Assessing the Viability of a Rural Microfinance Network The Case of FONGS FINRURAL

AGAÏ, Oniankitan Gregoire

2012

UNIVERSITÉ LIBRE DE BRUXELLES, UNIVERSITÉ D'EUROPE

MASTER'S THESIS

Submitted in partial fulfillment of the requirements for the degree of Master Complémentaire Conjoint en Microfinance (European Microfinance Programme)

Assessing the Viability of a Rural Microfinance Network: The Case of FONGS FINRURAL

By *Oniankitan Grégoire AGAÏ*

Supervisor: Mr. *Kurt MOORS*
Assessor: Professor *Marijke D'HAESE*
Internship organization: Fédération des Organisations Non Gouvernementales du Sénégal

Academic year 2011-12

UNIVERSITÉ LIBRE DE BRUXELLES, UNIVERSITÉ D'EUROPE

MASTER'S THESIS

Submitted in partial fulfillment of the requirements for the degree of Master Complémentaire Conjoint en Microfinance (European Microfinance Programme)

Assessing the Viability of a Rural Microfinance Network: The Case of FONGS FINRURAL

By *Oniankitan Grégoire AGAÏ*

Supervisor: Mr. *Kurt MOORS*
Assessor: Professor *Marijke D'HAESE*
Internship organization: Fédération des Organisations Non Gouvernementales du Sénégal

Academic year 2011-12

Dedication

This thesis is dedicated to:

my daughter Eyitayo Hillary Stella Achène

her grand brother Yamontè Donald

their mum, my spouse Yaba Fousséna Sandrine-Ruth

my mother Rose

my father Dominique

Foreword

The present study was effectuated in conditions of MFIs professionalization in West African countries. This region is peculiarly renown as holding a relatively impressive number of savings and credit cooperatives and unions. The current regulation in UMOA zone avoids the use of the term MFI. Throughout this paper, the terms DFS, savings and credit cooperatives, savings and credit mutuals, savings and savings associations will be used interchangeably.

The findings, interpretations and conclusions uttered in this thesis do not necessarily reflect the orientation of the Université Libre de Bruxelles or the Fédération des Organisations Non Gouvernementales du Sénégal.

Acknowledgments

Foremost, I thank God, the Divine Maker and the Almighty for his mercy and for his love toward me. May his Name Thrice Holy be blessed and glorified everywhere and forever.

I am grateful to the Commission Universitaire pour le Développement (CUD) which provided me full scholarship to pursue this programme. It was for me a great and special opportunity to meet and share with various and diversified nationalities and intelligences.

In the same vein, I am grateful to Mr. Kurt Moors, my thesis supervisor, who provided me all the advices and comments in order to perform this work. I am grateful to him for providing me the Echos© tool of Incofin for the social performance analysis.

I am also grateful to Mr. Axel de Ville with whom I had my first temptations for identifying the topic and writing the first proposal and bibliography. I thank him for orienting me in a good manner possible in order to obtain good results.

I am fully indebted toward all my EMP teachers for providing me insights on the microfinance field and for opening my mind on critical issues in the industry and challenges for future.

I am sincerely grateful to all my managers for allowing me to follow and complete this course. May each of them sees through this thesis the product of their work.

I am grateful to SOS Faim for providing me the internship within the FONGS. Particularly I thank François Cajot for his solicitude.

I am grateful to the FONGS, my host institution for accepting me and providing me useful information regarding the goals of this thesis. Particularly, I am grateful to Habidine Sow, Aïcha Faye, and Masse Gnigue with whom I spent marvellous moments in Thiès.

I cannot forget the camaraderie of all the EMP students with whom I followed the programme. Particularly I wish to mention Li, Firog, Muluneh, Luhana, Peter, Roopa, Charleine, Sonia (mi capo), Victoire (my twin in Senegal), Marie, Davide (my class neighbour), Natalia, Tomas, Alicia, Hervé, Pierre, Maxime, Selassie, Le, Marco, Patrick (the American), Fatimata, Stephane, John, Gabrielle etc.....

I thank all my parents, relatives and friends who supported me during my stay in Brussels.

How can I forget you Fousséna, Stella and Donald for your sacrifice? I am fully aware that it was not easy; but if I have reached the goal, it is mainly due to your love and your perpetual support. Thank you for you love, your support and the sacrifice.

EXECUTIVE SUMARY

The present thesis endeavours to assess the viability of the FONGS FINRURAL, a nascent network of 09 rural savings and credit cooperatives in Senegal. More specifically it strives to measure first how the social and financial performance and the governance vary among the network affiliated organizations, and second to what extent all this aspects in each MFI could affect the viability of the network.
For cause of data availability, the research was carried on 7 out of the 9 affiliated MFIs.

The methodology has consisted first in the exploitation of financial reports, financial statements, business plans, manual of procedures, minutes, reports and any kind of internal documents seeming useful and second in visits at basic affiliated associations and client information.

Four data collection tools were used: the factsheet of financial assessment devised by BRS and ADA, the ECHOS© tool of social performance assessment of Incofin, version 2012, the aggregated index of governance grid, and specific interview grids to each MFIs based on their financial and social performance recorded and on their governance score as well.

Financial data were collected over four years (2008-2011), while social and governance data were a snapshot of the MFIs as of may-august 2012.

Different descriptive statistics were used for comparisons. The coefficient of correlation rho of Spearman was used to make links between financial performance, social performance and governance.

It comes out from the peer group analysis that the membership of the entire seven MFIs, dominated by women (50%), is growing over years with an average of 23% sharply higher than that of the country (8.7%). This trend presents however some specificities pertaining to each MFI.

In the same vein, the network records an increase in savings collection which is however concentrated within 02 MFIs (29%) which contributed for 54% of the total deposit of the entire network in 2011. If for the first MFI (CREC of Méckhé), the situation is due to the involvement of its groups membership, the second (MEC of

Tattaguine) owes its records to its savings policy mainly based on high rate of compulsory savings (33%) as requirement for loan application.

Regarding the credit delivery, it appears that except ordinary loans, most of the loan products catered for are seasonal or working capital loans and investment loans (more than one year) with bullet repayment albeit variability in the loans maturity.
To provide such credit products, MFIs rely on three main sources: the deposits, the borrowings and their equity. Most of the MFIs provide their loans from the member's deposits and tend to report improvement of their leverage except the MEC of Dakar and that of Malicounda.

Overall, all the MFIs loan portfolios are growing with an average growth rate of 17% except the CREC of Méckhé which faced a decrease in its portfolio of about 47% over the four years. However this MFI still records the highest gross portfolio amount compared to the others.

Nevertheless, the growth in portfolio is facing also a growth in portfolio at risk 180 days for all the seven surveyed MFIs meaning some weaknesses in the loan portfolio management.

In contrast to the PAR, some improvements are reported in operating expenses ratios which were roughly fewer than 20% except at the MEC of Dakar which mostly recorded OER over 40% in 2011 and at the MEC of Malicounda with about 90% in 2009.

As consequence, the OSS of the entire 07 MFIs was appreciable between 2008 and 2010 (127%-148%) but dropped down to 88% in 2011 due to high operating expenses at the MECs of Tattaguine and Pékesse.

The results also reveals that albeit claiming to be social oriented MFIs, the entire MFIs lack adequate tools, information and indicators to track and to prove that they are putting into practice their social mission, which often was not clearly stated. Based on the ECHOS© scale, it appears that the MFIs recorded low social performance in general (55%) but seemed to get better score in access and outreach and customers services, while social mission, human resources and social responsibility are lessened.

Regarding the governance, the score reveals some acceptable governance (62%) however with some differences between institutions.

The results of linkages between financial performance, social performance and governance reveals no trade-off between financial and social performance, rather it reveals significant synergies between governance and social perform, and between OSS and human resources.

All these results prove that rural microfinance institutions, rather rural microfinance network can be viable. It is just a matter of more governance, more discipline in procedure and more reportage of required information.

RESUME EXECUTIF

Le but du présent mémoire est d'évaluer la viabilité du réseau FONGS FINRURAL, un réseau en construction de neuf mutuelles d'épargne et de crédit exerçant en milieu rural sénégalais. Il vise d'une part à apprécier la variabilité entre les différentes mutuelles du réseau en ce qui concerne la performance financière, la performance sociale et la gouvernance ; et d'autre part à apprécier la contribution de chaque mutuelle à l'atteinte des objectifs de viabilité du réseau.

L'approche méthodologique a essentiellement consisté en d'une part l'exploitation des états financiers, des plans d'affaires, des rapports et procès verbaux ainsi que de tous documents jugés utiles pour notre étude ; et d'autre part en des visites de terrains au niveau des mutuelles à la base couplées d'entretien avec le personnel et les membres usagers.

L'unité d'observation est constituée de 7 sur les 9 mutuelles affiliées au réseau faute de disponibilité des données et de fonctionnalité de deux mutuelles.

Les données ont été collectées à l'aide de quatre outils principaux : le factsheet d'évaluation de la performance financière des institutions de microfinance élaboré conjointement par BRS et ADA, l'outil ECHOS© d'Incofin pour l'évaluation des performances sociales (version 2012), la grille de l'indice agrégé de gouvernance et les guides d'entretien élaborés spécifiquement au niveau de chaque mutuelle en fonction des différents résultats obtenus sur le plan des performances financière et sociale ainsi que sur le plan de la gouvernance.

Les données financières ont été collectées sur les quatre dernières années (2008-2011) alors que les données inhérentes à l'évaluation de la performance sociale et de la gouvernance présentent l'état actuel des mutuelles dans ces domaines.

Différentes statistiques descriptives nous ont permis de faire des comparaisons. Le coefficient de corrélation de Spearman nous a permis d'apprécier les synergies et les compromissions qui peuvent exister entre les trois aspects de la viabilité.

Il ressort de l'analyse entre les IMFs que le sociétariat essentiellement dominé par les femmes (50%) est en pleine croissance avec un croît moyen de 23% nettement supérieur au croît moyen de l'ensemble du pays (8.7%) dans le domaine avec toutefois quelques spécificités selon chaque mutuelle.

Dans le même ordre d'idée, il a été enregistré une augmentation de l'épargne mobilisée qui est toutefois concentrée au niveau de deux mutuelles (29%). Ces deux mutuelles détiennent à elles seules 54% de la totalité de l'épargne mobilisée par l'ensemble des mutuelles. Si pour la première mutuelle (la CREC de Méckhé) la situation est due à la forte implication des groupements sociétaires, tel n'est pas le cas au niveau de la seconde mutuelle (MEC de Tattaguine) qui doit sa position à sa politique de mobilisation de l'épargne axée sur l'épargne nantie et l'épargne obligatoire de près de 33% comme condition indispensable pour l'accès au crédit.

