

MONEY FOR THE MONEY-LESS: WHAT DEVELOPMENTS FOR MICROFINANCE?

20th November 2009 / Auditorium / 03.00pm-06.15pm

1. Cross perspectives of young people on microfinance around the world

Charlotte LEMAITRE - Asiemut (France)

Pierre-Louis COORTEL - Latitude Responsable (France)

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Guy Laurent LIPEM - Lycée technique de Nkolbisson de Yaoundé (Cameroun)

Céline RENKIN - Haute Ecole Libre de Mosane (Belgique)

Thomas RICOLFI - Reporters d'Espoirs (France)

1. Plenary session

Youssou N'DOUR - Artist and Founder - Birima, micro-credit organization (Senegal)

2. Round table

- Speakers:

Abdoulaye SOW - Director - Birima (Sénégal)

Olivier BARRAU - President - Alternative Insurance Company (Haïti)

Alou KEITA Director - CAMIDE (Microfinance & Development support center) (Mali)

Lucas PATRIAT - Epargne sans Frontières (France)

The workshop was split up in **three parts**:

- Cross perspectives of young people on microfinance around the world.
- A plenary session with Youssou N'dour.
- A round table discussion with directors of micro finance start-ups.

Cross perspectives of young people on microfinance around the world

The discussion started with **defining the main issues** that micro finance faces today. Micro finance is about offering a wide range of financial services (both savings and insurances) to those who would normally be excluded from these services. One of the most important services is the issuance of micro credits to small entrepreneurs in developing countries as well as in wealthy states. These credits have a much higher interest rate (average 26%) than those of traditional banking. This is because microfinance institutions have costs that do not occur at standard financial institutions (educating customer, follow-up, rural areas...). Even though this system is rather expensive, it seems to be working. Three main reasons can be given. First of all, this service is profitable for the banks who offer it. Secondly, people are willing and capable to pay back these loans (80% pay back rate) because there is no alternative. The final reason, which is close to the second one, is the fact that those micro credits are the only way to escape poverty and the community looks over it.

The question that needs to be asked is the following: How to give access to this

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system to all people? One thus needs to find the right mechanism.

A concrete example: a system in Cameroon where people share means and abilities. Cheating is limited because everyone knows each other. The money is gathered in a box and with the help of a priest distributed over contributors who have difficulties. Those who ask first, are the first to receive money.

The rural areas where these institutions are often set up have to deal with specific problems (climate risk, spread of population, volatility in agricultural prices, seasonality of earnings,...). Different solutions can be suggested for these problems. Diversification, adaptation to cycles, better knowledge of the activities and the sharing of the risk are solutions that can make micro finance work in these regions. In the future, the credits in rural areas will have to develop even further in order to work as efficiently as possible.

Companies with a **social purpose** often employ people who cannot find a job given the normal system and can offer commodities to people under market price. They can therefore also play a role in the microfinance story in two ways:

- Offer microfinance products themselves
- By forming a partnership with microfinance institutions

Micro finance can also play a role in developed countries. In these countries, a bottom-up approach is often used where

unemployed people can pursue opportunities. A lot of people (immigrants and often women) don't earn enough but do have good ideas for set-ups. A microfinance institution can then help with business plans, market studies, management education ... In Canada; loans under \$20.000 are available for this community at interest rates between 0%-6%. A pay back rate of 91% and success rate of companies of 61% tells the success of the story. This service is offered by 'Réseau québécois du credit communautaire.

A plenary session with Youssou N'dour

Youssou N'dour is an international recognized musician who has been called African artist of the century and has been awarded best album in the world. According to Time Magazine he also is one of the 100th most influential people in the world. His popularity and success have allowed him to develop his entrepreneurial skills and resulted in the founding of tv stations, radio, newspapers, etc. Currently, he also got involved in the Birima project together with Benetton. This project involves providing for finance in a certain region in Senegal. This credit is considered as a pact between people and the family guarantees for the repayment (the loss of family honour obliges them). This platform allows for people on the other side of the world to invest only 100€ and for the people in Birima to take loans up to 500€. In this way, young people can be obtained in the region and progress can be made. The government should support

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this system and Youssou believes that people have a right for credit.

