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Madagascar: Savings and Loans

The first savings and loan associations (SLAs - mutuelles d'épargne et de crédit) were established in Madagascar in 1993 under a pilot project supported by the World Bank. By the time the project closed in December 1997, 54 SLAs had been established in four regions, Toamasina, Lac Alaotra, Fianarantsoa and Haute-Mania, and they had started to group themselves into regional unions.

Impact

- As of September 30, 1997, total membership was 11,289 (37 percent were women).
- Deposits totaled around US\$280,000, and the average deposit size was US\$25.
- Total credit outstanding was approximately US\$81,000, all short-term loans primarily for agriculture activities and trade. The average loan size was about US\$132 (about half of Gross Domestic Product per capita).
- Repayment rates were high, ranging from 96 percent to 97 percent.
- In September 1997, the outstanding loan portfolio of SLAs accounted for 29 percent of members' savings. This, combined with low savings levels, resulted in a pent-up demand for credit that was partially alleviated by external lines of credit. To foster linkages with the banking sector and strengthen their capital funds, the SLAs entered into tripartite contracts with donors who extended lines of credit and with BTM, the national agricultural bank, which intermediated the lines of credit for a small fee. The whole process was tightly managed.

Lessons Learned

The lessons learned from this pilot project are being factored into the preparation of the follow-up project.

- The main lesson is that it takes more effort to maintain and develop Microfinance Institutions (MFIs) than to create them.
- After the passing of the initial legislation (in this case Law 96-020 in September 1996) setting the stage for a favorable development of SLAs, it is important that the government quickly approve follow-up decrees regulating the creation and activities of all categories of MFIs.
- The enthusiasm of donors to provide assistance in microfinance and the lack of readiness of the government to receive it resulted in duplications and contradictions. These can be avoided in the future by a well-defined national strategy on microfinance.
- It is unrealistic to expect MFIs to grow overnight into established microfinance institutions. An appropriate and consistent training program for all stakeholders (supervisors at the Commission de Supervision Bancaire et Financière, managers and salaried staff of MFIs, their leaders and beneficiaries) backed by an adequate budget is critical for the consistent development of the MFIs.
- Until the financial management of SLAs has been more thoroughly understood, a cautious approach must be taken towards granting credit.
- To progress towards self-sustainability, MFIs must also move into urban areas where population density helps to lower the costs of delivering financial services and where savings can be more readily mobilized to support growth.
- The preliminary success of the SLA networks was due to the following factors:
 - equal focus on credit extension and deposit mobilization;
 - decentralized decision-making;
 - simple procedures and flexible approach adapted to local specificities; and
 - limited and closely supervised use of external lines of credit.
- Improvements are needed in several areas, mainly pertaining to:
 - standardized accounting systems, financial reporting, internal and external auditing;
 - appropriate and consistent training for stakeholders at all levels;
 - innovative solutions to reach people in remote areas (e.g. mobile banking); and
 - regular information campaigns throughout the country.

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