

EXECUTIVE SUMMARY

Background

Beginning in the 1970s, a microfinance revolution swept through Asia and Latin America, helping countless millions of poor people get the economic boost they needed to start small businesses and work their way out of poverty. Somehow, the revolution bypassed Africa: **While there are more than 300 million economically active individuals in sub-Saharan Africa, only about 20 million of them – less than 10 percent – have access to any kind of formal financial services.**

A 2006 World Bank report shows a strong correlation between reductions in poverty and the development of the financial sector. If African countries are to achieve long-term development more quickly, the poor in Africa – like people everywhere – must have access to an array of flexible, cost-effective financial products and services targeted to their needs, including savings, credit and insurance.

The goal of microfinance is to adapt financial services to meet the needs of poor people who usually lack access to mainstream banks. Microfinance can provide very small loans – for example from \$5 to \$50 – and accept savings deposits of less than \$1, which, despite the small size, can be essential to creating income-generating activities and sustainable livelihoods. **CARE has pioneered a microfinance methodology that has worked more than 1.2 million people around the world.**

CARE's Experience

Women have long been at the heart of Africa's informal, member-owned, rotating savings cooperatives – among the world's oldest and most prevalent savings mechanisms. These cooperative associations form the foundation for CARE's pioneering approach to microfinance. They are sustainable, self-funded credit sources at the village level, built by members through their own savings.

CARE launched our first microfinance program in Niger in 1991 with a participatory, community-based approach. From the beginning, clients – predominantly women – defined their needs and put parameters around the process. In CARE's Village Savings and Loan Associations (VSLAs), each member contributes to a savings fund with small, regular and mandatory deposits. CARE's comprehensive training program supports the group for up to one year, and includes skills to succeed in saving as well as establishing new businesses.

It's women who are first to reap the benefits. As primary members of VSLAs, women receive training, benefit from group solidarity, earn their own income and invest in what matters most to them: their families. The result is enhanced self-esteem, greater participation in public life, better nutrition, health and education for children, and new dynamics in their relationships with men. **The societies that lag furthest behind are those where laws or traditional practices hinder women's economic empowerment, while communities and nations that are willing to create new spaces for poor women to become entrepreneurs are advancing.**

State of Microfinance in Africa

Today, most Africans – well over 50 percent – live on less than \$2 a day. Moreover, all of the 21 countries listed in the United Nations' low human development ranking are in sub-Saharan Africa. However, there are several positive signs: More than 35 percent of Africans live in economies that have seen sustained growth of more than 4 percent a year for the last 10 years, setting the stage for many Africans to enjoy a better life.

However, the continent is still under-served by financial services. The cost of bringing microfinance services to Africa is higher than in other regions of the world because Africa has many vast and sparsely populated rural areas, higher rates of illiteracy and HIV/AIDS and a widespread lack of identity documents.

Without access to basic financial services, Africans are at risk of remaining at the margins of economic opportunity with little hope of realizing their tremendous creative potential. In the past, most poor Africans relied on home-grown, often unreliable and exploitative traditional services in the form of deposit collectors and moneylenders. Now microfinance is a big part of the picture.

Increasingly, more structured, flexible VSLAs are beginning to proliferate, and microfinance institutions that offer more diverse and sophisticated financial services to the poor are reaching more and more people. Financial services, and all that they portend for increased economic security, prosperity and productivity, are finally beginning to reach the world's poorest people.

Best Practices

The report highlights the best practices from five successful microfinance institutions in Africa. While they are all different in how and where they operate, they are among the most successful microfinance institutions in Africa and share some common traits. They know their clients – the poor in urban slums or in hard-to-reach rural areas – and have tailored their operations to reach them where they live and offer the most appropriate services. They reach their clients by public buses in South Africa, motor scooters in Togo and banks-on-wheels in Mozambique. They offer loans geared to the needs and production cycles of farmers, and they require their loan clients to save. They offer both group loans and individual loans, with many actively promoting the solidarity and mutual support that groups of savers and borrowers provide. Insurance programs are often included to cover emergencies – illnesses, funerals, house fires and other catastrophes both natural and manmade. They use technology as appropriate to ensure safety, efficiency and transparency in their work.

The importance of rigorous training of clients to the success of microfinance cannot be overemphasized. The most successful programs and institutions train their staff and train their clients, both initially and in stages, over time. Training includes diverse topics such as customer service, purchasing stock, marketing, time management, bookkeeping and planning for the future.

In the end, a successful microfinance institution must achieve the “double bottom-line” – economic growth without compromising their core mission of serving poor clients. This doesn't come easily and has demanded innovative thinking of these and indeed all microfinance organizations.

CARE's Goals

In mid-2008, CARE launched ACCESS AFRICA. **Over the next decade, ACCESS AFRICA will provide basic financial services for 30 million of Africa's poorest people – at least 70 percent of whom will be women.**

CARE will do this by expanding our village savings and loan associations to 39 countries across Africa and by building the capacity of microfinance institutions to develop and deliver the products and services these clients need.

Among the critical issues CARE will be addressing in the years ahead is the question of the “tipping point,” the amount of outside investment and time that are required before CARE and other organizations can pull out – leaving behind strong, self-sufficient VSLAs and well-trained and motivated local champions who can create and train new groups. ACCESS AFRICA will ensure that such groups can link up with a complete range of financial products and services to meet their needs, taking advantage of the latest technological innovations. We invite all partners to join us.