En ce qui concerne donc l'octroi du crédit, les principaux crédits octroyés sont des crédits de campagne et des crédits d'investissement à une seule échéance de remboursement, en dépit de la variabilité dans la durée des prêts. Ces crédits sont octroyés à partir de trois sources de financement : les dépôts ou épargnes des membres, les prêts et le capital social. La plupart des crédits sont octroyés à partir des dépôts entraînant ainsi une baisse de l'effet levier du fait de l'augmentation du capital.

Dans tous les cas, on assiste à une forte croissance du portefeuille de crédit au niveau de l'ensemble des mutuelles avec un croît moyen de 17% l'an à l'exception de la CREC de Méckhé qui, tout en détenant le portefeuille de crédit le plus élevé, a subi une baisse de croissance de l'ordre de 47% sur les quatre années écoulées.

Cette croissance du portefeuille de crédit est malheureusement associée à une croissance du crédit en souffrance après 180j. Ceci est observable au niveau de l'ensemble des mutuelles (avec toute fois quelque légères différences), conséquence des difficultés de gestion du crédit.

A l'opposé du portefeuille en souffrance, des améliorations notables sont enregistrées au niveau du ratio des dépenses opérationnelles avec un taux globalement inférieur à 20% à l'exception d'une part de la mutuelle de Dakar qui a enregistré un ratio de 40% en 2011 et de la mutuelle de Malicounda avec un ratio de 90% en 2009.

Ainsi l'ensemble du réseau affiche une autosuffisance opérationnelle acceptable entre 2008 et 2010 (127%-148%) mais qui a néanmoins été affectée de façon négative (88%) par les dépenses opérationnelles des mutuelles de Pékesse et de Tattaguine en 2011.

Les résultats révèlent par ailleurs que malgré la revendication des mutuelles d'avoir des approches sociales, elles manquent d'outils adéquat, d'information et d'indicateurs pertinents pouvant permettre d'apprécier l'efficience de la mise en application de leur mission sociale qui d'ailleurs n'est pas souvent clairement définie. Les résultats obtenus à partir de l'outil ECHOS© affichent d'ailleurs que l'ensemble des mutuelles a une faible performance sociale (55%) même si certaines percées sont enregistrées au niveau de deux dimensions : l'accès et le taux de pénétration ainsi que les services aux membres.

Sur le plan de la gouvernance, il ressort que les mutuelles présentent globalement une gouvernance appréciable (62%) avec néanmoins de grandes variations entre elles.

Le test de corrélation de Spearman entre les trois dimensions montre l'absence de compromis entre la performance social, la gouvernance et la performance financière. Il révèle par contre des synergies significatives entre la gouvernance et la performance sociale d'une part et entre l'autosuffisance opérationnelle et les ressources humaines d'autre part.

L'ensemble des résultats prouvent enfin que les institutions rurales de microfinance, mieux les réseaux ruraux de microfinance peuvent être viables. Il s'agit d'une question de gouvernance, de plus de discipline dans les procédures et de plus de capitalisation de l'ensemble des expériences en microfinance et ceci en relation avec les informations requises dans le secteur.

TABLE OF CONTENTS

LIST OF ABBREVIATIONS, SIGLES AND ACRONYMES

ACAPES	:	Association Culturelle d'Auto Promotion Educative et Sociale
ADA	:	Appui au Développement Autonome
AFD	:	Agence Française de Développement
ARAF	:	Association Régionale des Agriculteurs de Fatick
ASESCAW	:	Amicale Socio-économique Sportive et Culturelle des Agriculteurs du Walo
BRS	:	Belgian Raiffeisen Foundation
COPED	:	Coopérative des Groupements de Producteurs et Eleveurs du Delta
COPI	:	Comité de Pilotage
CPEC	:	Caisse Populaire d'Epargne et de Crédit
CREC	:	Coopérative Rurale d'Epargne et de Crédit
FONGS	:	Fédération des Organisations Non Gouvernementales du Sénégal
FONGS FINRURAL	:	Réseau FONGS Finance Rurale
GTZ	:	Deutsche Gesellshaft für Technische Zusammenarbeit
MFI	:	Microfinance Institution
Inter CREC		Réseau de Coopératives Rurales d'Epargne et de Crédit
MEC	:	Mutuelle d'Epargne et de Crédit
MFR	:	Maisons Familiales Rurales
MECSAPP	:	Mutuelle d'Epargne et de Crédit de la Solidarité pour l'Auto - Promotion Paysanne dans l'Arrondissement de Tattaguine
SAPPATE	:	Solidarité pour l'Auto - Promotion Paysanne dans l'Arrondissement de Tattaguine
SOS FAIM	:	Development Belgium and Luxembourg Non Governmental Organization fighting against hunger and poverty in rural areas in Africa and in Latin America
UGPM	:	Union des Groupements de Producteurs de Méckhé
UGPN	:	Union des Groupements des Producteurs des Niayes
UMOA	:	Union Monétaire Ouest Africaine

LISTE OF FIGURES AND TABLES

CHAPTER ONE: INTRODUCTION

1.1 Problem statement

For the last two decades, the (West) African Region has been experiencing a drastic growth in the microfinance industry (Périlleux, 2010). This growth is mainly characterized not only by the creation of numerous and various microfinance institutions (MFIs) from savings and credit groups to non-bank microfinance institutions, but also by a tremendous growth in term of beneficiaries (Lafourcade, Isern, Mwangi & Brown, 2005; Labie & Périlleux, 2008).

Whereas some of these MFIs are registered and even licensed, many others still operate informally, leading to serious deficiencies and crises in the industry. One of the most recent cases is that of ICC-Services[1] and kinds in Bénin where more than 161 billion CFA were unfortunately robbed from public depositors (BAfD, OCDE, PNUD and CEA, 2011). In order to avoid such problems, the UMOA (*Union Monétaire Ouest Africaine*)[2], a West African monetary institution, had previously refined the legal environment of the *Systèmes Financiers Décentralisés (SFD)*[3] by reviewing the PARMEC[4] law in April 2007.

The Republic of Senegal was the second country of UEMOA that adopted the new law in 2008 with the appellation of law 2008-47.

One innovation in the new law is the withdrawal of Savings and Credit Groups and the necessity for basic mutuals and cooperatives to federate into unions or networks. The basic idea was to improve the microfinance industry management and make a better follow up of the MFIs. Secondly, it aimed at improving the implementation of good practices among MFIs, thus helping them to perform both socially and financially.

FONGS, a farmers' organization in Senegal decided to set up a savings and credit unions network for its members in order to facilitate their access to financial services. Those savings and credit mutuals, have started with the process to get in line with

1 Investment Consultancy and Computering
2 West African Monetary Union
3 In West African countries belonging to the UEMOA, are called "Systèmes Financiers Décentralisés" or "Decentralized Financial Systems" all the institutions that aim at providing financial services to people who don't usually have access to bank and others regulated financial institutions.
4 Programme d'Appui à l'Application de la Réglementation des Mutuelles d'Epargne et de Crédit.

the new regulation. However, the network is not regulated yet. With regard to all the problems savings and credit unions or mutuals are facing particularly in Western Africa, it seems very important, before going further in the licensing process, to assess whether those mutuals are currently viable.

The viability issue appears important in the microfinance industry since MFIs need financial resources to continuously and sustainably provide financial services to their clients or members. To come up with this situation, MFIs use various strategies to sustain their financial resources through the minimization of operating expenses, a better financial management and good administration (Ben Soltane, 2012). As these strategies are not sufficient, MFIs need to intermediate additional resources from commercial banks, they also need assistance from donors. However, with the global financial crisis, international funds are becoming scarce and difficult to capture. Thereafter the rational becomes that financial support should be granted to MFIs holding the expected capacity of absorption and implementing governance and management mechanisms (Hudon, 2007). Therefore, MFIs have the challenge to build confidence and trust to attain their own financial sustainability, and design adapted financial mechanics to attract funds, helping them to realize economies of scale (Ben Soltane, 2012). These confidence and trust might be built if MFIs are viable, socially and economically.

The present thesis which is the result of the research effectuated in the framework of our complementary master in microfinance endeavours to give some insights about that viability issue especially within a rural microfinance network.

In this first chapter we raised up the viability issue of MFIs involved in a networking process regarding the new legal requirements within UMOA region and objectives of the study as well.

In the second chapter we presented through a literature review an overview of the current mainstreams regarding financial and social performance of MFIs, the synergies and trade-offs highlighted by scholars and practicians. Likewise, we presented both the research questions and the methodology approach used.

The third chapter depicted the microfinance industry in Senegal, the new regulation and networking dynamics.

The chapter four pinpointed the FONGS FINRURAL network as the main object of the study pertaining to operations' areas, membership along with financial products delivery and funding structure.

In the chapter five we deepened our study on the performance analysis. First we strived to assess the financial performance through four main dimensions. Secondly we discussed about the social performance and the governance issue. We tried also to build a link between financial performance, social performance and governance. Then we made a global analysis about all the results obtained.

In the chapter six we made a global synthesis of the research, the main lessons learned and the challenges for future.

1.2 Objectives

The ultimate objective of this research is to assess the viability of FONGS FINRURAL network. More specifically, this research aims at:

- Assessing the financial and social performance of FONGS FINRURAL network and its affiliated associations;
- Assessing the governance of the associations affiliated to the network as well as of the network.

At the end of this study, FONGS FINRURAL and its partners are aware of the performance of the network as well as its strengths and weaknesses. Thus, relevant decisions for a better sustainability can be taken and implemented.

CHAPTER TWO: REVIEW OF LITERATURE, RESEARCH QUESTIONS AND METHODOLOGY

2.1 Review of literature

Throughout this section, we provide conceptual explanation of key terms used for a better apprehension of the thesis. The section is divided in two parts: the foremost focuses on the main dimensions of viability, the second focuses on social viability and governance.

2.1.1 Main dimensions of viability: financial and social performance

2.1.1.1 Financial performance

Financial performance is commonly defined as the measure of efficient utilization of assets by a company to create revenue. It can be also viewed as a general appraisal of a company's financial statement over time, and accordingly can help analyze identical companies inside the same industry or compare aggregated industries or sectors[5]. Though there are many financial indicators in finance sector many practitioners and scholars (Mersland, Randoy & Strom, 2010; Kumar, 2011) usually focus on Return on Assets and Return on Equity.

