



International Conference on the Great Lakes Region

Regional Programme of Action for Economic Development and Regional Integration

Project No. 3.1.1

Establishment of a Regional Micro-Finance Support Facility

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SUMMARY

The micro-finance sector is one of the avenues states can explore as they seek to improve the living conditions of populations so they may actively participate in the economic and social development of the region.

The traditional financial sector is unable to meet the needs of the majority of the population that is found in the informal sector given the rigidity of policies in the area of bank loans.

This project aims at building the capacity of existing and future micro-finance structures, to improve their financial base in order for them to become real tools in the fight against poverty through contributing towards the creation of income generating activities.

In order to achieve this, the project targets micro-finance institutions in urban and rural areas, and makes them more accessible particularly to women, who are generally very active in informal activities.

SECTION ONE: PROJECT DESCRIPTION

1. Situational analysis

1.1. Economic and institutional background

For several decades, the Great Lakes Region has been subjected to multifaceted crises that have prevented it from initiating necessary economic reforms with a view to getting populations out of a situation of increasing poverty that they currently face.

Political conflicts and crises that have destabilised most of the region's States, have led to the degradation of the economic base, the destruction of infrastructure, the decline in production and exports, the collapse of State institutions and the near-abandonment of the principles of democracy and good governance.

The situation has not allowed international financial institutions to mobilise sufficient financial resources to benefit the region. As risk became increasingly significant, they opted to scale down their interventions.

The GDP growth rate recorded in the region was an average of 3% between 1997 and 2003. The actual GDP per capita and per day oscillated between approximately US\$ 0.76 between 1994 and 2003 making these States among the poorest in the world.

Development banks in the region have also suffered the consequences of the situation. They have been operating in an environment that is not conducive for business. This has greatly reduced their efficiency.

The average inflation rate for the region was approximately 19.01 % between 1994 and 2003. As real interest rates were negative in most countries, financial banks were unable to fully play their role.

The budgetary deficit, in relation to the GDP, was an average of 5.44% between 1994 and 2003. To cover the deficit, States often sought the assistance from development partners in the form of monetary funding or financial interventions. The public debt in relation to GDP was approximately 132.46% during the same period. For many countries, it has remained a heavy burden to support.

States in the Great Lakes Region have thus continued to record a decrease in both public and private savings, which has limited their support for income earning activities.

Sustained efforts should be made by States with a view to continuing economic reforms in order to reduce poverty.

1.2. Specific problems to resolve

The majority of populations in the region operates in the informal sector and therefore do not have credit facilities from traditional banks. On the other hand, micro-enterprises that generally create numerous jobs and significantly contribute to economic growth, and value-addition of natural resources greatly suffer from the lack of appropriate funding for the development of their activities. These individuals and/or micro-enterprises often tend to create informal micro-finance institutions so as to meet their savings and credit needs.

It is in this context, that the core countries of the ICGLR deemed it necessary to establish a Regional Micro-finance Support Facility. Its goal would be to:

- Mobilize financial resources from both local and external sources in favour of micro-finance institutions to finance income generating activities and build a capital base accessible to the majority of the population;
- Build the management and organisational capacity of beneficiaries;
- Apply collective guarantee (principle of collective responsibility) to grant loans and monitor the use of funds by providing technical assistance support to the target population and national micro-finance institutions;
- Organize a sharing of experiences;
- Provide technical capacity building in management of micro-finance institutions.

1.3. Key challenges to address

The following challenges need to be addressed:

- The lack of trend charts and performance indicators in micro-finance institutions;
- The nonexistent and/or insufficient relations between micro-finance institutions and traditional banking systems;
- The imbalance that may appear between resources mobilised and the demand of target populations;
- The lack of a legal and regulatory framework: currently, there is no law that regulates the activities of informal savings and credit structures, which could protect members;
- The lack of clear government policies for the promotion of micro-finance institutions as a tool for economic development and poverty reduction;
- Lack of adequate financial resources that would enable the Regional Micro-Finance Support Facility to fully play its role.

