

Social Funds Innovation Update

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Holding the Door Open: Facilitating Access to Microcredit in the Benin Social Fund

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“Before receiving the loan, we were dependent on our husbands for all our expenses. Now that we have a small business, we pay our own expenses and even buy pants for our husbands”
(Members of a women’s group in Kandi, Benin).

The Benin Social Fund

The Benin Social Fund project is a \$16.7 million project that began operating in 1998 to support community-level infrastructure and services, capacity building and income generation activities. An income-generating activity component has been a particular success. As a result of this component, in the eighteen months since project launch, 38,000 poor farmers have become members of savings and credit cooperatives, 17,000 savings accounts have been opened by beneficiaries and more than 23,000 people have received small loans. Over 80% of beneficiaries have been women.



Background

Benin is a small, low-income country in West Africa. It has a population of 6.3 million and a per capita income of \$380. In the early 1990s, Benin began to emerge from a long period of Marxist military rule and, in 1992, the Government adopted a *Social Dimension of Development*

program to respond to popular pressure for reforms. In June 1994, the Government requested that the Bank assist with the promotion of community driven development. The social fund project emerged as a response to both the Government request to support the *Social Dimension of Development* program and the Bank’s own poverty reduction strategy for Benin.

Box 1: The Benin Social Fund at a Glance

Benin Social Fund is implemented by Agence de Financement des Initiatives de Base (AGeFIB), an entity that was established specifically to manage the project. The Project has three main components:

1. Small socio-economic infrastructure at the community level (\$7.7 million). In the infrastructure component, communities decide on priority needs and apply to AGeFIB for financing, either directly or with the assistance of local NGOs. By the time of the mid-term review in June 2001, the community infrastructure component had achieved almost 80% of the target for the entire project and field assessments revealed a high degree of beneficiary satisfaction.
2. Support to income-generating activities through financial intermediation (\$4.2 million).
3. Capacity building for grassroots communities and civil society (\$1.6 million). The capacity building component has been less successful, mostly because demand has to be stimulated (communities are much more likely to identify the need for infrastructure than for a skill). However, disbursements on capacity-building have increased substantially in the last 12 months.

Box 2: To Microcredit or not to Microcredit

During project preparation, all levels of society indicated that lack of access to credit was a major problem for poor people. At the same time, there was reluctance to put in a micro-credit component, as an assessment of this type of component in social funds had yielded mixed results. The Bank's financial specialists working on Benin felt that there was sufficient liquidity in the country and the real problem was linking the poor to the available credit. The Bank was already supporting the Second Rural Credit Project, providing technical support to a national association of cooperative savings and credit societies to increase the availability of credit. Nonetheless, the Government, having identified microcredit as a priority, was keen to have microcredit activities in the AGeFIB as well.

To balance these somewhat conflicting points of view, the project team decided to develop financial intermediation services for low-income groups, without providing the actual credit. To take into account the heterogeneity of institutions involved in microfinance at the time, the unequal distribution of financial services in the country (especially urban/rural) and the characteristics of different types of clients, the microfinance component was divided into three sub-components, two dealing with formal financial systems, the other with informal ones.

Working with Formal Financial Systems: Social Intermediation

How it works. Poor people have trouble accessing credit due to geographic and social distance, illiteracy and lack of information. This sub-component helps fill these gaps. A number of formal institutions were already involved in microfinance and expressed interest in collaborating with AGeFIB, the NGO established to manage the social fund activities. They agreed that AGeFIB would facilitate access by the poor to these formal systems through selected intermediaries (NGOs and private firms). Intermediaries were selected in a competitive process with successful microcredit experience being the primary qualification.

AGeFIB and the intermediaries identify suitable formal financial institutions operating in a given area, negotiate a collaboration agreement with them, conduct information and outreach campaigns (e.g., explanation of services available and ways to access such services), and assist prospective clients in making contact with the institutions, opening an account and obtaining credit.