Mersland, Randøy & Strøm (2010) used indicators such as Return on Assets (ROA), Operational Self-Sufficiency (OSS) and Financial Self-Sufficiency (FSS) to assess the financial performance of microbanks. They found that most of the microbanks in their survey were not financially self sufficient even though they could meet their obligations.

Nevertheless, while in bank sector the financial performance is usually measured through the ratios above mentioned, the trend in microfinance is to include on top of them others indicators enabling a better understanding of the specificities in this industry. These indicators include the interest rate, the arrears or the repayment rate, the level of activities, the aptitude to collect savings, the financial and operational costs, the level of client oriented priority, the expansion costs etc (ACDI, 1999 quoted by Diao, 2006).

[5] http://www.investopedia.com/terms/f/financialperformance.asp#ixzz1qy3HGaL3

Moreover, BRS[6] and ADA[7] used the financial performance indicators proposed by von Stauffenberg, Janson, Kenyon & Barluenga-Badiola (2003) and Barres et *al*. (2006) to elaborate a factsheet helping at assessing MFIs' financial performance. The latter seems relevant for out study.

2.1.1.2 Social performance

Social performance is widely perceived as the effects of an organization on the social life of its clients. It refers to the internal relations between an institution, its employees and others stakeholders with whom it interacts (Lapenu, Zeller, Grelley, Chao-Béroff & Verhagen, 2004). On the other hand, social performance refers to the effective application of the social mission of an organization (Dewez & Neisa, 2009; IFAD[8], 2006). In microfinance, social objectives usually include the bread and the depth of outreach, the adequacy of the services to the needs of clients as well as the quality of those services, the outcome for the clients and their social networks, the commitment of the MFI vis-à-vis its staff, its clients and its environment (IFAD, 2006).

Mersland, Randøy & Strøm (2010) used the outreach with three criteria as a proxy to social performance or mission: the outreach to the poorest, the outreach to women, and the outreach to rural areas.

However, for IFAD (2006), social performance is not only limited to the measurement of objectives and outcome. Social performance is also concerned with actions and measures used by an MFI to obtain those results. Basically, social performance is about how well MFIs give themselves the means for their social mission. The aim is to determine whether the MFI gives itself the means to reach its social goals by tracking improvement towards the latter and understanding how to use the information to make improvements in its operations.

Many tools exist in the industry for a better understanding of social impact among which the Social action developed by Accion International, the ECHOS© designed by Incofin, The Social scoring tools presented by specialised microfinance institution, and the Social Performance Indicator developed by Cerise (Dewez & Neisa, 2009).

[6] Belgian Raiffeisen Foundation
[7] Appui au Développement Autonome
[8] International Fund for Agricultural Development

Nevertheless, regardless the tool, there is a widespread understanding on the main dimensions a social performance analysis should tackle while assessing a MFI. These dimensions are: target and outreach, adequacy of products delivering and services, client participation and the social responsibility of the MFI. We will focus on those dimensions in our study.

2.1.1.3 Financial and social performance: synergies or trade-off?

According to many authors and practitioners, MFIs always face a situation of mission drift (Dewez & Neisa, 2009; Conning & Morduch, 2011; Ben Soltane, 2012) since reaching the double bottom line in microfinance is quite a paradox. Nevertheless, the research findings about that specific aspect are quite various. Whereas some authors have shown that there is a real trade-off between achieving financial and social performance in microfinance (Hermes, Lensink & Meesters, 2011), others such as Zerai & Rani (2012) and Ben Soltane (2012) have found that there is neutral relationship between financial and social performance; rather, they have deducted that it is possible for a MFI to achieve both financial and social performance.

But for Gonzalez (2010), the situation of trade-off or synergy depends essentially on the selected indicators or variables.

Our study will contribute to the improvement of this issue which is currently riveting the industry.

2.1.2 Other dimensions of viability analysis

Another current mainstream in the microfinance industry is that MFIs should be sustainable while providing their services. For long time, institutionalisation was seen as the main factor of sustainability and was focused only on financial and institutional viability (GTZ, 2002). However there is a growing acknowledgment that financial performance only cannot help MFIs to reach their missions (Pistelli, Simanowitz & Thiel, 2011). Thus, social viability and governance appear as two other dimensions that should be included for a better apprehension of the concept of sustainability (GTZ, 2002).

2.1.2.1 Social viability

For GTZ (2002), social viability can be seen as the completion of a win-win trade-off on interest between different stakeholders having a direct or indirect interest or link with the MFI. It is therefore a key concept which, once well integrated may impact on the good functioning of MFIs.

GTZ (2002) identified two types of social viability:

- The internal social viability which focuses on the trade-off relationship between actors directly linked to the MFI;
- The external social viability which includes the mainstreaming of the MFI in local environment.

In general, practitioners and scholars focus mainly on the internal social viability though the external one is quite important.

2.1.2.2 Governance

Progressively used in the microfinance industry, the notion of governance is most often related to the functional relations between the management board and loan officers who are daily involved in all the management process of a given microfinance institution (GTZ, 2002; Lapenu & Pierret, 2006). Basically it refers to the processes whereby equity holders and others financing agencies ascertain themselves that the use of their funds by the institution is in line with the objectives they are dedicated to (Hartarska, 2005; Labie & Périlleux, 2008). More widely, governance may also be concerned with many others issues in MFIs such as strategic objectives (clients targeting, product design, organisational structure), resources allocation and management, adaptation to the changes in the sector, crisis prevention and management (GTZ, 2002; Lapenu & Pierret, 2006).

The good governance is a key element for MFIs sustainability as the quality of governance affects the vision and strategy of MFIs regardless their status (AFD, 2008). Moreover, for Mersland (2009), corporate governance affects the way institutions perform. Particularly in cooperatives structures, corporate governance tends to be more complex. Labie & Périlleux (2008), through a relevant literature, emphasised the moral hazard, conflicts between owner and manager, conflicts between members and elected board of directors, conflicts between employees and volunteers as four main conflicts encountered in credit unions' governance.

Therefore, the governance analysis appears as one key component for assessing the viability of a MFI.

Mersland & Storm (2009) highlighted three dimensions to look at whilst analysing the governance in a MFI: the “vertical dimension” focused on the owners and the staff, the “horizontal dimension” between the MFI and its clients and the “external governance dimension”.

On the other hand, based on IMF (2004) and Briceno-Garmendia & Foster (2007), Wele (2009) proposed six variables with nine indicators to assess the quality of governance in microfinance institutions. These variables are: Respect of regulation, Managerial autonomy, Quality of the information system, Power of board of Directors. He combined the analysis of theses indicator with the analysis of the board structure and efficiency as proposed by Mersland & Storm (2009).

2.2 Research questions

The present thesis will address three fundamental questions:

- How do financial performance, social performance and governance vary among FONGS FINRURAL affiliated associations?
- How do the different performances of the affiliated associations of FONGS FINRURAL affect the viability of the network?
- To what extent are linked financial performance, social performance and governance in the surveyed MFIs?

2.3 Methodology

Our methodology consisted essentially in:

- The use of internal documents such as minutes from board meetings, business plan, manual of procedures, other secondary sources data;
- The use of data bases and annual reports when they exist, financial reports, audited financial statements etc;
- Visits at basic associations and clients information.
- Observations

All these actions were carried out in the framework of the internship effectuated within the FONGS from May to August 2012.

2.3.1 Data collection

Quantitative and qualitative data were collected at 07 affiliated MFIs and at the FONGS headquarters level as well.

Quantitative data were collected by using the financial factsheets components, the ECHOS© tool for social performance data and the grid for assessing the quality of governance.

Observation, Semi-structured and unstructured interviews were used to collect qualitative data from main stakeholders of the MFIs.

Secondary data were collected through reports and existing literature.

2.3.2 Data analysis

The analysis of data was an integrated analysis of three keys elements of viability that are financial viability, socioeconomic viability and institutional viability. These three elements are respectively assessed through financial performance, social performance and governance analyses.

The financial performance has been assessed with the financial assessment factsheet[9]. Four categories of fourteen indicators were analysed: the portfolio quality, the efficiency and productivity, the financial management and the profitability.

The social performance has been assessed with the ECHOS© Tool of Incofin. ECHOS© is Incofin Investment Management's in-house social performance evaluation tool. The version used was the 2012 one, which takes into account the most recent developments on social performance in the microfinance industry. It focuses on five dimensions: social mission, Outreach and Access, Customers services, Human resources, Environmental and social practices.

The quality of governance of the basic organizations as well as of the network has been assessed with the Aggregated Index of Governance. The rational is that this index not only combines different aspects of governance but also can be more easily because using particularly binary variables (Wele, 2009). It focuses on six variables: the respect of the regulation, the management autonomy, the information system quality, the board of directors. Some variables from the analysis framework of Charreaux (1996) have been transformed in binary variables and included in the Aggregate Index of Governance: direct control by shareholders, existence of internal and legal audit, existence of salaries bonuses and the financial intermediation.

[9] Can be downloaded from www.microfact.org

For a better understanding of the drivers behind the disparity between associations and the network, we used descriptive analysis mainly based on frequency and mean. We used spearman coefficient of correlation to appreciate the linkages between financial performance, social performance and governance index in our analysis unit. This latter comprised 7 of the 9 MFIs affiliated to the network due mainly to the data availability and to the non-functioning of the two others the last two years. Besides, as the network as a whole is not yet fully involved in the financial intermediation, the effect of these missed MFIs on the network can be minimized.

