

Microfinance and decentralized cooperation

Workshop // Microfinance and international cooperation



Speakers

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Executive summary

French local authorities' involvement in microfinance, though still limited (2.3 million Euros invested over the last 10 years), is nevertheless increasing and it is a token of a growing willingness on local authorities' end to get involved in economic development projects that create jobs. For local authorities that wish to get involved,

action could be taken to improve the still mediocre quality of the projects, such as support in setting up and monitoring projects, provision of legal aid, and help in matching with reliable partners.

Synthesis

A new study on French local authorities' microfinance operations through the scope of decentralized cooperation was jointly initiated by Convergences 2015, **ACTED**, and **Cités Unies France (CUF)** in June 2010. The aim of this workshop was to present and discuss the main conclusions of this study.

Decentralized cooperation refers to "the sum of the international cooperation initiatives and activities conducted by one or more French territorial authorities (regions, counties or provinces (départements), municipalities and their groups) on the one hand, and by more foreign local authorities and/or their groups on the other".

37 French authorities (5 regions, 5 counties/provinces, and 27 municipalities) and 45 projects were studied. Most of the projects studied are in Western Africa (91%), especially in the Sahel region (69%), and above all in Burkina Faso. This nation alone accounts for 38% of the projects in the sample surveyed.

Between 2000 and 2010, the French regional authorities surveyed invested 2,327,675 Euros in microfinance activities as decentralized cooperation, with a potential commitment of 406,730 Euros for 2011. An increase in financing has been observed since 2007.

As the local authorities with the greatest available funding capacity, the regions are unsurprisingly the largest investors in microfinance projects, spending 360,000 Euros on average. Although there are exceptions, the average amount of funding from county/provincial and municipal projects is much less and rarely exceeds 50,000 Euros.

Although a foreign local authority partner or other specialized institutions may co-finance the project, in most cases the French authority is the main

funder. Lastly, the French ministry of foreign affairs often supplements the authority's participation through subsidies, which can represent anything from one third to one half of the total amount of the project.

The target sectors for regional authorities conducting microfinance projects can be grouped into two categories: support to the territory's business sector and support to non-business areas (such as women's, agriculture, water, and sanitation projects).

The French authorities may adopt various action plans:

- supplementing funds intended to provide loans through subsidies to the target population via existing IMFs or creating new IMFs in the target territory;
- financing microloans through the local partner authority, an association, or even a local group (the intermediary organization will not be a specialized organization);
- supporting the microfinance sector in the target zone by funding various activities such as professional training or the purchasing of premises or materials;
- financing credit guarantee funds or granting subsidies for the reduction of the cost linked to the clientele (e.g., membership fees of a savings and loan association).

The local partner authority always participates in drafting the action plan. In certain situations it may also be involved in launching and running the project.

The French associations in the territory under the jurisdiction of the local authority are sometimes used as partners. Local associations, in the form of twinning committees and associations in charge of the partnership are often involved (in 2 cases out of 3). Lastly, using MFIs and technical partners



specializing in microfinance is frequent (60% of the time).

For the authorities, microfinance is attractive because the repaid funds can be reinvested, thus avoiding any new financial commitment on the part of the French authority. Microfinance also fits into a new concept of decentralized cooperation, in which the economy is viewed not only as a tool to support development projects, but also as a key element for the global and sustainable development of disadvantaged populations, particularly in terms of job creation.

Searching for partners is the main difficulty encountered by the authorities. The report therefore recommends setting up a system to identify and contact the relevant stakeholders.

Another major difficulty for French regional authorities engaged in international activities is the opacity of the regulations in the North and in the South, especially the regulations relating to financial transactions. The report calls for the elaboration of legal recommendations regarding French legislation and the foreign legislation of the target countries of the territorial authorities, and for informing the authorities regarding the legal limits of their investments under the French law and the law of the partner countries.

A glaring lack of knowledge in microfinance among the stakeholders

involved was also noted. It is thus necessary to provide training to the agencies in charge of decentralized cooperation that are involved in microfinance.

