15.2
NACCUG	34,803,371	50.8	45,666,983	71.4
GAMSAVINGs	NA	NA	8,619,000	13.4
3. Other NGOs/GOTG	**24,696,400**	**4.04%**	**514,000**	**0.04**
AFET	4,180,000	16.9	NA	NA
GAMSEM	625,000	2.5	NA	NA
WISDOM	300,000	1.2	192,000	37.4
GARDA	1,500,000	6.1	200,000	38.9
NASACA	389,400	1.6	NA	NA
NYSS	300,000	1.2	NA	NA
PAS	50,000	0.2	NA	NA
TARUD	250,000	1.0	100,000	19.5
AGE	252,000	1.0	22,000	4.2
IBAS	10,000,000	40.5	NA	NA
FACs and ACP	6,850,000	27.8	NA	NA
4. VISACAs	**52,320,596**	**8.56**	**174,454,810**	**14.55**
5. Credit Unions[5]	34,803,370	5.69	45,666,983	-
6. Kafo CBOs	**338,600**	**0.06**	**NA**	**NA**
A. Total Microfinance (1+2+3+4+6)	*215,175,136*	*35.20*	*238,954,793*	*19.93*
B. Commercial Banks[6]	396,187,650	64.80	960,148,000	80.07
TOTAL (A+B)	**611,362,786**	**100**	**1,199,102,793**	**100**

Sources: Adapted from ADF (2006)

As at December 2006, forty (40) active institutional/entity players could be identified in the microfinance arena of the Gambia. These are mainly twenty-two microfinance practitioners/direct lenders, ten microfinance intermediary funders, seven facilitators/promoters, two microfinance network institutions, various clients/beneficiaries and two regulators/supervisors (i.e. Central Bank of The Gambia and Registrar of Cooperatives). Some players operate in many categories. The same target beneficiaries seemed to be served by the same microfinance operators. For example, the members of VISACAs and credit unions have the same target beneficiaries as GAWFA, Reliance Financial Services and GAMSAVINGS.

In Senegal, microfinance sector is dominated by savings and credit structures as in the Gambia. Indeed, the following few large institutions mainly dominate the sector (see table 6):

- Alliance de Crédit et d'Epargne pour la Production (ACEP) ;

[5] *Are excluded from the totals(A) because they are accounted for under NACCUG as an NGO MFI*
[6] *Was included for the clarity of the table*

- Crédit Mutuel du Sénégal (CMS) ;
- Union des Mutuelles du Partenariat pour la Mobilisation de l'Epargne et le Crédit au Sénégal (UM-PAMECAS);
- Réseau des Caisses d'Epargne et de Crédit des Femmes pour le Développement (RECEC – FD) ;
- Réseau des Mutuelles d'Epargne et de Crédit de l'UNACOIS (REMECU) ;
- Union des Mutuelles d'Epargne et de Crédit de l'UNACOIS (UMECU) ;
- Union des Institutions Mutualistes Communautaires d'Epargne et de Crédit (U-IMCEC).

On 31 December 2003 these institutions concentrated 84% of the membership, 87 savings out-standings and 86% of the volume of credit[7]. Today, the microfinance sector is still dominated by CMS, ACEP and PAMECAS; with CMS having about 50% of the total active population in microfinance, 50% of the active loan portfolio and 35% of the membership, whereas UM-PAMECAS and ACEP having 20% and 16% of the total active population in microfinance, 18% and 17% of the active loan portfolio, 33% and 7% of the membership respectively.

In addition of these, there are eight (8) other types of Microfinance Institutions (MFIs) that signed a five-year renewable convention. The eight convention signatories are[8]:

- Actions Plus CEDS Afrique ;
- Association Sénégalaise pour l'Appui et la Creation d'Activités Socio - Economiques (ASACASE) ;
- Caisse Autonome pour le Renforcement des Initiatives Economiques par la Micro finance (CAURI-MF), résultat de la fusion des programmes micro finance des ONG Christian Children Fund (CCF) et Catholic Relief Service (CRS) ;
- Femme Développement et Entreprise en Afrique (FDEA) ;
- Fédération Nationale des Groupements d'Intérêt Economique de Pêche (FENAGIE - Pêche) ;
- Programme d'Appui à la Micro-Entreprise de l'AGETIP (PAME / AGETIP) ;
- SAFEFOD ;
- Association de Financement des Professionnels du Transport Urbain (AFTU).

In 2008, a new MFI "MICROCRED Limited Company" joined the list. It is worth noting that the convention signatories' structures represented only 4% of the deposit and 7% of the active loan portfolio in 2003[9].

In total, these above-mentioned institutions can be put into 4 categories in Senegal:

- Eleven (11) acknowledged savings and credit unions regrouping 389 affiliated institutions (affiliated) on 31 December, 2007
- 597 mutual interest group (GEC) and savings and credit mutual (MEC) including 305 GEC and 292 MEC on 31decembre 2007.

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[7] Republic of Senegal, Division of Microfinance, Microfinance development Strategy, 2004
[8] Central Bank of West African States in www.bceao.int
[9] The Division of Microfinance, Database on MFIs in Senegal

- Eight (8) signatories' conventions on 31 December 2007;
- Projects for credit and NGOs.

Despite their great number, GEC, MEC (more than 500) and the NGOs intervening in the sector represent less than 10% of the deposits and 7% of the loan disbursement. This situation does not take into account the self help group (CSD) that have emerged over the two past years from the women associations. These CSD manage the microfinance operations partly because of the subsidies and the donations given by the Government. The professional actors in the system consider them as being supported politically. Their number is not exactly known but estimations show that they were around 6 000 on 31 January 2003. That is to say around ten women per group with a total of 60 000 members (The Division of Microfinance, Microfinance Development Strategy Paper I, 2004). Other types of traditional local intermediations such as rotating savings and credit association (ROSCA), also called tontines, remain very active in Senegal and the Gambia.