CHAPTER THREE: BACKGROUND OF THE MICROFINANCE INDUSTRY IN SENEGAL

3.1 A growth led by savings and credit unions

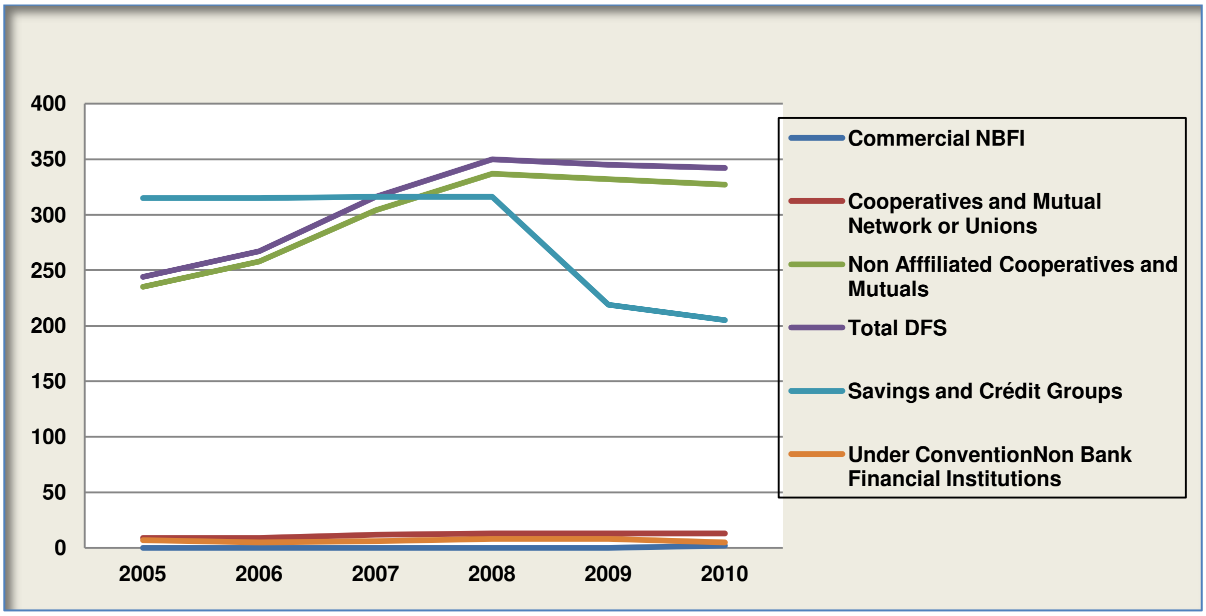
The microfinance industry in Senegal is a growing sector marked by the prominence of numerous MFIS, NBFIs and Savings and Credits Cooperatives or Mutuals. Three wide periods determine the microfinance growth in Senegal (Fall, 2012):

- The First period was characterized by the financial crisis of eighties along with the creation of the first credit and savings institutions. During that period, a temporary framework related to the conditions of organizing, licensing and functioning of Savings and Credit Mutuals (decree n° 1702 of 23-02-1993) was set up and admitted 120 MFIs to be licensed. However no disposition of that law addressed the regulation issue of the "Groupements d'Epagrne et de Crédit (GEC)"[10].
- The second period (1993-2003) was marked by the enforcement of the legal framework on Decentralized Financial Systems (so called PARMEC law). That period was mainly influenced by the growth of the industry and the creation of MFIs' networks such as Unions, Federations, and Confederations which appeared as apex or umbrella institutions.
- The Third period (2003-nowadays) is mainly dominated by the commercialization and the professionalization of the industry. During that period, MFIs are more focused on risks management issues and the reinforcement of the supervision of the industry. Especially, one observes a professional management of institutions, an effective control of network staff, and a focus on a good financial and institutional equilibrium.[11]

As of December 2010, the microfinance industry in Senegal was composed as depicted in the figure 1.

[10] The GEC (Savings and Credit Groups) are basic or primary associations which are not regulated as basic financial institution but operate based on the single authorization of the Finances Ministry.
[11] See http://www.microfinance.sn/page-250-1.html

Figure 1: Evolution of MFIs' juridical forms 2005-2010



__Source__: *Built from MEF/DRSSFD (2010, p.2)*

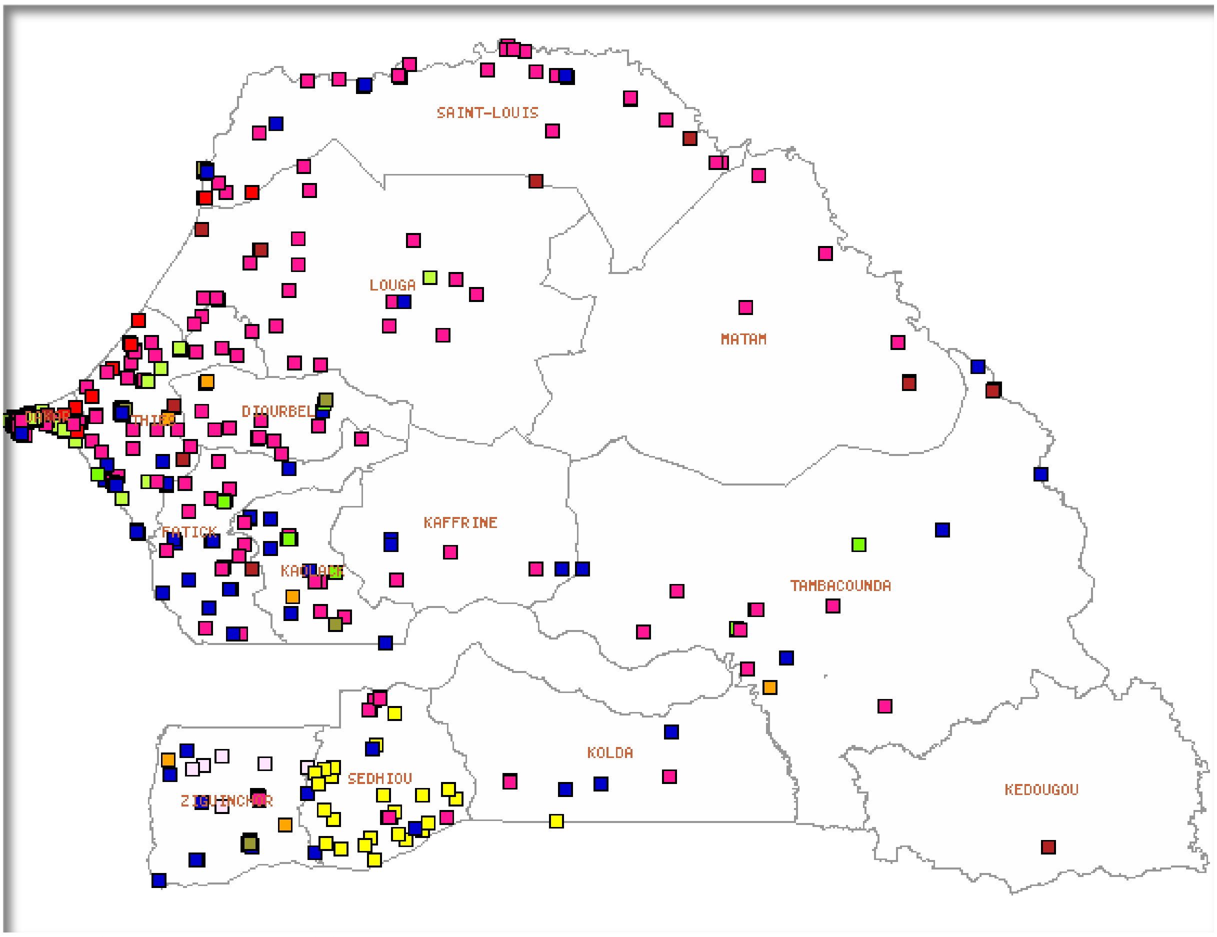
It appears through the figure 1 that savings and credit groups which dominated the industry between 2005 and 2007 recorded a decrease since 2007 due to the new regulation. Concurrently one witnesses the growth of isolated savings and credit cooperatives and mutuals as well as MFIs' networks. On the other hand, commercial non bank microfinance institutions are entering the sector whereas under convention non bank financial institutions are dropping out. Nonetheless, the industry is still dominated by the savings and credits unions which provide the essential in microfinance services. For example the seven most renowned savings and credit unions networks of Senegal network concentrate about 70% of the clients/members, 88% of deposits and 82% of outstanding loan portfolio of the industry since 2005 onwards (Daouda, 2006 quoted by SOS FAIM, 2007).

3.2 Rural areas are still under banked and underserved

As of December 2010 the number of services points of MFIs was 976 with an individual outreach of 12% (MEF/DRSSFD, 2010) representing more than 21% of services points, 24% of loan portfolio and 22% of deposits of the total finance sector (Diao, 2006).

Despite the increase in number of MFIs in the number of clients, the microfinance in Senegal is still more urban and sub-urban than rural. The figure 2 shows the geographical outreach of microfinance industry in 2010.

Figure 2: Number of MFIs services points as of December 2010



Source: *MEF/DRSSFD (2010, p.3)*

The figure 2 reveals that more than 70 % of the MFIs operating in Senegal and their branches are located exclusively in urban areas including Dakar, Thiès and someway Kaolack, Fatick, Sedhiou and Saint Louis. As consequence, poor people living in rural and remote areas remain still unbanked. The other 30% MFIs, most often created from farmers and rural development organizations, are struggling to reduce the gap, allowing poor people having access to finance even with tiny amount of credit.

3.3 A strong legal and juridical framework

The microfinance legal environment has evolved over the time in West Africa Region Countries especially in those belonging to the West African Monetary Union.

The first initiative of implementing a strong institutional framework for the microfinance in Senegal has been observed with the "Projet d'Assistance Technique aux Operations Bancaires Mutualistes au Sénégal" (ATOMBS). The project was carried by the Canadian Cooperation and aimed at creating adequate conditions for the development of the mutualist banking network. In 1992, the "Cellule AT/CPEC[12]" in charge of organizing the conditions of functioning and licensing of mutualist institutions continued the project.

The juridical and institutional framework was effective in 1995 after the adoption of the PARMEC Law and its enforcement decree (decree n°097-1106 of 11 November 1997) sustained by the BCEAO instruction on 10 march 1998. The PARMEC law aimed at designing and promoting the extension of a juridical environment specifically devoted to the microfinance in UMOA context.

Another project PASMEC (Projet d'Appui aux Strutures Mutualistes et Coopératives d'Epargne et de Crédit) was set up to promote the development of microfinance practice in UMOA as well as the financing of small and medium enterprises (SME) and handcraft. The operation permitted the devising of guidelines for the microfinance industry strongly based on the success stories of microfinance practices around the world (Diao, 2006).

However, important weaknesses were observed in the legal framework of UMOA MFIs.

- The PARMEC law emphasised the development of MFIs with cooperative models, restricting thus the development of other models of MFIs such as limited companies in their various forms. That situation hampered innovations in the industry and accordingly the diversity of financial services for the poor (Fall, 2012);
- The short term authorization given to non Bank Financial Institutions other than Cooperatives and Mutuals undermined investment in the industry as well as access to financial markets and long term commercial borrowings;
- The OHADA agreement on the guarantee and tangible collaterals and the recovery policies didn't fit with microfinance industry realities;
- The transformation of NGO MFIs to regulated MFIs was undermined by the law of 1901 on associations.
- The contents of the law on usury didn't include MFIs' realities thus hindering their viability.

