

Madagascar

Microfinance Project (P052186)

Date Effective: October 18, 1999

Closing Date: December 31, 2007

Project Description: At the start of the 1990s, all of Madagascar's banks were state-owned, and all were failing. At the time, the World Bank supported the Government of Madagascar in a process of liberalization of the financial system. The banking sector was opened to private ownership: two international banks were licensed to operate, and one of the state banks was privatized. In 1996, the Government began the process of privatizing the two remaining state banks, which had abandoned their original mandate of financing small clients, and were bankrupt, following years of political interference and mismanagement. Unfortunately, the privatization of state-owned banks resulted in closure of rural branches and a decrease in access to financial services by the poor and people in rural areas. In an effort to improve access to the rural poor, an IDA pilot rural development technical assistance project started establishing regional financial cooperatives as a means of providing credit to poor people. Networks of microfinance savings and loan associations or financial cooperatives were established in two provinces.

The Microfinance Project scales-up this effort—strengthening the existing networks and expanding to additional provinces. It is the first part of a three-phased program designed to build a viable and sustainable microfinance industry to address the lack of financial services for lower-income populations. Designed as a 15-year program, it is based on reform and institution building, both of which take time to achieve and require sustained and long-term support, consistent with international best practice. Under the scaled-up project, microfinance networks are being expanded to an additional two provinces (for a total of four out of six) provinces—and from 47 existing branches to 102—and increasing their outreach and sustainability. The subsequent phases will ensure that IDA financing and technical support are available until the microfinance institutions are fully operational and self-supporting. Importantly, the project is building a legal, regulatory and supervisory framework for microfinance. These financial cooperatives are emphasizing savings as much as credit and the new microfinance industry is expected to serve about 72,000 low-income families (or 362,500 beneficiaries) engaged in farming, fishing, commerce and handicraft production activities.

Because research shows that women make both better borrowers and better savers, and because access to credit and other financial services helps empower women, the project has a sub-component with innovative programs designed to ensure women's participation. The project supports a special outreach program to increase women's membership in financial cooperatives to from 15% to 35% as women in rural Madagascar happened to be among the poorest and faced more obstacles to access financial services.

Impacts: *Access to financial services by low- income populations grew by 400% in six years. As of September 30, 2006, more than 150,000 people (45 percent of them women) were active members of five microfinance cooperative networks and 150 financial cooperatives. Credit granted reached US\$7.3 million and total savings of US\$11.1 million represented more than 70% of all microfinance savings in the country. An impact study showed that more than half of the microfinance clients attributed their income increase and better ability to deal with shocks with access to microfinance services.*

Some highlights:

- Microfinance cooperative networks increased from two to five under the project.
- Number of financial cooperatives increased to 150 in 2006, from 47 in 1999.
- Membership in microfinance networks increased from 30,000 to 159,430 clients in six years. Women’s membership increased from 15% in 1999 to 51% in 2006 (exceeding the target of 35%).
- Total savings mobilized reached US\$11.1 million in 2006 (exceeding the project’s target of \$7.8 million). Average member’s savings increased 250% in six years from US\$20 to US\$70.
- The outstanding loan portfolio grew to US\$7.3 million in 2006 and was made up primarily from internal savings resources. Average loan balance doubled from US\$150 to US\$311 in six years, attesting to the growing demand among members. Total loans outstanding and savings continue to grow by more than 25% per year.
- Operational self-sufficiency (an indication of the ability of the institutions to cover their operating costs with own revenues) reached an average of 133% (target of 19%), and has been reached by all but one network. This demonstrates progress toward financial viability of the networks created by the project (although not financially sustainable yet).
- New microfinance law was enacted as well as revised Central Bank instructions and prudential regulations. A microfinance supervisory unit at the Central Bank (CSBF) has been established and is functional.
- Capacity building of microfinance practitioners with the design and testing of a national training program yielded 12 brand new modules that were delivered to 600 people. Before the project, few Malagasy have had formal training and can properly manage a microfinance institution.

Total Financing: Total project cost was US\$20.4 million of which IDA financed US\$16.40 million, the Government US\$1.8 million, and other co-financiers—the United Nations Capital Development Fund (UNCDF), Canada, and the EU contributed US\$2.2 million.

IDA Contribution:

IDA’s global experience helped government develop a policy and strategy to undertake major reforms in the financial sector during the 1990s—particularly the liberalization of Madagascar’s financial sector and privatization of the banking system—and its long-term engagement in the sector enabled IDA to work with government, along with other

donors, in undertaking difficult reforms in microfinance (UNCDF helped the government develop its microfinance strategy). IDA played a catalytic role in developing an approach and strategy for delivering rural services that are savings based and grass-roots oriented that has been replicated in the country and elsewhere. IDA's role was particularly important in building the legal and regulatory framework for delivering financial services to the poor in rural areas and provided the basis for harmonizing donor approaches in microfinance and for a major scaling up of investments in microfinance.

Linkages:

The project builds on the successful Rural Finance Technical Assistance Project (RFTAP, P0001571) approved in 1993. Lessons learned from the project have been incorporated in the design of other IDA operations including Community Development, Rural Development Support, and the Private Sector Development projects.

Next Steps: The project demonstrates that a savings-based approach with grass roots orientation can be more sustainable as a means for delivering rural financial services—as compared to a credit-only approach. Continued donor support and government commitment and ownership are important to sustain and deepen the gains made from the reforms, and to expand the benefits of reforms to the wider population. Towards this end, an innovative multi-donor sector-wide financial sector project including donors such as Millennium Challenge Account, UN Development Programme, Agence Française de Développement, the African Development Bank, and the European Union is under preparation. The new project would include a microfinance component to implement a newly adopted microfinance strategy and to continue activities started under the microfinance project with the end result of achieving financial sustainability for the financial cooperative networks.