More elaborated systems such as those of the small scale fishing sector or those having only member of the same family, age group or religious brotherhood represent also a real social and security network system in Senegal.

Since its emergence in late 1980, the microfinance sector has continuously grown. Today, there are over 700 MFIs (Networks & branches, savings and credit groups and many Convention signatories structure). These structures offer financial services and other services within the different sectors of the national economy.

In total, as in the Gambia, microfinance sector in Senegal is composed of three types of institutions: (i) Institution composed by "members (membership based institution and/or institutions managed by very few persons, with majority being credit unions; (ii) Clients institutions with main activity being loan disbursement and do not establish a link between loan benefit and prerequisite savings accounts and (iii) Credit based-projects and NGOs or association whose principal activities include credit and loan disbursement with other activities. Indeed, Credit union institutions mainly encourage savings in order to boost loan also whilst Direct credit structures give priority to loan disbursement which is not necessary link to savings. As regard NGOs and the, "credit based" project, credit disbursement is not the main activity but one component among many others. Table 6 gives some indicators of main Microfinance institutions as at December 2008.

Table 6: A glance on the main MFIs in Senegal as per December 2008 (financial data in CFA)

MFIs	Number of branches	Membership	% women beneficiaries	Savings outstanding (billions)	Active Loan Portfolio (billions)	Situation of the Portfolio at Risk > 90 Days ratio	An Operational Self-Sufficiency ratio	Total Assets (billions)	WEIGHT (% total membership)
CMS	118	376 766	26%	62.808	64.604	1.34%	119%	97.637	32.34%
ACEP	39	71 328	60%	4.9	25.46	4.7%	151%	30.15	6.12%
PAMECAS	63	362 384	52%	22.2	24.6	5.77%	107%	35.6	31.10%
UMECU	40	52 414	29%	3.8	2	29%	149%	4.97	4.50%
REMECU	26	24 445	36%	0.46	0.3	5.9%	160%	0.934	2.10%
U-IMCEC	28	42 773	38%	2.16	3.42	3.83%	114%	4.27	3.67%
ASACASE	53	29 815	32%	1.31	1.2	2.26	101%	2.9	2.56%
FDEA	15	64 379	93%	1.4	2.17	4.8	NA	NA-	5.53%
MECAP	8	10 094	18.57%	2.067	5.16	NA	313%	NA	0.87%
INTERCREC	4	14 197	29.3%	0.6	0.27	4%	78%	0.76	1.22%

Source: Republic of Senegal, the Division of Microfinance, National report on the microfinance sector, June 2009, p.4 NA: Not Available

Evolution of performance indicators of the sector remains highly impressing in Senegal. Indeed, given the significant progress made during the period of 1993-2003, the microfinance sector continues expanding, despite low rate of economic growth.

Here is an analysis of database on concerning the MFIs for the period 2005-2008 (source: Republic of Senegal, the Division of Microfinance, National report on the microfinance sector, June 2008, p.3). There is:

- An increase of 49% in the number of institutions between 2005 and June 2008 as well as growth of 50% of membership from 682 949 to 1 022 202 within the same period; Thus, an increasing penetration rate from 6% to 9% respectively. Women members represent an average of 43% of the total membership of the MFI;

- An increase of 67% of the savings from 62.43 billions CFA in 2005 to 104 billions CFA in June 2008;

- An increase of 51% of the active loan portfolio from 81 billions CFA in 2005 to 122 billions CFA in June 2008;

- This amount corresponds respectively to a number of active borrowers estimated at 115 711 and 234 299 with the average amount of credit being around 520 000 CFA;

- An increase of 97% of the total assets of the MFIs from 95 billions to 186,851 billions between 2005 and June 2008;

- The portfolio at Risk Ratio> 90 Days for the credit destined to small and medium size company (MPME) moved from 4,32% in 2007 to 6%in June 2008;

- The portfolio at Risk > 90 Days moved from 2.5% in 2007 to 2.88% in 2008;

- A slight decrease in the Operating Self-Sufficiency from 125% to 121% between 2007 and June 2008;

- A slight decrease in the capitalization rate from 27% to 26.62% between 2007 and June 2008;

In June 2008, the profitability of the MFIs was with an Operational Self-Sufficiency Ratio[10] of **125%** which exceeds that of the international standard. This is also the case with the capitalization rate[11] of 27% (Source: Republic of Senegal, the Division of Microfinance, National report on the microfinance sector, September 2008, p.6). Table 7 gives trends of some indicators from 2005 to 2008.

[10] Financial Revenue/ (Financial Expense + Impairment Losses on Loans + Operating Expense)
[11] Shareholders' capital/Total assets

Table 7: The global situation of the microfinance sector in Senegal (financial data in CFA)

INDICATORS	2005	2006	2007	June 2008	Variation since 2005
Membership	682 949	803 517	943 595	1 022 202	50%
% Women beneficiaries	41%	38%	44%	42%	2%
Penetration rate of the total population[12]	6%	7%	8%	9%	50%
Savings outstanding (billions)	62,438	74	91	104,314	67%
Active Loan Portfolio (billions)	81,163	90	111	122,742	51%
Total Assets (billions)	94,673	123,375	168,700	186,851	97%
Number of Active Borrowers	115 711	166 871	214 483	234 299	102%
Situation of the Portfolio at Risk > 90 Days ratio	2,75%	3,81%	2,50%	2,88%	5%
Borrowers per Loan Officer	NA	NA	496	530	-
An Operational Self-Sufficiency ratio	123%	129%	125%	121%	-2%
Capitalization Rate	NA	NA	27%	26,62%	-