[12] Assistance Technique aux Caisses Populaires d'Epargne et de Crédit : Technical Assistance to Savings and Credit People Banks.

- The prudential ratios were not standardized for NBFI and comparisons in the industry appeared difficult (Azocli & Adjibi, 2007).

The new regulation on Decentralized Financial Systems was adopted by Senegal Government on 03 September 2008 through the Law 2008-47. The main changes or initiatives in the new regulation are as follows:

- The origination of a single policy for the regulation of MFIs involving the removal of the savings and credit group and of the structures under convention as well
- The assent of the BCEAO in the issuance of the license
- The intervention of the BCEAO and the Banking Commission in the supervision of institutions having reached a certain level of growth
- The strengthening of the prudential norms and the penalties,
- The mandatory certification of accounts of MFIs of a certain size
- The compulsory membership within the Professional Association of MFIs Practitioners
- The alternative of creating Limited MFI Companies
- The implementation of a new accounting standards for MFIs (Fall, 2012, p.38)[13]

Its application decree (n° 2008-1366 of 28 November 2008) and other BCEAO instructions designed strong framework to supervise the industry and avoid drifts. In addition, the regulation’s new requirements and devised prudential ratios compel MFIs to become viable (financially mainly), to network or to disappear.

3.4 Leading networking initiatives

As of December 2011, about twenty microfinance institutions networks exist in Senegal. Among these, only thirteen are regulated. Nevertheless, depending on their implementation process and regardless they licensing status, they can be classified in two main categories (SOS-FAIM, 2007):

- The first category is related to networks that have been devised and implemented based on a top-down approach. The creation of new branches is done in the network expansion perspective and those networks are supported or have been supported by international donors, NGOs, public organisms of

[13] See also http://www.cgap.org/gm/document-1.9.52111/New_Microfinance_Law_WAEMU.pdf accessed on 09.07.2012

international cooperation. Belonging to that category, we can name the Credit Mutuel du Sénégal (CMS), the Alliance de Credit et d'Epargne pour la Production (ACEP), and the UM-PAMECAS[14]. These three networks started their activities as development projects supported and financed by international donors and appear nowadays as the most important stakeholders of the microfinance industry in Senegal. Most of these networks were set up in 1997.

- The second category is related to networks that have been set up based on existing MFIs and Village Banks. MFIs created from local development associations initiatives decided to cooperate and to federate in unions in order to improve their efficiency and viability. As the MFIs were different at the beginning, they need to standardise their procedures and products. Two main subcategories belong to that group depending of the origin of the networking.
  - The networking initiative may be exclusively endogenous as well as the process of implementation. It is the case of the Inter-Crec Network with 17 savings and credit unions operating in Basse-Casamance in Southern Senegal.
  - The networking initiative may be partially exogenous and supported by international partners. This is the case of the initiative of creating a network in Louga Region with the support of two international NGOs: Aquadev (from Belgium) and CISV (from Italy). The initiative is funded by the European Commission. This is also the case of FONGS FINRURAL Network, which is a joint initiative of the Fédération des Organisations Non Gouvernementales du Sénégal (FONGS) and its partner SOS-FAIM (Belgium and Luxembourg)

3.5 Why networking?

Even if the new law promotes the networking of individual MFIs, the process is not an easy task as networking implies many challenges and transformations within the MFIs. SOS-FAIM (2007) emphasised five main advantages in networking savings and credit unions:

- The first advantage underlined is a better liquidity management. Due to the principle of mutualisation, the surplus of cash in some MFIs might be used by

[14] Union des Mutuelles du Partenariat pour la Mobilisation de l'Epargne et du Crédit au Sénégal

others MFIs in need of more cash to face their portfolio growth. The network then operates like a central bank in gathering the cash surplus and in redistributing it to MFIs equitably (fairly, evenhandedly). As MFIs do not usually have the same cash flow cycle, the network management can help at smoothing the cash flows fluctuation between affiliated institutions. In addition, the network could better manage the liquidity through financial investments as it can access to financial markets.

- The second advantage is the access to external funds such as commercial markets, international donors and Microfinance Investment Vehicles Funds. The individual MFIs do not always have a good accounting system and accordingly lack of support from banks, donors and NGOs. Yet, the access to external lines of credit can be useful in long term for MFIs for a better management of their short and long term liabilities.
- The networking helps in scaling economies by reducing the cost of a MIS[15] for exemple, the staff training cost, the hiring of experts etc...
- By networking, MFIs offer themselves opportunities and framework for sharing experiences, goods practices, and information. Moreover, the network operates as a Central for Risk Management, thus avoiding multiple borrowings to clients and over- indebtedness through a good credit bureau between affiliated MFIs.
- The network can also reinforce internal and external controls, from staff of the network headquarters, the hiring of auding experts, on top of the Supervisin of the Central Bank.

However, the same author raised up some drawbacks:

- The partial loss of independence and autonomy of affiliated organizations. Due to the standards and the requirement of the network, an affiliated MFI might be obliged to transfet part of its comptences to the network (liquidity management for example).

[15] Management Information System

- The presence of the network can threaten the membership inside MFIs and induce a loss of members control on MFIs especially when more professional staff members should be hired by the network.
- It becomes mandatory for the network to standardizes the management procedures, the credit policies, the management tools, and data collections.
- The mutualisation of cash surplus seems to be a key condition for the networking. Affiliated MFIs are therefore jointly financially liable and have to share the same vision in oder to improve synergies between basic units and the social cohesion inside the network (SOS-FAIM, 2007).

CHAPTER FOUR: FONGS AND FONGS -FINRURAL

4.1 From failures to new financial initiatives

The “Fédération des Organisations Non Gouvernementale du Sénégal” (FONGS) is a rural households apex association originated in 1976 and licensed in 1978. It aims at restoring the farmers’ status through the accountability and the empowerment in solidarity in order to address different challenges of rural areas. It is composed of more than 150000 members split in 31 affiliated associations throughout different regions of the country (Périlleux, 2011; Ndiaye, 2012)

The FONGS initiative is performed through two main axes:

- The political axis which is involved in the farmers’ welfare advocacy by fostering social and technical intercourse amongst affiliated organizations and by lobbying.
- The economic axis is related to the capacities building of rural households, the strengthening of agricultural management, the betterment of local financial systems, and the enhancement of agricultural products added values (FONGS, internal document).

To attain the economic axis, a number of initiatives have been performed from 1984 to 1992 through financial operations, credit backing to affiliated associations, agricultural commodities exchanges programmes, etc. Unfortunately, many of those initiatives were abortive due to four main reasons:

- Targeting failures: Credits were catered for people who could not repay and unremarkably defaulted.
- Lack of efficient means and procedures for the scrutiny of funded activities;
- Mismatches between projects submitted by associations’ leaders and the reel needs of members;
- Mission drift in the allotment of the financial resources incurred from donors and partners (FONGS FINRURAL, 2011)

It has appeared that the FONGS’ mission was not to directly cater financial services for its affiliated development associations; which have therefore been supported to launch self-managed and free savings and credit unions to face up financial needs of their members. Thenceforth, the mutuals were set up as twin associations of mother associations of which they were perceived as the main financing tool.

4.2 The FAIR, the start up of the networking process

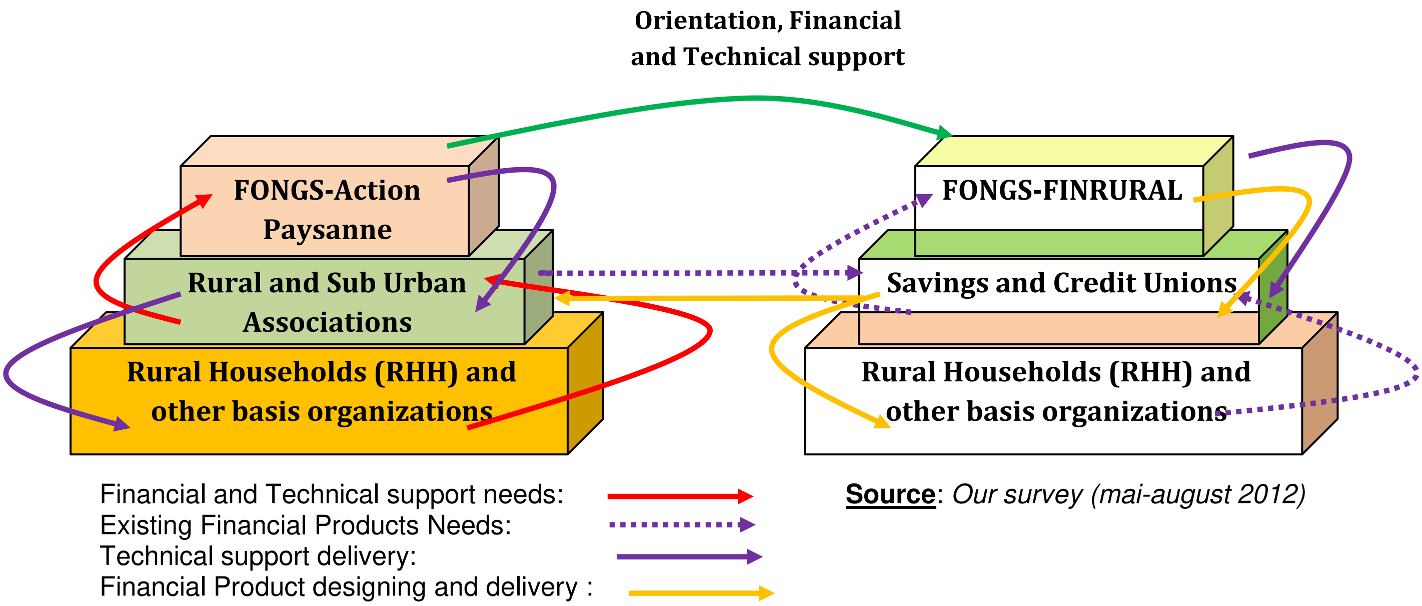
One major project carried out by the FONGS remains the Facilité d'Appui aux Inititaives Rurales funded by Luxembourg government through the NGO SOS FAIM (Belgium and Luxembourg). This initiative was conceived as a response to miscellaneous unmet financial investment needs of rural households.