- Lack of political will;
- Resistance to innovation: resistance could come about among some circles in local associations that are used to other methods of mobilising financial resources (tontine funds, “likelemba”, etc.) ;
- Inefficiency of existing systems to collected in collecting monies loaned in the context of micro-finance,
- **Lack of confidence in the guarantee of payments,**
- **Lack of technical capacity in managing micro-enterprises.**

2. Project strategies and thrusts of intervention

The project strategy will be based on the existence of savings and loans associations that are often informal and operate on the basis of the principle of collective responsibility of members. It will also focus on programmes of resource mobilisation programmes, institutional and financial capacity building, communication and networking.

The project could, therefore, focus on the following:

- i) The need to conduct a situational analysis on micro-finance structures existing in the core countries;
- ii) Assessing the needs of micro-finance institutions that are likely to benefit from the project outputs;
- iii) Building the technical capacity of micro-finance institutions;
- iv) The need to undertake an awareness-raising campaign for populations in rural and urban areas;
- v) Networking among players at national and regional levels.

2.1. Expected results

Expected outcomes of the project include:

- i) Facilitating access to credit by populations that do not have credit facilities with traditional banks;
- ii) Poverty reduction in rural and urban areas through job creation and increase in income;
- iii) Increased economic growth and development through job creation and SMEs-SMIs.

2.2. Target beneficiaries and areas of intervention

The project covers 11 States of the Great Lakes Region and beneficiaries are disadvantaged populations in rural and urban areas particularly women and youth.

Micro-enterprises, micro-finance institutions, producers' and service cooperatives as well as grassroots communities would benefit from the implementation of the project. Traditional financial institutions that have opened micro-finance counters should also benefit from the project.

3. Funding and management modalities

3.1. Funding mechanisms

The project should essentially get its initial capital from Member States. Support from regional and international financial institutions (The World Bank, ADB, CASDB , the PTA Bank, etc.) should also be solicited.

At maturation, it should request for concessional loans that would be used for on-lending without applying excessive margins, contrary to the current practice of traditional banks.

States should envisage the possibility of establishing a special fund that would be run by this institution with a view to promoting cooperatives/associations in the region.

The resources of the Regional Micro-Finance Institution shall also include income from:

- investments in financial institutions;
- income from services provided to its clients (commissions, interest, etc.).

3.2. Respective roles of partners

The project should involve the following actors in its implementation:

i) Governments: should approve the project and provide start-up capital; promote it among development partners, international financial institutions and the private sector as well.

ii) Central Banks: should:

- Define the regulatory framework of the operations of micro-finance institutions,
- Strengthen control systems and ensure the coordination of micro-finance institutions,
- Encourage the creation of inter-professional associations of those structure in order to foster mergers within them to enhance efficiency,

- Coordinate the development of those structures and ensure that they do not negatively impact the monetary balance of countries;
- Review possibilities of reducing interest rates on loans through inter-professional associations and possible interest rate subsidy.

iii) Development Partners: should provide sufficient technical assistance so that the Regional Micro-Finance Support Facility can cover shortfalls it may encounter.

iv) **Chambers of Commerce and a network of associations:** should develop a framework for information sharing with a view to cooperating in the micro-finance sector.

v) **Other financial institutions:** should find a mechanism for collaboration within the mission given to the Regional Micro-Finance Facility.

3.3. Implementation modalities

The project should be under the technical and administrative supervision of Ministries of Finance and Small and Medium-sized Enterprises and Central Banks of the 11 States of the Great Lakes Region. Its implementation shall also require the close involvement of Chambers of Commerce, representatives of national micro-finance institutions, production and services cooperatives and other commercial banks with a view to adapting its strategies to the reality on the ground.

To achieve this, a feasibility study on the Regional Micro-Finance Support Facility should be conducted.

The project should be implemented for a period of three years and in two stages:

1. The first two years shall be dedicated to conducting the project's feasibility study and supporting micro-finance institutions in their operations at national level as well as assisting them to identify their challenges and obstacles.
2. The third year shall focus on creating a facility aimed at meeting the financial needs of those institutions.

3.4. Coordination and supervision of activities

The establishment of the Regional Micro-Finance Support Facility will be under the supervision of Ministries of Finance, Central Banks and Ministries in charge of SMEs of countries in the region, which form the project steering committee.