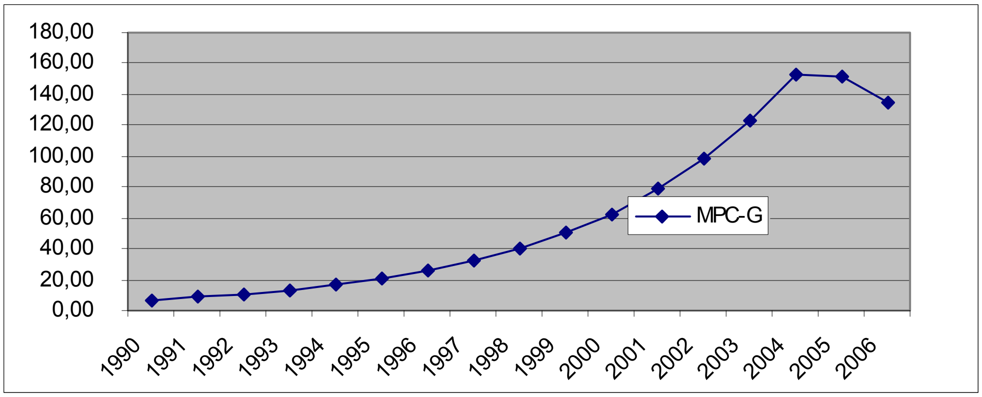
Source: Republic of Senegal, the Division of Microfinance, National report on the microfinance sector, September 2008, p.4 NA: Not Available

7.2 Performance in terms of MFIs credit provision.

As indicated above, more than 35% of the credit market in the Gambia are provided by MFIs. Compared to the population on the period 1990 – 2006, the per capita microfinance credit (Dalasis per person) has been rising steeply from 1990 to 2004 (see figure 2). From 6 Dalasis in 1990, it peaked at Dalasis 153 per person in 2004 before declining slightly to Dalasis 152 per person in 2005, and then further declined to Dalasis 135 per person in 2006. The per capita micro finance credit constitutes only 0.365 per cent of the per capita income of the extremely poor in 1990; it rose to 6.12 per cent in 2006. Thus, the micro finance credit may have only a little impact on the income improvement of the poor but this would need analysis to confirm.

[12] Number of members / Total population

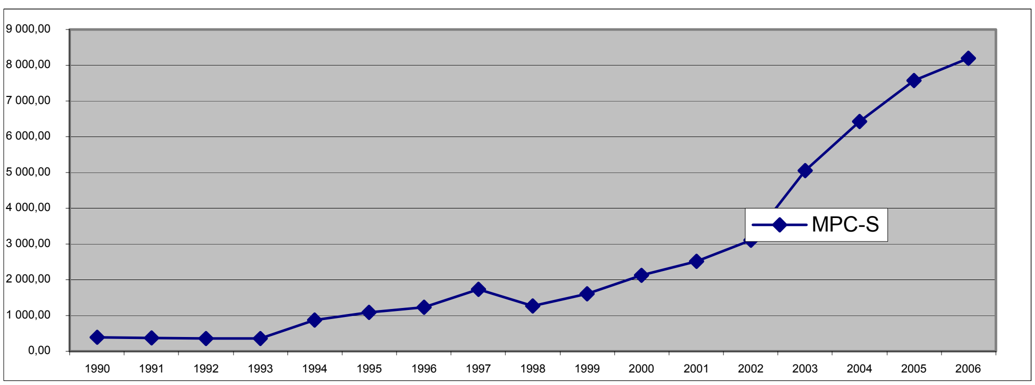
Figure 2: Microfinance per capita credit (MPC-G) in the Gambia (in Dalasis)



Source: Gambia Bureau of Statistics (GBOs)

In the case of Senegal, when analyzing the Microfinance credit per capita, one can realize that the trend is positive over the period 1990 to 2006. The aggregate increased from 384 CFA F in 1990 to 8,193 CFA F in 2006, that is a growth rate of 20% for 16 years. In other words, MFIs credit in Senegal grew at 1.3% each year. Figure 3 illustrates the phenomena over the period.

Figure 3: Trend in Microfinance per capita credit (MPC-S) in Senegal (CFA Francs).



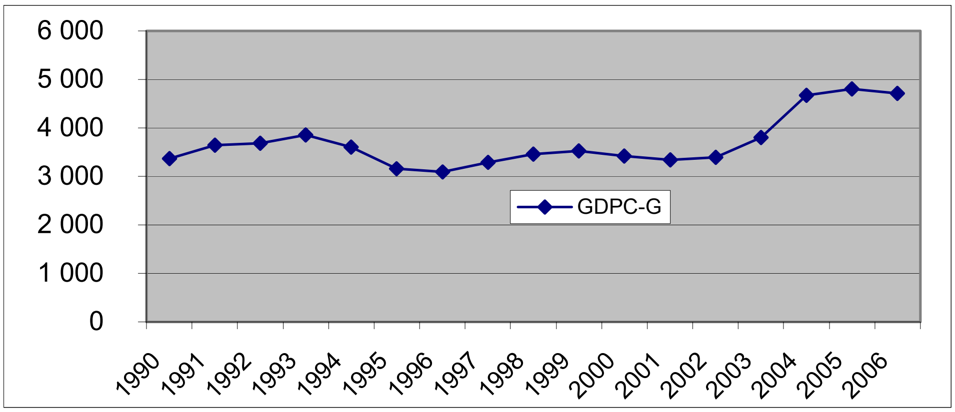
Source: Republic of Senegal, the Division of Microfinance and National Agency for Statistics and Demography, live Data Base (LDB)

Compared to the same trend in the Gambia, it is observable that the trend in MFIs credits per capita in Senegal seems to be more positively sustainable over the period than in the Gambia. Would this predict a better impact of MFIs on poverty reduction in the last country? In the absence of a field work, we cannot jump to such a conclusion but instinctively, it appears that poor people would have benefit more from Microfinance credits in Senegal than in the Gambia.