With a global cost of about 514 millions CFA, one part of the fund assists household investment needs through long term investment loans (325 millions CFA). The second part of the fund (190 millions) helps at subsidising technical assistance to 15 MFIs through which investment loans are provided to rural households in accordance with FONGS affiliated associations.

Started since 2007 the project endeavoured at experiencing the rural investment through new financing models: no collateral, low interest rates, flexible long term repayment schedules, etc... After five rounds of the project through which about 353 millions CFA were disbursed to found 257 projects it appeared important to strengthen MFIs involved in the project by networking them (Ndiaye, 2012).

The figure 3 below illustrates the links between surveyed MFIs and farmers' organizations affiliated to FONGS:

Figure 3: Linkages, technical and financial flows between FONGS and FONGS FINRURAL



Source: *Our survey (mai-august 2012)*

A foremost analysis on this framework shows up that financial needs of rural households should first be reported to their development associations which will transfer the information to the upper levels of FONGS. Thenceforth, the finance network will base both on its financial assets and on the FONGS vision to devise and provide required loan products to rural households accordingly.

The main concern of this process is to preclude a mismanagement of FONGS and its partners' funds directed to financial needs of rural households, thereafter help improving rural households' financial access. Besides, strong links could be sustained between the finance network and FONGS and permit credit policies and strategic orientations of mutuals to unceasingly meet with FONGS vision and needs of farmers organizations, unheeding the growing competition in the industry.

4.3 Overview of FONGS FINRURAL

4.3.1 Operating areas

The FONGS FINRURAL network comprises 09 MFIs performing in 3 of the 7 agro-ecologic regions of Senegal: the "peanut basin", the "valleys", and the "Niayes" renowned as important rural and agricultural areas aside from the southern of the country, and constituting about 30% of the surface of Senegal. These MFIs are the following: MEC MFR of Malicounda, MEC SAPP of Tattaguine, MEC ARAF of Gossas, MEC MFR of Pékésse, CREC UGPM of Méckhé, MEC UGPN of Darou Koudoss, MEC FAM of Dakar, MEC COPED of Ross Béthio and MEC Koyli Winrdé of Podor.

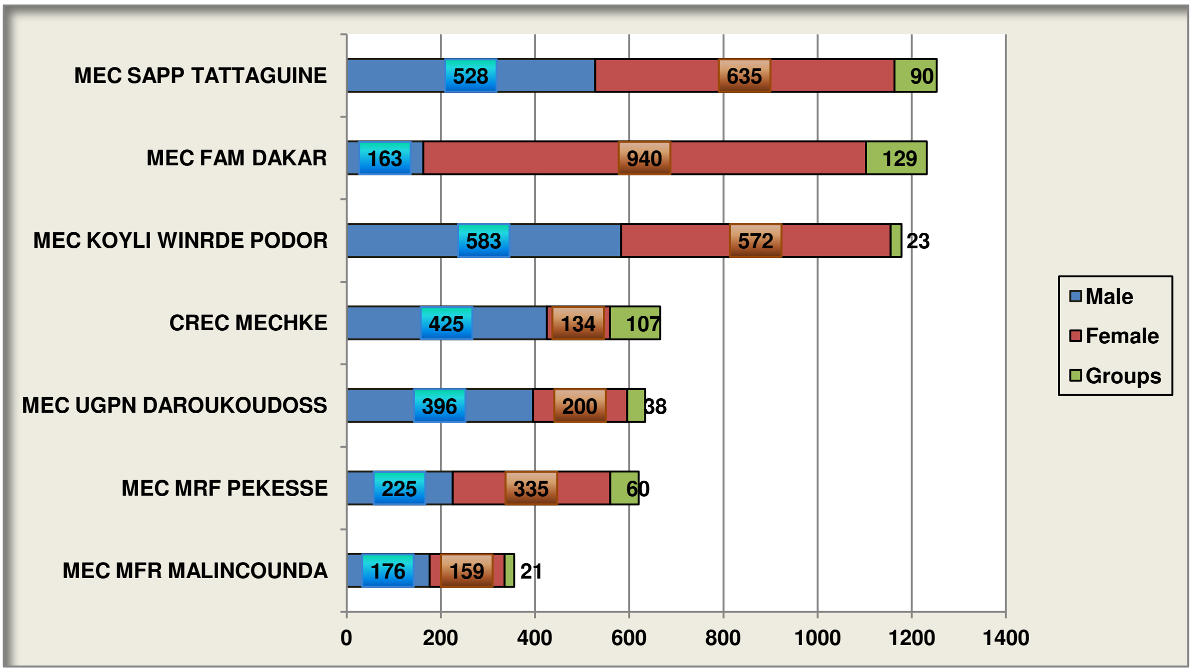
The remaining part of this paper will focus only on seven MFIs owing to the inactivity of the MEC ARAF of Gossass and COPED of Ross Béthio the past two years (2010 and 2011) for governance concerns. Likewise, the data's nonentity of the two MFIs hindered their inclusion in analyses.

All the other seven MFIs involved in the networking process recorded diversity of experiences pertaining to their operating areas. The average experience in the industry is about eight years, the MFI of Dakar appearing as the eldest MFI while the MFI of Malicounda is at its early stage of development. The experiences recorded by the MFIs (minimum of 4 years) are important to have some insight about their performances and how they can affect the viability of the network.

4.3.2 Membership

The figure 4 illustrates the membership situation of the MFIs as of December 2011.

Figure 4: Membership as of December 2011



Source: *Our survey (may-august 2012)*

It appears through the figure 4 that the Network affiliated MFIs can be assorted in three wide groups while considering the accession number: those who hold more than 1000 members (43%), those with membership between 500 and 1000 (43%) and the small MFIs comprising less than 500 members (14%).

The MEC SAPP of Tattaguine, the MEC FAM of Dakar and the MEC Koyli Winrdé of Podor hold the highest membership levels (1253, 1232 and 1178 members respectively) subsequent to their seniority in the field combined with their targeting strategies. Indeed, MEC SAPP and MEC FAM are the only ones holding other periodic branch aside from their headquarters.

The MEC MFR of Malicounda shows up the lowest membership (326) due likely to its youth in the industry given that it is the only one MFI with headquarters in Malicounda. Nevertheless, the propinquity of the MEC with other MFIs in Mbour might also induce a low membership record since the other MFIs are developing new targeting strategies such as mobile services points.

The membership levels recorded at the MEC UGPN of Daroukoudoss, the CREC of Méckhé and the MEC MFR of Pékesse pinpoint their anchorage within their communities and the willingness of their mother associations to assist them.

On the other hand, three main categories of members are identified: Women, Men and Groups or development associations. In general, the membership is dominated by women (representing 50% of members) followed by men (42%) and groups (8%). This finding reasserts Armendariz (2011) who argues that women usually constitute the main clients/members of MFIs.

Nevertheless, this trend presents specificities. For example at Malicounda, Daroukoudoss and Meckhé, men are the most likely (with 49% and 64 % of membership respectively) albeit with tiny differences. In contrast, MEC FAM members are more likely women (76%) because the first women-oriented approach at the beginning.

It seems interesting to notice that overall, the membership is growing over time. For the entire seven MFIs, the growth rate in 2010 was about 23% which is sharply higher than the average of the country (8.7%) for the same period (MEF/DRSSFD, 2010). Nevertheless, the trend decreases in 2011 with 3% of growth mainly owed to the decrease in membership at the MECs of Daroukoudoss and Koyli Winrdé and at the CREC of Méckhé. Three main reasons might explain this decrease: the competition in Mboro region (for the MEC of Daroukoudoss), the sanitazing of the accounting of the CREC of Méckhé, and the temporary cease of the FAIR in 2010.

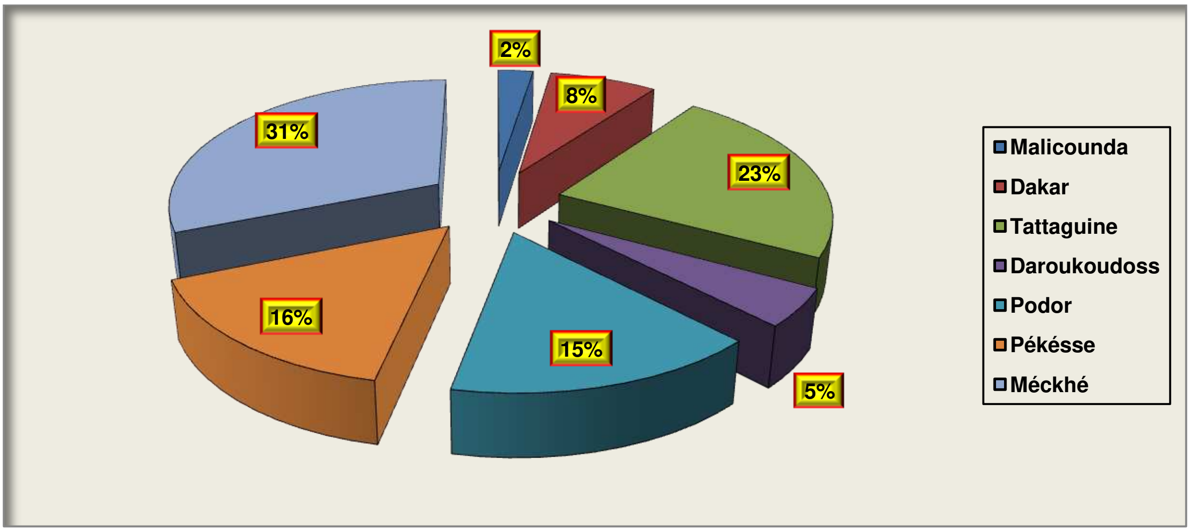
4.3.3 Delivering flexible financial services

4.3.3.1 Savings

Notwithstanding the widespread understanding that poor people especially living in rural and remote areas do save in different ways (Mersland & Eggen, 2007), there is nowadays increasing evidence that monetary savings in banks or MFIs are growing tremendously.

The figure 5 depicts the contribution of each MFI in savings mobilization in 2011.

Figure 5: MFIs contribution to the network saving mobilization in 2011



<u>Source</u>: *Our survey (may-august 2012)*

It appears from the figure 5 that in 2011, the CREC UGPM of Méckhé and the MEC SAPP of Tattaguine contributed both for about 54% of the network savings meaning an uneven ability of savings mobilization amongst the seven MFIs.

Besides, the savings growth rate recorded by the seven MFIs in the last three years is about 14.5% with some variations between MFIs.

The increasing savings at the MEC SAPP (annual average growth of 18%) is peculiarly vindicated by its targeting strategy based on periodic service points and the mandatory savings' requirements before loans granting (33% of the loan).