A round table discussion with directors of micro finance start ups

Youssou N'dour founded the Birima project, named after a former king of the region who left his footprint, in 2007. He got the idea because one young man asked to loan money from him instead of just getting it without paying it back. This man wanted to use the money for a small business.

The system is based on becoming a member after you contribute so that you also have the opportunity to make a claim. The risk for not getting back the money is minimized because people know they are hurting their neighbours and not some distant company. Still, a certain government intervention is required for the poorest because these people use the money for consumption in order to survive.

Birima aims to develop the region such that young people do not have to go work abroad in order to be able to support their family at home. This immigration poses a big strain on possible development in the region since all young labour forces leave. The money they generate can be used to fuel the microfinance system and get the development cycle going. There was little trust among the local population in normal banks that work with a lot of computers, buildings, suits, etc. These aspects were seen as white people stuff which made the effective return of money and local investments even more difficult. The Birima project is based on solidarity

and educates the people to which they loan to guarantee repayment. The goal of Birima is not to make a profit but to support the community. Of course they need to make something to guarantee ongoing operations but everyone who is a member equally owns the company.

G20 countries should stimulate these projects as they provide one of the best stops for immigration as the local sectors are stimulated to develop their own communities.

Olivier Barrau is the president for the Alternative Insurance Company in Haiti. This company offers insurance products to people in rural areas, where only 1% has normal insurance. These insurances cover for:

- Economic risk (70% is street economic which is very vulnerable)
- Disasters
- Deaths

In these areas, a big funeral for the death of a family member is very important and very costly. The unexpected demise of a family member can cost up to a 2-year average wage. Thanks to insurances, people can overcome these unexpected costs so that they don't get stuck in a downwards spiral. The basic product of AIC is offered in combination with micro credits from a partner company so that if a disaster happens the loan is guaranteed and this offers more breathing room to lenders. With the help of simple information techniques (cartoons, local language, examples,...) and by building a local trust relation AIC succeeds in offering these insurances.

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Nonetheless, they faced several obstacles from false identifications to people complaining about AIC making a profit. They solved these problems by offering a flexible payment system, repaying part if you don't have an accident after 5 years, offer different types of burial and putting up a new IT system to validate ID.

AIC is a real company and therefore also strives to make a profit while offering a product that fills needs of a big 'poorer' market.

Alou Keita is the director of **Camide** which is a microfinance company located in Mali. The main issues this company faces are:

- A high temperature climate with little rain (very unpredictable harvest) and very agricultural area
- Rural population
- Lot of emigration
- A lot of money send back

All these problems became opportunities to Camide: Given the undeveloped state of the country, a lot of investment opportunities that offer a high return still lay open (irrigation, new crops, crop rotation,...). These possibilities needed financing and manpower to execute them. The necessary money was also available because of the emigration; young man working abroad and sending money back. Unfortunately, a safe system to transfer money back was not available. Banks where too expensive (transfer cost and travel cost to go and get it) and the valise system (people travelling back with briefcase of money) was often being robbed. Camide now combined all these systems to set up local branches in small

towns managed by the town itself. They provide training, consult and a structure so money gets back in a safe and cheaper way. This allows the communities to hand out their own loans and handle the towns' money flows. Again, no material guarantee is present, however because there are community offices, there is a big moral obligation to pay back.

Given all the merits to the different offers of financial services to people who fall out of the scope of normal banks (too small, no guarantee, etc) there are still people who fall out of the scope of micro finance. These are the poorest of the poor that would utilize the loan for consumption and would never be capable to repay their loan. Even the most social microfinance companies don't loan to these people. NGO's and the government should be the first to support these people.

Conclusion

During the plenary session, it became clear that Micro finance exists in different forms all over the world. Even though there are still some issues that need to be addressed, the concrete examples that were given during this session show that microfinance can really work. However, a critical note should be made: the micro finance examples only work because some supplementary services and conditions such as training, follow-up, moral obligation, etc. are put in place. If anyone should wish to set up a micro finance system, it would be good to have a look at the best practices that are already available and think about supplementary services and conditions to make sure that

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the micro finance system set up will really
work.