7.3 Performance through Income per Capita

In the same vein, it would be interesting to analyse the trend of income per capita over the same period in the two countries. Since poverty reduction cannot be achieved without an improvement in individual income, the analysis would give a general idea of the impact of MFIs services although we know that other factors would be involved in such performance. In this case, per capita income is a proxy of individual or household income. In this regard, figure 4 shows the trend of the phenomena in the Gambia.

Figure 4: Trend in income per capita (GDPC-G) in the Gambia (Dalasis)



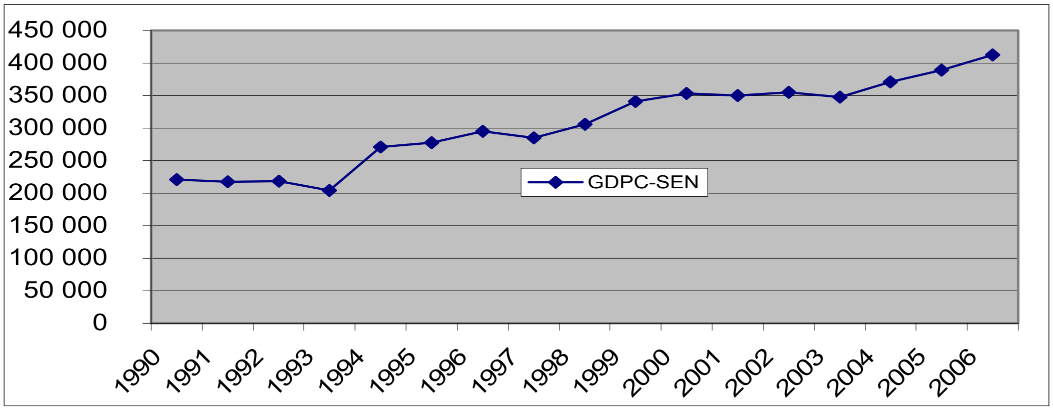
Source: Gambia Bureau of Statistics (GBOs)

The level of per capita income may not explain the level of living standard in a country. From 1990 to 2006, figure 4 shows that the income per capita did not change sharply. From 3,364 Dalasis in 1990, the income per capita amounted at only 4711 Dalasis, equivalent to 40% of increase rate over sixteen years.

ADF (2006) stressed the dual economy characteristics of the Gambia. The first sector consists of a large rural, mostly agricultural-based traditional sector encompassing three-fifths of the country's population. The second one is made up of a relatively modern formal but smaller peri-urban sector. In this case, high levels of per capita incomes are associated with the non-poor households, who are often found in the urban administrative regions. But the majority of households live in rural regions, and these households form the bulk of the poor. With such a slight change over the period, high levels of per capita income would not have much to do with these rural folks.

The trend in the income per capita in Senegal is different from the one in the Gambia. From figure 5, it can be observed that between 1990 and 2006, the national income per capita increased from 221 157.95 FCFA to 412 494.71 FCFA. This gives an increase rate of about 87% over the period or 5.4% yearly. Based on the findings, it is possible that Microfinance sector would have played a crucial role in this area.

Figure 5: Trend in Income per capita (GDPC-SEN) in Senegal (CFA F)



Source : National Agency for Statistics and Demography, Live Data Base.

7.4 The main actors in Microfinance sector in the two countries

The main actors in microfinance are similar in the two countries, playing similar roles.

- **Microfinance Practitioners/Direct Lenders**

They are microfinance practitioners that mobilize savings from their clientele and/or provide small loans for various income generating activities (IGAs) and other purposes. There are of different forms: ranging from NGOs, government agencies, Savings and Credit Associations (SACAs), credit unions, cooperative societies and umbrella CBOs. The ownership depends upon their institutional structure and form. In Senegal and The Gambia, most of them are membership-based organizations. However, among the practitioners in the Gambia, it is only the NBFIs of GAWFA, Reliance Financial Services, Bayba Express, GAMSAVINGS, VISACAs and Credit Unions that are focusing mainly on financial intermediation. The rest use financial services to support their development operations.

In Senegal, the main MFIs (see table 6) have to mobilize savings from their clients and loans normally depend on Savings. However, they nowadays contract credits from commercial banks and other intermediary funders such as Government funds, Dutch Financial Cooperation (CfW), French Agency for Development, etc..) to address credit demands from their customers. In spite of this, 80% of their loans is based on the mobilized savings.

On the contrary in Senegal, it is not compulsory for the eight convention signatories including MFI MICROCREDIT to collect and mobilize savings for their loan services. Indeed, they obtain the required funds from various NGOs and other Associations which provided them with funds at an affordable interest rate. This is the case for Christian Children Fund (CCF) and Catholic Relief Service (CRS) whose activities are geared towards women and children.

- **Microfinance Intermediary Funders**

The microfinance intermediaries provide funds to the practitioners/direct lenders or promoters either for on-lending to their clients or for other purposes. However, this is more developed and institutionalized in the Gambia. The microfinance intermediary funders operate wholesale credit which is forward lent to the registered and recognized MFIs for on-lending to the beneficiaries.

Among Microfinance Intermediary funders in the Gambia, It is worth citing international institutions such as African Development Bank (ADB), World Bank (WB) and the International Fund for Agricultural Development (IFAD) which financially and technically support projects/programmes on poverty reduction. The programmes include the ADB-funded Social Development Fund the IFAD-funded Rural Finance Community Initiatives Project (RFCIP), the World Bank-funded CDDP Project. In Senegal, such role is informally played by commercial banks, NGOs, national or international development agencies particularly for MFIs which are convention signatories.