3.5. Activities of the Regional Micro-Finance Support Facility

a) Support to micro-finance institutions

b) Financial intermediation

The Regional Micro-Finance Support Facility should also act as a monitoring body and a safety device in financial intermediation by imposing strict and prudential regulations that protect both the structure and its clients.

c) Promotion of multidisciplinary support measures

The Regional Micro-Finance Support Facility should provide institutional support enhanced by:

- information and training on management principles;
- advice on technical options;
- assistance to identify adapted investment opportunities;
- assistance for liquid fund management.

d) Networking among partners in Member States

The Regional Micro-Finance Support Facility should establish a system for experience sharing between micro-finance structures

e) Mobilisation of small savings

4. Project monitoring and evaluation

4.1. Financial and Activity Reports

These reports should be prepared by the consultant or institution that has conducted the study. They in turn shall provide supporting documents for all expenses incurred to the steering committee.

4.2. Final evaluation

A Steering Committee meeting should be held to examine the conclusions of the feasibility study on the setting up of a Regional Micro-Finance Support Facility.

They shall also meet to explore ways and means of implementing the project.

5. Legal and institutional framework

The project is carried out under the auspices of Ministries of Economic and Financial Affairs as well as Small and Medium-sized Enterprises in the Great Lakes Region that will be charged with its tutelage. It is also important that the regional organisation responsible for the day-to-day implementation of the project be identified.

CHAP. II : LOGICAL FRAME FOR EXPECTED RESULTS AND RESOURCES

Project title and number: Project n° 3.1.1

Establishment of a Regional Micro-Finance Support Facility

II. 1. RESULTS FRAMEWORK

Expected output:

A feasibility study on the creation of a Regional Micro-Finance Support Facility in the Great Lakes Region

Output Indicators:

1. Feasibility study for the setting up of a Regional Micro-Finance Support Facility conducted ;
2. Plan for the mobilisation of financial resources developed;
3. Awareness-raising programme for associations in the region developed;
4. Mechanisms for cooperation between the Regional Micro-Finance Support Facility and the non-banking financial system existing in the region;
5. A network for sharing experiences between existing national micro-finance institutions.

Strategies:

The project's mission is to support and accompany micro-finance institutions of States in the region by making available financial resources that will make them viable. The strategy will be based on the existence of savings and loans associations that are often informal and operating on the basis of the principle of joint responsibility of members. It will also focus resource mobilisation programmes, institutional, technical and financial capacity building as well as financial intermediation, communication and networking.

Expected results	Indicators	Activities	Resources
The Regional Micro-Finance Support Facility is set up.	<ul style="list-style-type: none"> -Feasibility study available; -Recommendations of study implemented ; -Steering committee set up 	<ul style="list-style-type: none"> - Conducting a feasibility study on a Regional Micro-Finance Support Facility by consultants; -The organisation of meetings and seminars to sensitise States with a view to making them own the project; -Adoption of a protocol on the creation of the Regional Micro-Finance Support Facility; -Capacity building of players (training modules and programmes and training materials, etc.) 	

CHAP. III ACTION PLAN AND THREE YEAR BUDGET –PROGRAMME

ACTION PLAN

ACTIVITIES	YEAR 1				YEAR 2				YEAR 3			
	QUARTER				QUARTER				QUARTER			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
<ul style="list-style-type: none"> ▪ The setting up of a Steering Committee for the project comprising Ministers of Finance and Small and Medium-sized Enterprises ▪ Development of terms of reference for the study on the creation of a Regional Micro-Finance Support Institution ▪ Conducting of a feasibility study on a Regional Micro-Finance Mechanism by a consultant ▪ The organisation of meetings and seminars at national and regional levels to sensitise States with a view to implementing the project ▪ Financial resource mobilisation campaigns for development partners ▪ Capacity building of actors in micro-finance (training, seminars, etc.) 		X										
		X										
			X	X								
					X							
						X						
						X		X		X		X