In contrast, despite the high annual average savings growth at the MEC MFR of Malicounda of about 29%, its contribution to the entire MFIs is about only 2% in 2011. This situation can be explained not only by the malfunctioning of its mother-association, but also by the difficulties of the MFI to meet its members' financial needs. For example fewer loans were granted in 2008 and 2009.

If similar savings growth tendency is witnessed at the MEC Koyli Winrdé of Podor (average growth of 31%), it is not the case of MEC FAM of Dakar (6%) showing tremendous difficulties for collecting savings. On the other hand, the MEC FAM of Dakar recorded very low amount in savings with low contribution to the network (8%) owing to a prior situation of bad financial governance especially in 2009 leading to a crisis of confidence between staff, board members and the MFI members, despite of the creation of a periodic service point.

The savings amount collected at the CREC Méckhé entailing its noteworthy contribution to the network (31%) is chiefly boosted by the mother association (Union des Groupements de Producteurs de Meckhé) and the economic interest grouping KAYER (Kayor Energie Rural) which have opened accounts in the MFI for financial transactions with their members or clients respectively.

Overall, the savings collected can be gathered in three main categories:

- The demand deposits. It is the most dominant savings product (in average 53% of total deposits) over the last four years for all the seven MFIs.
- Term deposit: it is interest bearing deposit in favour of depositors. In most of the MFIs, the interest varies from 3 to 5% with maturity of 3 to 7 months for short term deposits and more than 12 months for long terms deposits.
- Compulsory savings: in all the MFIs surveyed, the compulsory savings is one on the requirement to have access to credit. It replaces tangible collateral and helps MFIs mitigate credit risk as the provision of collateral assets in rural areas is very tricky. In general, the compulsory savings vary between 10 and 25% except in the MEC SAPP where the compulsory savings is about 33%.

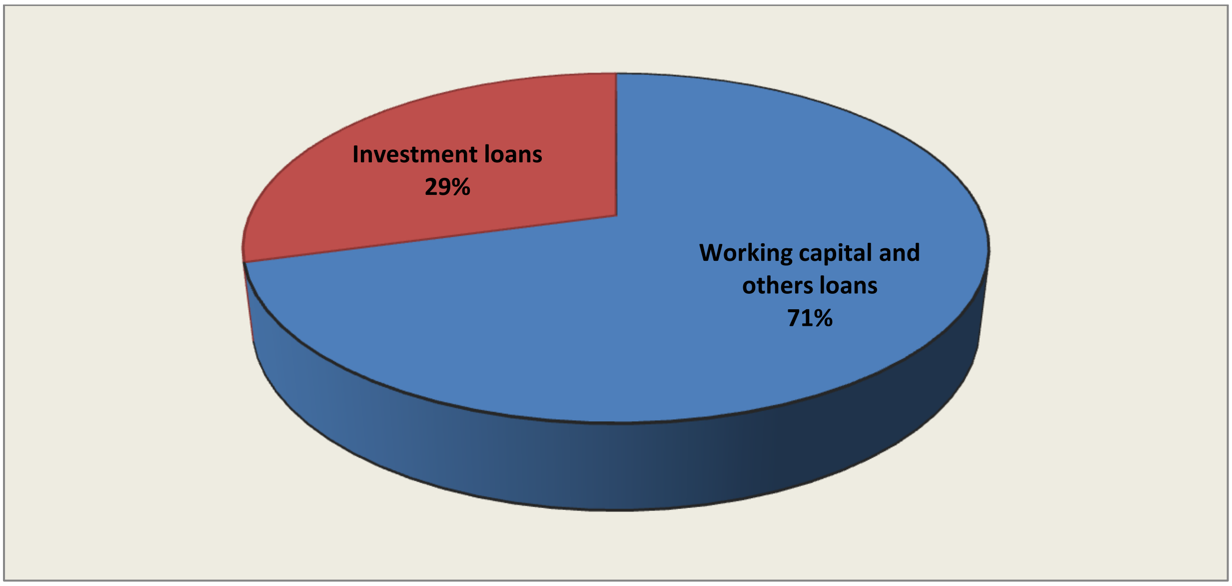
Likewise, some periodic compulsory savings are collected from the members in the MEC FAM of Dakar and MEC Koyli Winrdé (FONGS FINRURAL, 2011).

4.3.3.2 Credit

Loan products

Mainly focused on rural financing, surveyed MFIs extend miscellaneous loan products to meet their members' financial needs.
The figure 6 gives an overview of the importance of two main products in 4 MFIs (Tattaguine, Méckhé, Koyli Wirndé and Pékésse) in 2011.

Figure 6: Split of loan products in 4 MFIs in 2011 as % of the GLP



Source: *Our survey (may-august 2012)*

The main loan product delivered is the seasonal credit or working capital loan which helps farmers finance their basic activities. This loan terms, varying according to the MFIs, depend essentially on the targeted groups with a maturity betwixt 6 and 15 months and usually a bullet repayment in capital and interest. Likewise, the charged nominal interest rates are comprised between 15% and 25%.

If these terms seem common, it appears important to evince some specificity. For example, the MFI of Pékésse caters 4 variants of the seasonal credit regarding loan maturity and including cattle fattening (6 months), agriculture, vegetable production, poultry farming (8 months), and staple food storage (7 months). Small business such as retail sales, handcrafts, agricultural food processing also benefit from working capital loans with different maturity.

The second most important loan product is the investment loan with very low interest rate over 12 to 48 months. These kinds of long term loans over 3 years have increased tremendously from 9% to 28% between 2005 and 2010 in Senegal (MEF/DRSSFD, 2010). All the seven MFIs are experiencing this innovative product through the support of the "Fonds d'Appui aux Iniatives Rurales" (FAIR)[16] which finances agricultural, commercial and handcrafts long term investments such as material, land management etc…without tangible collateral, the loan applicant mother

[16] Rural Initiatives Support Funds

association constituting the moral guarantee. As for the seasonal credit, loan terms (maturity, repayment schedule) are discussed with the borrowers based on the FAIR method which includes small project devising. The interest charged by the FAIR is about 4% for MFIs. In return MFIs are allowed by the FAIR agreement to charge a maximum interest of 12% with no compulsory savings regardless the MFI. Therefore, MFIs can make a maximal margin of about 8% on the investment loans in other to sustain their social action toward their members.

Many other loan products exist and are specific to each MEC, depending on the operating area and the real needs of the targeted population. Those loans include energy loans, consumption loans, and education credits, express or emergency loans.

Credit policies and Loan size

Whereas for regulated MFIs, involving in credit delivery supposes the enforcement of well devised credit policies in order to prevent drifts and subsequently ensure a better credit risk management, the situation seems quite paradoxical at FONGS FINRURAL. Indeed, only one of the surveyed MFIs hold a procedure manual thus hampering the accuracy and the dedication to loan granting processes. Nonetheless, credit committees and the staff members have empiric knowledge about the products supplied and their characteristics.

The average duration for a loan application approval is one month in most of the MFIs except for emergency loans; this because some MFIs require a minimum number of loan applications for the credit committee to sitting whilst credit committee of other sits in a monthly base. Acknowledging that for efficiency purposes the maximum duration for a microfinance loan approval should be less than 30 days, it can be deduced that the current situation in the MFIs might undermine good credit policy practices.

The loans size varies between MFIs from 5000 FCFA and 5000000 FCFA and depends on the type and the object of the credit. The MFI of Meckhé recorded the highest average loan size (455000 FCFA) over the last four years.

For all the loans, no tangible asset is asked to people as guarantee. The main guarantee is the compulsory saving and the minimum capital requirement or savings requirement in the demand deposits account.

Is there a risk of cash flow cycle mismatch?

The overall remark is that besides the investment credit for which the repayment schedule is split in frequent instalments after one year or 6 months, the others loans are mainly repaid in bullet. If those repayment policies do meet with most of MFIs members, it appears important to stress out that granting always more than 3 months maturity loans with a balloon repayment could jeopardize MFIs. Indeed, the fact to apply yearly or semi-annual instalments may undermine borrowers' incentive to repay back their loans (Buchenau, 2003), thus breaking down the loan repayment culture. Likewise, repaying loans at once in fine in capital and interest may not be affordable for borrowers especially when they cannot get their revenue at once.

Another aspect that should be underscored is the loan diversion, specifically the use of seasonal credit for shorter cash flow cycle activities. In Podor for example some beneficiaries invest their seasonal credit in their retail sales, restaurants, handcrafts activities. The mismatch between the disbursement/reimbursement of the loans and the cash flow cycle of households might increase the loan delinquency and MFIs' turnovers accordingly. For Bédécarrats, Baur & Lapenu (2011), the bankruptcy of number of microfinance institutions due to important customers drop out and to the increase in arrears show up that MFI don't always provide adapted financial services such as credit.

When can a loan be adapted? Is it when it meets members' needs or when its terms fit the cash flow of households?

For the common understanding and numerous scholars such as Pearce, Goodland & Mulder (2004) and Collings, Morduch, Rutherford & Ruthven (2009), a financial product, particularly the credit is adapted not only when it is affordable but also when it is flexible, meaning that disbursement / reimbursement periods meet with the cash flow cycles of households.

In agriculture financing especially, flexible credits are crux elements for a well attainment albeit they are likely to worsen loan portfolios and imply liquidity management issues[17].

It is therefore on the responsibility of MFIs and their members to find out the balanced situation which will not put at risk MFIs operations while fulfilling rural households' needs.