Intermediary NGOs may literally take prospective clients by the hand, helping them bridge the geographic and social distance that separates poor farmers from banks, explaining procedures and helping them fill-out the required paperwork. As part of the agreement, formal financial institutions participate in promotion activities, offer products appropriate to the needs of disadvantaged

groups (especially women), organize itinerant (mobile) banking services, simplify procedures if needed, and facilitate monitoring and evaluation by providing timely information. In addition, AGeFIB, the intermediaries and financial institutions negotiate arrangements for follow-up services to ensure high repayment rates.

Results. This sub-component has worked very well. At the time of the mid-term review, over 4,200 informal savings groups had been put in contact with formal financial institutions (the target at project completion was 2000). Over 80% of beneficiaries have been women. The average size of a credit is 32,000 Benin CFA Franc (Franc de la Communauté Financière Africaine) or about \$50.

The project has been able to fill a gap between poor households and formal credit sources. Critical for the success were the already-existing formal credit organizations that offered financial services relevant to the needs of poor groups. In Benin, the largest credit group was running a program called Small Credits for Women that used group-based lending appropriate for the poorest households, but the credit group did not have the capacity to reach many poor communities. AGeFIB, through its intermediaries, was able to bridge this divide.



Working with Informal Financial Systems: Institution Building

How it works. During the preparation of the poverty assessment, it became clear that, although access to formal finance services was very limited, many poor people had access to informal financial systems, such as rotating savings and credit clubs (*ontines*), communal savings and credit groups, and itinerant private bankers. However, these informal financial systems were restricted in their impact by lack of capital and low skill levels. AGeFIB therefore finances institutional development assistance to informal financial systems delivered by carefully selected intermediaries (NGOs and private consultants). Such assistance takes two forms, and is generally delivered in sequence: (1) training and consulting services to improve

the efficiency and safety of operations, and (2) provision of matching funds to allow for an increase in the credit portfolio, and therefore outreach, while at the same time stimulating savings (because the funds match what is raised from savings).

Criteria for selecting informal financial systems include: years of successful operation, membership (number and gender), accounting procedures and discipline, savings mobilization, and credit repayment rates. Matching funds are made available on a limited basis, with the ultimate purpose of preparing receiving organizations to gain access to commercial sources of funds. All assistance provided to informal financial systems is in the form of grants, contingent on performance.



Results

At the time of the mid-term review, 89 informal financial systems had received technical assistance and 18 had received matching funds averaging slightly over \$1500 per group. While the number of groups given technical assistance was larger than anticipated, the number of groups receiving matching grants was significantly smaller. This was due to the difficulty in finding NGOs with the requisite skills and to the low level of technical skills in the informal financial systems. The skill level required to help these informal groups was higher than expected because each group needed an individually tailored set of training activities. Capital turnover increased in groups given assistance and group members cited increased control over their own finances as a primary benefit of participating.

Some of the informal groups experienced exponential growth as their capacities increased, encouraged by AGeFIB and the intermediary NGOs. However, it became clear that rapid growth sometimes worked against the social bonds that had caused the informal groups to be successful and that the project's vision of the informal groups continually expanding did not match the group member's vision of a better functioning informal system with more or less the same membership in which they felt

more in control. In some cases, after rapid expansion, groups decided to reduce their membership to a slightly expanded core group. Although this went against the project's objective of increasing the size of informal groups, AGeFIB wisely accepted their decision.

Lessons Learned

❶ **Expertise on microfinance is hard to find.** AGeFIB had trouble finding qualified NGOs and some that appeared qualified on paper did not perform up to standards. As a result, the turnover rate for NGOs working in microfinance has been much higher than for those working on infrastructure. In some cases, NGOs with qualified personnel did not put those people in the field and instead used less qualified and poorly remunerated staff. AGeFIB has had to make contracts with NGOs more explicit in terms of the qualifications of the field staff and in terms of the salary of the field staff to ensure that quality work is performed.

