Financial Services Associations

I. Background:

1. Name of innovation: Financial Services Associations **2. Country - Region:** First in Benin, then, progressively implemented in various African countries (esp. in Guinea, Mauritania, Kenya, Tanzania, Uganda and more recently in Sierra Leone) **3. Organization and originator:** This innovative model was first developed by IFAD in 1997 to address the constraints of accessing financial services in rural areas in Africa services in rural areas in Africa.	**5. Actors involved:** Communities **6. Implementation date:** Starting date: 1997 (Benin) **7. Type of innovation:** (Technological, institutional, policy or knowledge sharing) - Rural Financial Services + Institutional (setting up of an apex structure + engagement in policy dialogue – cf below)

II. Kev Issues:

8. Summary:

This innovative model offers a lower cost and potentially sustainable solution for rural environments that are initially unattractive to formal financial institutions. FSAs are established at community level, and are owned and managed by community members that buy shares in the FSA. In terms of outreach, FSAs operate in non-banked rural communities that would not be viable for many other forms of financial services organizations. Developed by IFAD, the model was introduced to Benin in 1997. Today, 144 FSAs operate in the country, and the model has been replicated in various countries (especially in Guinea, Mauritania, Kenya, Uganda and more recently in Sierra Leone). FSAs' success story in Benin encouraged project coordinators to engage in policy dialogue in the area of microfinance with significant results. FSAs have fulfilled their advocacy role for microfinance among national institutions responsible for overseeing and monitoring savings and lending systems. As such, IFAD projects provided support to the government in defining Benin's rural microfinance policy. The microfinance policy was approved by the government in 2006 and the recently elected Government of Benin has established a Vice Ministry for microfinance development.

9. What issue does the innovation address?

Access to financial services in rural areas: an environment characterised by poor communications infrastructure, low population density, high levels of illiteracy, low profitability and/or high risk of most rural economic activities, and relatively undiversified rural economies, is unattractive to formal financial institutions. IFAD has been developing this model for ten years in order to address many of the issues related to access to financial services in rural financial markets and, more specifically, to address three challenges: locally-based self-management, outreach and sustainability.

10. Key success factors for replication:

In 2004, IFAD Rural Finance Thematic Group decided to carry out an in depth review on the FSA model, in order to built on the experience gained so far and prepare the replication of this innovative approach to other countries and regions. This exercise allowed IFAD to internalize and disseminate the lessons learnt from the review. *First*, a field study was conducted among FSAs in Kenya and Benin – the two countries where FSAs had far-reaching impact. The study led to country reports describing and analysing the FSAs situation over their ten years of existence. It also allowed positioning FSAs within the countries' financial landscapes while providing suggestions to further strengthen them so they can become sustainable. *Secondly*, as part of this review, two workshops on knowledge sharing on the FSA model were organized in 2007 – the first one in Benin and the second in IFAD – to share the major findings of the review in view of (i) assessing the impact and (ii) exploring the up-scaling and replication of the model in other countries. In view of a sustainable replication of the FSA model in poor rural areas, recommendations have been shared with the workshops' participants on (i) the Institutional set-up for a sustainable FSA network; (ii) the geographic & socio-economic requirements to establish an FSA regional network; (iii) the adapted financial products and services to be further experimented; (iv) the professional management of FSAs human resources; (v) The efficient role of the FSA different bodies; (vi) the optimal profile for support NGOs and/ or management service providers; and (vii) The FSA network profitability.

11. Accessibility: (Poor, gender, youth, migrants…)

The FSAs have real potential for reaching poor people: lending conditions are self targeting, in the sense that the amounts are too small and the time period is too short to be attractive to the wealthier producers. The FSA model constitution states that the association will offer services to the rural community as a whole, « starting from the poorest in the community ». Indeed, the “normal loan” indirectly targets a poor or medium-poor population, since group lending constraints (frequent meeting, compulsory savings, and limited and progressive loan amounts) discourage the better-off.

12. Difficulties encountered:

a) So far, the range of services offered by FSAs was quite limited, and the “normal loan” was adapted to the part of the rural poor population with regular earnings. Therefore, products and lending methodology have been progressively refined to enable FSAs to attract a much wider clientele, increase their local outreach, and ensure that FSAs serve the interests of the poorest.

b) In Benin for instance, the FSAs have brought their rates down - from 10% a month up to 3% in some FSAs - to comply with the UEMOA law also known as the “Loi PARMEC”, as well as to increase repayment capacity and thus decrease arrears. As a consequence, most FSAs resources are today insufficient to meet demand, which drives them to provide very small credit amounts in order to try to satisfy as many as possible. As explained above, the loans are too small (around FCFA 100 000, i.e. USD 200) and the time period is too short to be attractive to the wealthier producers.

c) With the collapse of the interest rate, many FSAs don't have sufficient internal resources to satisfy their members, and may stagnate in a near future. To this regard, the issue is to find a balance between an adequate dividend and interest rate to ensure the viability and the financial sustainability of the FSAs. Following the implementation of primary FSAs at the village level over a ten year period, it is now recognized that isolated FSAs cannot be sustainable. An institutional strategy has to be designed and implemented. Therefore, in Benin, the PADER (Rural Development Support Programme) has already engaged consultations for the establishment of the FSA apex structure, and in terms of field interventions, have been prioritized the activities linked to the FSA reinforcement, based on the experience from previous programmes.

13. Financial aspects:

Information given in the previous sections

III. Technical Summary:

(Main technical characteristics - In addition to section 8 summary)

Investment return to shareholder: Based on the profits generated by the FSA, and paid out in the form of a dividend rather than a pre-determined rate of interest. Buyers of shares acquire an equity position within the FSA, with no guarantee of a return. A shareholder may deposit money with the FSA for safekeeping, but these deposits will not draw interest and they cannot be used for lending operations.
Shared equity risk by all shareholders: The capital accumulated by selling shares is used to make loans to FSA members, at interest rates ratified by the shareholders sitting in the General Assembly. At the close of the financial year, any profit is apportioned between operating costs, dividends and the FSA reserves. Credit operations are generally initiated three to four months after the FSA is created.
Niche of the FSA: The analysis of the “niche” of the FSA model showed that its most attractive feature is currently the rapid loan approval within a week, if the applicant is known and recognised as creditworthy by the FSA credit committee.
Ownership-building: FSAs operate at the village-level as stand-alone institutions, which are managed and run by the villagers themselves. External assistance is provided only for building and equipping the premises (with shareholders contributing their labour), training and regular follow-up for a period of three to four years. Lending resources are mobilised solely through the sale/purchase of shares and only shareholders may take out loans.

IV. Follow up:

15. Key contacts:

Information given in the previous sections

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16. Useful web link:

17. Key documents: (Name of the document + Link or Contact or Co ordinates)