- **Microfinance Facilitators/Promoters**

The microfinance promoters are NGOs or Civil Society Organizations (CSOs) that work with MFIs in providing non-financial services to the microfinance clients/beneficiaries. In Senegal and the Gambia, they offer business development services (BDS) and training, supply materials and equipment (passbooks, other record sheets and books, and safes) and in certain cases, establish infrastructure to facilitate and promote microfinance activities. As facilitators/promoters, these institutions perform roles including:

- Preparing proposals for establishing new VISACAs or CUs;
- Training management committees/boards, cashiers and auditors in areas like general management, record-keeping, simple book-keeping and accounting, savings and credit management and preparing simple business plans and financial statements;
- Providing backstopping to animators/field officers;
- Providing audit services for VISACAs (MFPC) and CUs (NACCUG);
- Assisting VISACAs or CUs to be part of networks or establish linkages with the formal financial institutions and NBFIs;
- Assisting VISACAs and CUs to seek external funding; and
- Monitoring and supervising of the VISACAs.
- Providing training actions and programmes.

In Senegal, technical and training support to the sector is made up of projects and programmes aiming at the development and professionalization of the sector. They are financed by NGOs and some bilateral and multilateral funders. Practically in this regard, each main MFI or network has its principal funder such as (i) France for CMS, (ii) Canada for UM-PAMECAS, USAID for ACEP or Belgium for REMEC, etc.. (République du Sénégal, 2008)

7.5 Microfinance Network Institutions

These are associations of microfinance practitioners/direct lenders, funders, and facilitators/promoters working actively for the promotion of standards and fair-play within the microfinance industry. The two main network institutions in the country are Gambia Microfinance Network (GAMFINET) and NACCUG. The specific objectives of GAMFINET are:

- Provide a forum for exchange of information and ideas on microfinance issues for development;
- Influence national policies and practices affecting microfinance activities;
- Facilitate capacity building and access to both financial and non-financial services and resources for its members;
- Conduct research and create a database on microfinance activities in the country; and
- Foster linkages with other national networks, formal banking sector, NGOs and donor agencies.

GAMFINET did significant work towards the realization of the above objectives. It has conducted much capacity building for microfinance actors in the country, and it was also able to link MFIs in the country to the African Microfinance Network (AFMIN), the Annual General Meeting (AGM) of which GAMFINET hosted in 2004.

Networks exist in Senegal but are different from the ones existing in the Gambia. The legal and regulatory framework regarding MFIs sector does not permit networking within MFIs with different legal nature. For instance, credit union institutions can create a network to optimize their activities but this is not possible between a funder institution and a practitioner or a direct lender institution.

7.6 Collateral Requirements

In the Gambian context, ‘collateral’ is the security or guarantee used for securing the loan. This security/guarantee is usually the rule and is used by the ‘formal financial’ system, it is referred to as ‘conventional collateral. If it is usually feasible, more of an exception to the rule and is used by the informal sector players, then it is referred to as ‘non-conventional collateral’. This is almost similar to the context of Senegal.

A recent study by Sillah and Jammeh (2007) assessed the collateral requirements for accessing microfinance credit funds. The study illustrates the percentage distributions for the various collateral requirements that Gambian MFIs ask from their customers (table 8).

Table 8: Distributions of Collateral Requirements for the Gambia MFIs

TYPES OF COLLATERAL	REQUIRED	NOT REQUIRED
Conventional lease	16.7%	83.3%
Conventional mortgage	8.3%	91.7%
Conventional bank account holder	29.2%	70.8%
Conventional physical assets	37.5%	62.5%
Non-conventional peer pressure	50.0%	50.0%
Non-conventional Joint Group liability	72.7%	27.3%
Non-conventional promissory note	81.8%	18.2%

Source: Sillah and Jammeh (2007)

Table 8 shows that on average, MFIs do not depend heavily on conventional collaterals such as lease documents, mortgages and conventional bank account holders (83.3%, 91.7% and 70.8% respectively). Much dependence is on the non-conventional collaterals of promissory note, joint group liability and peer (group) pressure (81.8%, 72.7% and 50% respectively), which is also similar to Senegal as indicated in table 9.

In Senegal guarantees for loan may mean many things:- some MFI demand guarantees of real things that can be held or touched (pledge of jewels, mortgage of landed property) whereas others give priority to personal guarantees (collective guarantee, trust, and a respected person or leader's approval). On the whole group pressure and pledge seem to dominate in microfinance which is also very common in the rural areas – where majority of the poor live.

However, one can realize that while promissory notes play important role as collateral in the Gambia, this type of guarantee does not have any importance in the case of Senegal. Contrary, pledge or mortgages are indicated as important collaterals in Senegal while in the Gambia, they are not needed to obtain a loan. This difference of collaterals in Senegal and the Gambia is further explained by the difference in the status of women in the two countries. As stressed by ADF (2006), women in the Gambia do not have right to own productive assets including land, in particular in rural communities. In addition, the microfinance clientele served is mainly rural poor with 70% of women. In this case, to require such collateral in the Gambia would be nonsense.

Table 9: Types Collateral in Senegal

GUARANTEE	URBAN AREAS	RURAL AREAS	National Average
Collateral (pledge)	37%	30%	34%
Group (peer) guarantee	16%	30%	22%
Salary domiciliation	2%	0%	1%
Collateral + Group guarantee	18%	9%	14%
Collateral + Salary domiciliation	2%	5%	3%
Group guarantee + Salary domiciliation	2%	0%	1%

Source: Republic of Senegal, Division of Microfinance, *Supply and demand of the products and services of the microfinance - annexes,* October 2004, p.39

In total, it is expected that the microfinance system uses the non-conventional collateral facilities because they make the difference between the conventional banking practices and the microfinance practices also bringing about social cohesiveness and solidarity among the people.