BUDGET

Results	Sources of funds	Description	Duration	2007	2008	2009	TOTAL	
Steering Committee set up	Member States, the private sector and donors	<ul style="list-style-type: none"> ▪ The setting up of a Steering Committee for the project comprising Ministers of Finance and Small and Medium-sized Enterprises 		85,650			85,650	
Feasibility study on a Regional Micro-Finance Support Mechanism available	Member States and donors	<ul style="list-style-type: none"> ▪ Development of terms of reference for the study on the creation of a Regional Micro-Finance Support Institution 		1,750			1,750	
		<ul style="list-style-type: none"> ▪ Conducting of a feasibility study on a Regional Micro-Finance Mechanism by a consultant 		91,600			91,600	
Effective ownership of the project by States	Member States and donors	<ul style="list-style-type: none"> ▪ The organisation of meetings and seminars at national and regional levels to sensitise States with a view to implementing the project 			62,600		62,600	
Pledges by development partners guaranteed	Member States	<ul style="list-style-type: none"> ▪ Financial resource mobilisation campaigns for development partners 			275,000		275,000	
Improvement of technical analytic skills	Member States and donors	<ul style="list-style-type: none"> ▪ Capacity building of actors in micro-finance (training, seminars, etc.) 			206,100	206,100	412,200	
OVERALLTOTAL					196,900	598,070	226,710	1,021,680

Annex 1**TERMS OF REFERENCE****PROJECT N° 3.1.1****FEASIBILITY STUDY FOR THE ESTABLISHMENT OF A REGIONAL MICRO FINANCE
SUPPORT FACILITY IN THE GREAT LAKES REGION****1. Objective of the study**

The inability of traditional banks to meet the financial needs of individuals and micro-enterprises, particularly in the informal sector, constitutes an undisputed barrier to the development of this region.

In this regard, the study should demonstrate the rationale of establishing a Regional Micro-Finance Support Facility whose mandate would be

- to mobilise domestic and external financial resources in favour of micro-finance institutions in the core countries;
- to organize a forum for sharing experiences;
- Contribute to building a capital base that can be accessed by the greater majority of the population in the region (some sort of federation of micro-finance sector players)

2. Study framework

The consultant should conduct a study with a view to demonstrating the need for a Regional Micro-Finance Support Facility for Member States to the Conference. This institution should support the States in their efforts aimed at significantly reducing poverty.

More specifically, the consultant should

- i) Undertake a situational analysis of micro-finance structures existing in the different member countries of the Conference;
- ii) Establish a typology of existing structures and those to be created that are likely to substantively contribute to the reduction of poverty in the region ;
- iii) Study practices in the micro-finance sector in the difference countries in the region in terms of conditions for membership and/or eligibility, remuneration and transaction fees, conditions applicable to operations, types of funding, types of loans, areas of intervention, demand not met ;
- iv) Carry out an analysis of the functioning of the traditional financial system and the micro-finance system with a view to learning lessons to promote the latter ;
- v) Propose support measures that the Regional Micro-Finance Support Facility should adopt to promote informal micro-finance associations;
- vi) Demonstrate the contribution of the Regional Micro-Finance Support Mechanism towards women's activities given the fact that they are the most active economically in vulnerable areas, as well as the youth, in rural and urban areas;
- vii) Propose and justify financial and legal criteria that could be adopted by the Regional Micro-Finance Support Facility with a view to making national micro-finance institutions viable;
- viii) Propose strategies for ensuring that women and youths will benefit from the project, as well as demobilised ex-combatants, within the framework of DDDR activities;
- ix) Take into account the existing micro-finance institutions, rehabilitate them and consider how they could extend their activities to border areas, in the framework of the Trans-border Development Basins.

3. Consultant's Profile

The consultant should at least have a Masters in Applied Economics or Finance (financial management), solid knowledge of development issues and at least ten years experience in the fields of microfinance and development finance in the region.

He/She should also have perfect knowledge of French and English (written and spoken).

4. Activities

The consultant needs to closely work with Ministries of Economic and Financial Affairs, Central Banks, Chambers of Commerce, existing national micro-finance institutions, among others.

To this end, missions for data collection should be organised. The study should last 6 months (5 months for data collection and 1 month for drafting of the report).