A lack of knowledge in the intervention context and difficulties in monitoring projects were also stressed. Several solutions have been suggested: help in performing preliminary expert assessments and improving in the business support, monitoring, and management of funded projects by setting up a dedicated organization based in France or in the partner countries; forming partnerships with competent intermediary organizations which could take charge of these monitoring issues.

Lastly, a lack of knowledge and skill on the part of the partner in the South was sometimes reported. Hence it seems necessary to set up a system for identifying reliable, competent, and possibly already trained partners. The report underscores the possibility for territorial authorities to invest specifically in training activities rather than lending activities, or at least to integrate a training component in all of the projects.

Two main criticisms of these recommendations were raised: on the one hand, their general nature is not specific to the microfinance field, and on the

Questions

other, their purely technical nature is blamed while policy guidelines relative to the objectives of this kind of projects should focus on could be defined. Microfinance is not a neutral economic tool: what are the ramifications of committing to such projects?

Furthermore, in order to deal with the lack of knowledge in microfinance on the part of both the authorities and the partners in the South, providing training to address this need would be advisable.

Moreover, as identifying technical and financial partners in the North and the South is one of the main difficulties identified in the scope of the study, the emphasis was placed on making it easier to partner with existing professional institutions, particularly those that could provide greater security for the credit lines.

The study revealed that the average collection rate is lower than the microfinance sector average level. This can be explained by a twofold lack of capacities, on the part of both the recipients of the microloans (financial and technical capacities) and those in charge of implementing microfinance projects (evaluation of the situation of the recipients and monitoring the projects funded).

The initiative implemented by the Ile-de-France region in the scope of its cooperation with the metropolitan region of Santiago (Chile) exemplifies these difficulties. Of the three onsite NGOs operating the project, two had near a 97% collection rate, as they were savvy in microfinance and had close ties with the recipients. The third's collection policy (the one that had no actual knowledge of microfinance) failed.

There is no doubt that microfinance involves a certain cost and poses practical difficulties in terms of monitoring. The AFD (French Agency for Development) expressed its commitment in this sector with a 100,000 euro investment in 2009. However, it also mentioned that the involvement of authorities in this practice should be envisioned as a partnership in which the latter could focus on their key areas (specifically local government).

There is a fear, however, that the current crisis in the microfinance sector may cause the territorial authorities to refocus on their traditional decentralized cooperation activities and give up their microfinance activities.

What is the role of the territorial authorities engaged in international activities and wishing to use the microfinance tool?

There is broad agreement about the need to raise the authorities' awareness

as to how to go about their microfinance activities. Nevertheless, the best role to assign to the authorities in these projects should be defined beforehand: setting up IMFs? networking support? expertise?

Based on these observations, there is general agreement that decentralized cooperation and the French authorities' action plans contribute to the microfinance sector. It would be preferable if the latter focused on qualitative rather than just quantitative services. Funding projects for precarious populations through microfinance requires follow-up of such projects, the lowest possible interest rates, and also empowerment of local microfinance organizations. Still, territorial authorities engaged in international activities can have a certain added value for improving these aspects of microfinance projects.

Civil society's involvements as well as fallouts on the territory of the French authority are essential to the activities of territorial authorities. The role of associations in the South, especially women's associations, is essential and should be precisely defined. Furthermore, the international activities of French authorities rightfully call for a certain positive impact on their territories, if anything to justify their international action towards local people. In this regard the initiative of the Picardy region in Benin was highlighted. The latter is a joint initiative with SENS (the project operator), which aim at co-development by bringing out social entrepreneurship. Xetic.org was also stressed as an internet platform for a supportive community of French lenders, targeting micro-entrepreneurs in developing countries, and collaborating with the Rhône-Alpes region's local authorities. Its primary goal is to spread and press for the authorities' international operations, to raise the general public's awareness and to get them involved.

Lastly, the issue of diasporas, and their financial activity was brought up. However, a consensus has still to be reached.

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