7.7 Interest Rates Regimes

In the two countries, the interest rates of the MFIs are important condition for accessing credit in microfinance institutions. In the Gambia and Senegal, discount rates of the Central Bank of the Gambia represent a benchmark for microfinance sector interest rates. This is also the case in Senegal where interest rates in microfinance industry cannot be above those offered in commercial banks.

In the Gambia, the average interest rates for the six-month loans range from 10% to 40% with a mean of 24% annually, which is similar to the average loan interest rate regime of 17.3% to 27.5% annually from the analysis of the findings from results of both the Mapping of Microfinance Institutions in The Gambia (2003) and the National Strategic Framework for the Development of Microfinance in The Gambia (April 2006). In Senegal, the average interest rates for loan above six-month period range from 15% to 40% with a mean of 32% annually. This means interest rate for loans is close to what obtains in the commercial banking sector in the two countries.

The high interest rates for loans could be probably beyond their control, because 62% of the MFIs surveyed stated that their operating costs do not constitute a major determinant of the interest rates. It can be inferred from this that other components of the interest rates such as risk premium and economy-wide base lending rate could be the driving forces behind the high interest for loans.

The results of the Mapping of Microfinance Institutions in The Gambia (2003) and the National Strategic Framework for the Development of Microfinance in The Gambia (April 2006), together with the Authors' calculations highlights the microfinance interest rate regimes as follows:

Table 10: Interest Rates on Credit and Savings Deposits in The Gambia

Type of MFI	**Projects/ Programs**	**NGO MFIs**	**Other NGOs**	**VISACAs**	**Credit Unions**	**CBOs**	**Average**
Interest rate on Loans (% per annum)	12-15	20-35	17-30	30-40	10-25	15-20	17.3-27.5
Interest Rates on Savings Deposits (% per annum.)	Not Applicable	5-15	-	10-20	5-10	10-15 (Done informally)	7.5-15
Average Interest Spread	12-15%*	15-30%	17-30%*	20-30%	5-20%	5-10%	12.3-22.5%

* *The interest spread (excluding the cost of capital) of the institutions*

It can be seen from Table 10 that VISACAs have the highest interest spread, while the CBOs have the lowest interest spread. From the table, it is evident that the average interest regime for microfinance credit and savings funds may be from 17.3% to 27.5%, and 7.5% to 15% respectively, thus giving an average interest spread of between 12.3% and 22.5%. Projects such as the Social Development Fund (SDF) and Rural Finance Community Initiatives Project (RFCIP) have helped to relatively stabilize the above microfinance interest rates in the country up this date. In general, the interest rates in The Gambia are relatively higher than those in Senegal.

Table 11: Interest rates used by MFIs in Senegal

Annual interest rate	MFIs subsidised	Non subsidised MFIs	Average
0-9%	3%	8%	5%
10 – 13%	15%	32%	21%
14 – 17%	29%	18%	25%
18 – 27%	53%	42%	49%
Over 27%	0%	0%	0%

Source: Republic of Senegal, Division of Microfinance, *Supply and demand of the products and services of the microfinance,* October 2004, p.39

Table 11 shows the different interest rates offered by the MFIs in Senegal. For instance, 3 % of the subsidised MFIs offer 0-9 % interest; and 8 % of the non subsidised MFIs offer the same rate – 0-9 % interest rates. While 53 % of the subsidised MFIs offer 18-27 % interest rates as against 42 % non subsidised MFI. The interest rates used in rural areas are generally higher than those applied in urban area[13]. Officially, the interest rates are not above 27 percent for MFIs.

7.8 Loan Repayment

From the surveyed results, the repayment rates range from 20% to 98% with a mean of 61%. This means the average repayment rate for microfinance is relatively low (although relatively higher than the formal banking sector), and as a result it can increase the risk premium and also the interest rates. Repayment rates for some microfinance wholesale lenders (SDF and Rural Finance Community Initiatives Project RFCIP were as high as 95% to 98%. The reason is that they are concentrating on women who pay their loans in time and better than men and youth borrowers. The SDF and RFCIP projects were very successful for their respective funders: ADB and IFAD, and their successes are often quoted as some of Africa's success stories regarding microcredit delivery in the Continent. In Senegal, the repayment rates are slightly lower than the 95 percentage.

Table 12: Repayment rates of credit in Senegal

TYPE OF MFI	Average Repayment rates
Networks (Big MFIs)	85-95%
Convention signatories	99-100%
Credit Union	80-90%
Rotating savings and credit association (ROSCA) or tontines	99-100%

Source: Republic of Senegal, Division of Microfinance, *Supply and demand of the products and services of the microfinance - annexes,* October 2004, p.46

As expected the ROSCA or tontines and those MFIs that signed the Convention have almost 100% repayment rate, while the others have between 85 % and 95 %. The members of these groups are well selected and there is almost perfect information on members' characteristics among the members. Outright default is seen by members as a direct threat to the survival of the tontine, and is treated accordingly. The costs of default include social mechanisms that extend beyond the domain of the tontine into community-wide sanctions such as social ostracism, which affect every aspect of that individual's social and economic life. The group sanction on a member who defaults could be very severe and this acts also as a deterrent to default.

In general women clients register higher repayment rates. They go to great extent to ensure the repayment even though the funds might have been poorly utilised by a family member. Poverty reduction is one of the greatest concerns of many MFIs, today. Many of them have confirmed that their clients are poor people living in urban or rural areas who have difficulties to accede to financial services. But it is not quite clear whether the services of microfinance have contributed to reducing poverty or removing the poor out of poverty.

[13] Republic of Senegal, Division of Microfinance, *Supply and demand of the products and services of the microfinance,* October 2004, p.39

The MFIs have the following terms and conditions which their beneficiaries fulfil before receiving loans:

- Beneficiaries will have to be members of the institutions;
- Have largely non-collateral or security or guarantors;
- Indicate the purpose of the loans; and
- Have savings with them.