❷ **Intermediation only works where credit is actually available in a form usable by the target population.** Over the course of the past two years, the amount of credit available to poor people has declined. The largest credit and savings association has had severe liquidity problems and many local branches have stopped giving credit. This has had an impact on the credibility of AGeFIB and its intermediary NGOs. In addition, many formal credit associations do not want to offer small loans to poor people. The Government has been pressuring AGeFIB to shift from social intermediation to providing credit itself.

❸ **Sometimes people know better than experts.** Despite the insistence of financial and banking experts that there was no liquidity problem in Benin, and therefore no need for a credit line, it turned out that our local informants were right in insisting that funding for credit was part of the solution. While including a credit line in the project might have been too complicated, the situation described above points to the fact that listening to the communities can validate (or invalidate) "expert" opinions.

❹ **Adjust targets to focus on what is important to the beneficiaries.** While the project has numerical targets for monitoring progress, the primary impact most frequently mentioned by beneficiaries was one of empowerment. Beneficiaries mentioned that having more control over their lives or being less dependent on spouses, moneylenders, or strangers was what they appreciated most. When project targets such as increasing group size worked against the beneficiaries' own target of increased empowerment, the social fund supported the beneficiaries and agreed to keep the group size the same.

Box 3: Gender Issues in the AGeFIB

The gender impact study of the Benin Social Fund sought to identify who participated and how in the community driven projects and what were the gender impacts of both the projects (infrastructure and microcredit) and the processes (management committees and microcredit groups) initiated by the Social Fund.

“*Fetani*” (Leaving Our Shame), “*Unity is Power*” and “*Tomorrow Will Bring Prosperity*” are all names of microcredit *groupements* supported by the AGeFIB Social Fund in Benin. The names illustrate participants’ goals of providing a base for both individual and collective economic and social advancement and point to the dynamism that underlies many of the projects. Ranging in size from 14 to 70 members, access to small loans has allowed many participants (80% of whom are women) to increase their activities and invest profits in children’s education and healthcare access. In several cases, the gender impact study found that *groupements* had created their own systems of health insurance with explicit rules regarding appropriate beneficiaries and repayment schemes.

Gender issues were found to be important in the microcredit projects. Because of the legal code which denies women the right to own land and pass it on, *groupements’* abilities to invest in fields were limited. Likewise, the ability to own the land upon which storage structures could be constructed were also viewed locally as limitations on expansion of activities.

Specific Benefits

Interviews with local participants in AGeFIB projects described many positive impacts of the project. First, and foremost, is that the projects actually do materialize and they do so quickly. Driving the length and breadth of the country, it is clear that numerous schools, clinics, markets and latrines have been built with community participation in the past three years. This has helped participants to believe in the process of community driven development initiated by AGeFIB and to feel as if the systems initiated might be useful for other endeavors as well.

For women involved in the microcredit scheme, participants focused on the following benefits as a result of their involvement:

- **Greater control of assets and resources has led to decision making roles.** Women’s access to regular income from their personal activities has allowed them to take greater control of decisions within the household and the community. Many participants now pay for school supplies for their children, healthcare and medication without having to first ask their husbands. In addition, many women’s groups have used collective profits to construct village storage facilities or other communal assets.
- **Voice within the home and community and greater autonomy.** Many participants commented on their increased voice in the household and community as a result of their successful personal activities
- The AGeFIB program has allowed participants to **enhance their activities**, begin new activities and especially to think beyond the confines of their local markets. Many participants described their desire to reach larger regional markets, create new commercial relations and construct storage facilities so that they could command greater prices during seasonal market fluctuations. At the same time as participating in the AGeFIB microcredit opportunities, participants have maintained various *tontines* in their communities. These have served as financial safety-nets for emergencies and as a kind of delayed investment scheme. The two systems seem to function well together.
- Several of the microcredit groups interviewed had already begun **creating apprenticeship roles for young girls**. This allowed mothers to expose their daughters to the training, record-keeping and solidarity needed to run a successful group.

For more information on the “Holding the Door Open: Facilitating Access to Microcredit in the Benin Social Fund,” contact John Elder at (JElder@worldbank.org) and Maurizia Tovo at (Mtovo@worldbank.org).



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