The economic background of the borrower and type of activity to invest the money into are also considered. The creditworthiness and trustworthiness of the beneficiaries as well as their capacities to pay back the loans are scrutinized. Stringent rules and regulations are also attached to giving out the loans. Such rules as levying a penalty may even include taking the beneficiary to court in case of default on loan repayment. The availability of funds to the MFIs also determines the amount of loans to be given to out.

In the case of the Gambia, no detailed data were available. However, it is indicated that the repayment rates in microfinance industry falls between 80% and 90%, which is lower than in Senegal according to ADF (2006). This can be explained by, among other factors, the fact that microfinance sector in the Gambia is still at an infancy stage compared to Senegal.

7.9 Economic Issues on MFIs

Some of the important economic issues that are considered to assess the impact of a microfinance intervention include: the demand, supply, utilization of loans and savings, the level of credit recovery with benefits and satisfactions that people get from the microfinance service, access to productive assets by the clientele, interest rates, economic sectors served, change in income levels and disparities and the accumulation of assets by those who access the microfinance services In the two countries, the demand for loans far exceeds the supply and as a result, potential borrowers (poorest, poor and non-poor) tend to scrabble for the available credit funds. Compulsory savings services with no-interest rates are not often used by MFIs and even when used, these are often tied to the group loans.

According Sillah and Jammeh (2007) when credit funds are available, some Gambians easily have access to MFIs services, but the MFIs do not always benefit the poorest as has happened in Cambodia (Moly, 2002). Generally, the non-poor have more advantage in getting access to microfinance services as well as access to productive assets. Such is even more acute in the case of the women as a vulnerable group. The Non-poor Gambians have the tendency to get bigger loan amounts at relatively lower interest rates than the poor. The majority of the Gambian people borrow for the economic sectors of agriculture and fisheries, trade (especially petty trading), cottage industries (tie-dye, soap-making, crocheting, sewing/tailoring, weaving, juice making) and handicrafts (welding, basketry and carving).

Many Gambians do not always use loans in line with the purposes intended for which the borrowing was intended due to the fungibility of money. Such can have negative impact on the operations of MFIs in the country, because it could affect the repayment rates. Generally the loan repayment rates on the whole of microfinance is quite high, but sometimes the poorest groups repay by disposing their assets and properties as discovered in the Cambodia study of Moly (2002). Some poorest Gambians sell their properties, get money from their own savings and even borrow from other MFIs to repay their debts. Despite the increasing concentration of microfinance programs in the country, Gambian borrowers sometimes turn to informal money-lenders as their alternative source of credit, and they charge higher interest rates than the MFIs. Various quarterly reports of the SDF Poverty II Project (a wholesale microfinance intervention) revealed that there has generally been increase in income for most of the groups accessing the microcredit funds of the ADB-funded project. Increases of 20% to 30% were recorded in the quarterly reports of the SDF. Such could be helpful in the asset accumulation of clients as well as entice the MFIs to increase their operations in the country.

The Gambian MFIs are economically different from the each other in that some operate both credit delivery and savings mobilization, while others are engaged purely in credit delivery alongside other development activities (e.g. AFET and IBAS). Some organizations like ADWAC even give interest-free credit, which is contrary to the Prudential Rules and Guidelines for the non-bank financial institutions (NBFIs) and it could also negatively impact on the operations of the true MFIs. All the MFIs differ from the other financial and non-financial institutions in that the MFIs rely mainly on group-lending and use of non-conventional collaterals for their lending activities while the others generally lend to individuals and use the conventional collaterals of mortgages, lease documents and bank guarantees as their loan collaterals.

7.10 Regulatory Environment and Microfinance Policy.

The Central Bank of the Gambia (CBG) is responsible for prudential regulation. The financial system, including microfinance in the Gambia, is regulated by the Financial Institutions Act (FIA) of 1992, which was revised in 2003. The aim of the revised FIA was to help create a more conducive environment for the operation of microfinance services in the country. It is the Prudential Rules and Guidelines, which is used as the regulatory and supervisory tool for the CBG. The Prudential Guidelines is still viewed by many stakeholders as being short of creating the necessary enabling environment for microfinance in the country. The Department of Cooperatives is the regulatory body for credit unions and cooperative societies in the country. This is done through the office of the Registrar of Cooperatives. The existence of the two regulatory authorities (CBG and Registrar of Cooperatives) seemed to create difficulties for the credit unions and other groups operating under cooperative principles. The reason is that they are required by law to be registered and regulated by the Registrar of Cooperatives, while at the same time they need to abide by the Prudential Rules of CBG if they are to undertake savings/deposits alongside credit delivery. It is a CBG requirement for all microfinance players to make savings mobilization a mandatory aspect. In that regard, the use of credit or a supply-led approach, as the sole entry point into the microfinance market is considered illegal. In fact, there is a specific statement in the Prudential Rules and

Guidelines that "no person shall use credit or a supply-driven approach as the sole entry point in the microfinance market".

Umbrella organizations such as GAMFINET and NACCUG also help with self-regulation of their members using the mutually agreed Code of Ethics.

To some extent, the Gambia's Prudential Rules and Guidelines have helped in balancing supply and demand of microfinance service delivery by condemning outright the supply-led approach. In this way, the microfinance resources could be used for the benefits and satisfaction of the clientele and other stakeholders. The regulatory framework of the NBFIs is also assisting in increasing poor people's access to productive assets such as engaging them in income generating activities in the country. Such would be useful if it increases the income of the poor while reduce the income disparity between the non-poor and the poor.

Although there is a National Strategic Microfinance Framework (NSMF), there is no specific comprehensive Policy to address Microfinance in the Gambia. This Framework emphasizes the need for the Government of the Gambia to take a policy stance on the coordination of the Microfinance industry at both the policy and implementation levels. The NSMF proposes the setting up of a Department of State for Microfinance to be responsible for general microfinance policy and coordination, with a centralized Management Information system and database on all operators.

Various governance structures characterize the microfinance industry. Most NGO MFIs, VISACAs, credit unions and cooperative societies are governed by Boards of Directors (BOD) assisted by a management team all of whom are answerable to the General Assembly. By-laws of these institutions spell out the object, governance, functions, proceedings, financial management and amendment procedures. Key resolutions are tabled and discussed at annual general meetings (AGM). Various committees, especially the Credit Committee, are used to assist in the governance of the financial institutions and their client groups. This is true for the credit unions than any other type. However, VISACAs used the Management Committee to run both the affairs and the credit issues of the organization.

Credit unions are characterized by voluntary membership through a common bond. The common bond for association may be based on workplace, same location or other affiliations. On the other hand, the VISACAs' membership is mainly based on same location (either village or set of villages in given areas). VISACA membership is strictly characterized by rural settlement, which may not be the same for credit unions, as members of these could be either in rural areas or urban settlements. Two of the biggest problems affecting governance in the microfinance organizations/groups within the country are the:

- Dominance of the executive leaders (especially for VISACAs and Community Based Organisations - CBOs) who normally control most records, finances, decision-making and information.
- Relatively permanent term of office for most members of Board of Directors (BOD) and/or Management members. The unlimited term of

office have the tendency to lure some leaders to engage in corrupt practices.

In Senegal, on the other hand, the regulatory structure which governs the activities of the MFIs is structured around the 95-03 act of 31 January 1995 which regulates savings credit unions. This act derives from the integration of the national legislation.
The main goals of this act are:

- the protection of the depositors;
- the security of the operations;
- the promotion of financial self-sufficiency of the MFIs and the integration of the informal finance into the legal and regulatory framework.

To complete the legal and regulatory framework, we also have:

- The laws governing the non mutual structures (such as NGOs, Foundations, Associations);
- The Rules and regulation of the Central Bank of West African States (BCEAO) governing MFIs;
- The detailed rules and regulations of the MFIs.

The AT/CPEC cell is in charge of enforcing the application of the rules and regulations as well as monitoring the activities of the MFIs. It delivers permissions, licences to operate and signs conventions.

In order to strengthen the sector, the monetary authorities have revised the legal and regulatory framework of the MFIs in the West Africa Economic and Monetary Union (WAEMU). In Senegal, therefore, a new act was passed by the national Assembly on 21 July 2007 and by the Senate on 22 august 2008. It was promulgated on 3 September 2008 (N° 2008- 47 act). Its main innovations are:

- the introduction of an unique regime of permission (licence);
- the central bank (BCEAO)'s supervision of institutions which are carrying on good number of activities;
- the reinforcement of the security system and the strict imposition of sanctions for not complying with any of the regulations;
- possibility of transforming MFI into a limited company, which could fully perform commercial activities.

In fact, besides the Parliamentary role, there is a Ministerial Department in charge of Microfinance in Senegal; thus giving more importance to microfinance.

7.11 Some Challenges of Microfinance

In these two countries all actors in the microfinance industry are confronted with series of problems including capacity constraints. The capacity constraints cut across the human resource, supply of materials and equipment, infrastructure and technological know-how. The main capacity building gaps in microfinance institutions requiring technical assistance include:

- Inadequate technical and managerial skills
- Relatively low outreach due to insufficient awareness about services and products
- Difficulty in retaining good and excellent staff by the MFIs
- Training in (management and leadership skills, book keeping, business skills, loan appraisal, enterprise management savings and credit management, interest rate setting and calculations, record keeping, governance, etc.)
- Insufficient supply of relevant materials and equipment to MFIs to get them functional in a more efficient manner
- Difficulty in training MFIs' staff and/or clients to take up microfinance as a career in the country
- Difficulty in building strategic alliances within and outside each country with relevant capacity building and institutional development agencies for microfinance related programs

8. CONCLUSION

The study on the role of MFIs sector in The Gambia and Senegal with respect to the reducing extreme poverty revealed a lot of interesting results, which may open up potential issues for further investigation. The research also collected, analyzed data on the regulation and governance of microfinance, collaterals, interest rates regimes and microfinance and business development capacity building issues within the countries. These are all relevant issues that help microfinance sector to play its role as a poverty alleviation tool. For one thing, MFIs have come to be employment for many people who may not be poor.

In spite of the paucity of data, statistical investigation indicate that the improvement of income per capita together with the income growth would be relevant to address poverty in general and extreme poverty in particular. Micro credits to MFIs clients could also have significant effect on poverty reduction but needs further study.

In line with the findings of the study, some recommendations could be made for the two countries. They include (i) an improvement of growth-lead policies environment, (ii) the designing and implementation of specific policies to improving income distribution within the population and (iii) the enhancement of the microfinance regulation and policy framework so as to provide sound financial services to the poor. The research has also pointed out the need for capacity building in the relevant areas for microfinance development if it can be an effective tool in the poverty reduction. It is also important to revisit the premise and modalities with which interventions in microfinance facilities are done so as to obtain necessary impact on poverty in the two countries. This could include examining the effect of interest rates on both debtor and creditor.

Finally, the study has produced a need for further research to accurately measure and determine the orientation of the microfinance system in the Gambia and Senegal as far as poverty reduction is concerned. Some research questions for further investigation include: Is the relationship between microfinance and poverty bidirectional or unidirectional? This demands an extensive survey for microeconomic data collection, since there are no primary and reliable microeconomic data on microfinance-household relationships or microfinance-individual relationship.

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