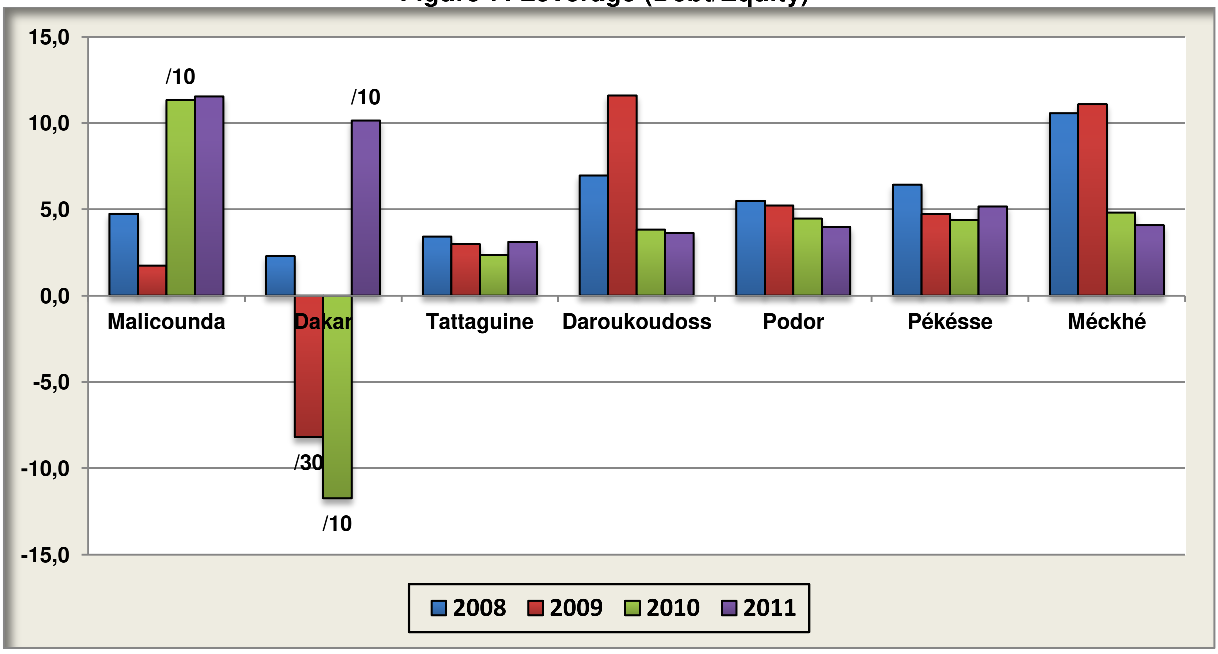
4.3.4 Sources of funding

The surveyed MFIs rely on three main sources of funding: the deposits, the equity and the borrowings.

71% of MFIs rely on deposits as main source of funding which contributed in 2011 for 38%, 42%, 53%, 48% and 50% of the financial structures of MFIs of Malicounda, Dakar, Tattaguine, Pékesse and Méckhé severally. This situation corroborates the legal status of these MFIs to collect first savings then to redistribute them as credit. For the 29% remaining, their main source of funding is borrowings with 50% and 59% for MFIs of Podor and Daroukoudoss respectively.

The figure 7 hereafter shows the borrowing capacity of the MFIs.

Figure 7: Leverage (Debt/Equity)



/**X:** The real value is X times de value on the figure

Source: *Our survey (may-august 2012)*

[17] See http://www.ruralfinance.org/fileadmin/templates/rflc/documents/1114413150253_WB_AIN_07_01.pdf

The analysis of the figure 7 reveals that at the MFI of Dakar (MEC FAM) the leverage ratio varied tremendously from high negative ratios in 2009 and 2010 to a highly positive figure in 2011. The negative figures in 2009 and 2010 are mainly due to the loss in equity during those periods. The equity itself has been influenced by the negative figure of retained earnings over years. The highly positive ratio in 2011 entails that the MFIs is borrowing more than it should and might jeopardize its depositors albeit the decrease in savings mobilization. Indeed, for Périlleux (2010), the higher the external financing, the more borrowers prevail, thus threatening savings and credit unions' viability. Therefore, the MFI should adopt new policies aiming at boosting its equity capital in the perspective of lowering the leverage ratio.

In contrast, most of the other MFIs showed a cushioning situation in 2010 and 2011. This implies that they can still have access to long term borrowed funds except at the MEC of Malicounda which recorded impressive leverage (113%) in 2010 mainly due to loss in equity while at the same time their liabilities increased, peculiarly the long term borrowed funds.

CHAPTER FIVE: PERFORMANCES ANALYSES

5.1 Financial Analysis

This chapter which strives to deepen our cognition about how well the surveyed MFIs are financially performing will be carried out throughout four crux financial analysis dimensions: portfolio quality, efficiency, profitability and sustainability. For each dimension, one or two meaningful devices will merit our attention as it is not possible to go through the entire financial indicators existing in the microfinance industry.

5.1.1 Portfolio Management

5.1.1.1 A growing loan portfolio

The entire MFIs recorded a global average annual growth rate of 17% in the last four years. However a deepened analysis of the portfolio points out that merely 86% of the MFIs are really growing with an average annual growth rate fluctuating between 39% and 679%.

Surprisingly the growth rate is more noticeable at the MEC MFR of Malicounda albeit appearing as the youngest, chiefly because boosted by the investment funds of the FAIR in 2010 and 2011. Besides, corresponding trend is observed at the MEC FAM of Dakar which presents likely 17% of average annual growth rate. The two MFIs growth might explain their higher leverage ratios aforementioned.

In opposite, the CREC of Méckhé portfolio has constantly winced over the past four years (annual average of -47%) entailing the total portfolio score of the seven MFIs. This might be explained mainly by the decrease in the number of borrowers induced by the new credit policy which stress out a better clients' screening, a reduction of agricultural loans, a focus on lending to associations rather than individuals, a repayment of borrowed funds; and meanwhile by the decrease in credit line and the momentaneous cease of the FAIR in 2010. Nonetheless, the MFI still maintains the crux outstanding loan portfolio thus contributing of 26% to the total outstanding loan portfolio in 2011.

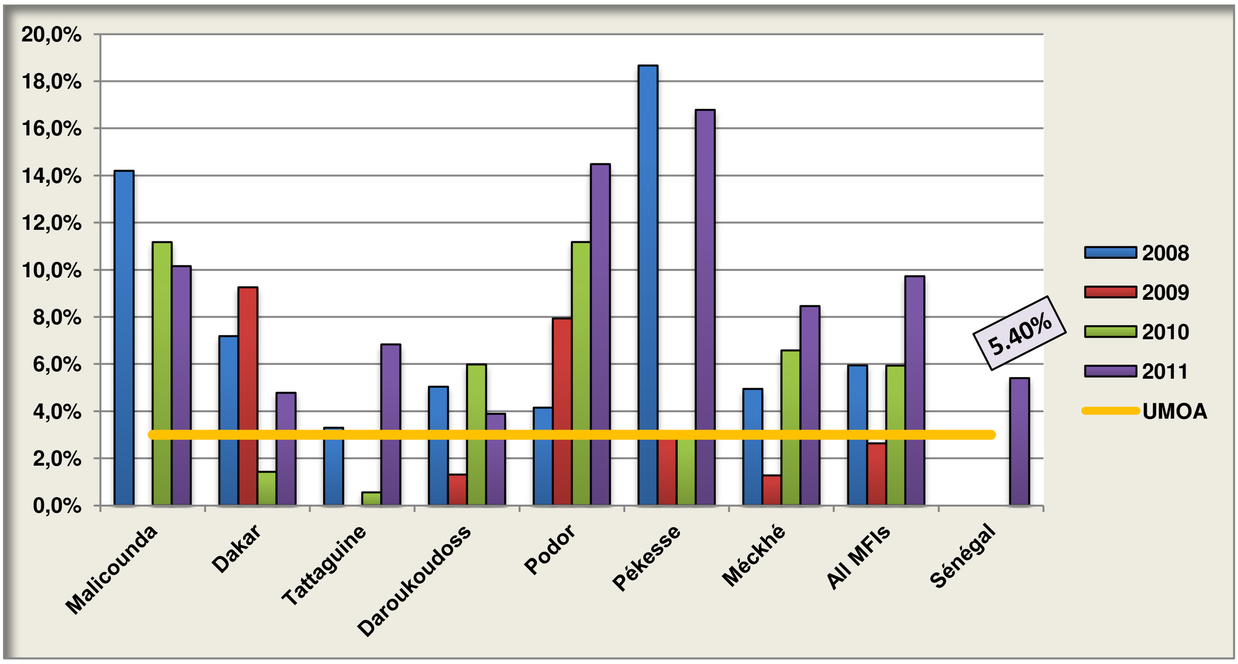
The MFIs of Pékésse, Daroukoudoss, Koyli Winrdé and Tattaguine show up a relatively stable score with some kind of rational growth which can be easily controlled comparing to other MFIs.

Despite this growth trend, only three MFIs (43%) held 69% of the outstanding loan portfolio in 2011: the CREC of Méckhé (26%), the MEC of Podor (23%) and the MEC of Tattaguine (20%).

5.1.1.2 A fluctuating portfolio at risk

One of the crux indicators appraising how well a MFI is managed or performing remains its portfolio quality, commonly assessed through the portfolio at risk (PAR). It integrates the entire outstanding loans holding at least one arrears as well as the rescheduled loans. In the UMOA region, and in accordance with the regulation and the BCEAO instructions on periodic reports, the portfolio at risk usually appraised is the PAR after 180 days (PAR>180 days). The figure 8 presents the PAR 180 days for the surveyed MFIs.

Figure 8: Portfolio At Risk over 180 days 2008-2011



Source: *Our survey (may-august 2012)*

The figure 8 reveals important PAR variability between MFIs and over years.

Considering the entire MFIs, it appears that the PAR increased from 5.9% to 9.7% in four years. This ratio is higher than the UMOA requirement (3%) and the national average threshold of 5.4% (MEF/DRSSFD, 2010), and different from the findings of Lafoucarde, Isern, Mwangi & Brown (2005) of 4% for portfolio at risk>30 days for African MFIs.

Nevertheless, some MFIs present improvement over years in spite of the improvable score. For example, the MEC MFR of Malicounda performed from 14% to about 10% in four years.

In contrast, high PAR fluctuations are observed in other MFIs showing beforehand a lack of a strong credit policy management. The reasons may be that of the agricultural volatility. In 2011, the PAR of the MEC of Podor blew up to 14% due to the slump in vegetable sales. In other MFIs such as Pékesse and Méckhé, members also face a slump of their fattened cattle and epizootic diseases and livestock robberies. This explains why the PAR of the MEC of Pékesse has varied inconstantly between 3 and 18% in the last four years.

Yet in other MFIs, there is an increase of the portfolio at risk over time showing in addition to all aforementioned arguments, a flexible loan recovery policy which underscores the dialogue and forbids harsh recovery practices. This is the case of the MEC Koyli Winrdé, the CREC of Méckhé and the MEC SAPP of Tattaguine which PAR increased in four years from 4% to 15%; 4.9% to 8.5% and 3.3% to 6.8% severally.

The findings also divulge that the PAR figures recorded may have been affected by the repayment schedules applied in most of the MFIs and by the bookkeeping and financial statements data. Indeed, some overdue loans of more than one year are still kept in books in some MFIs.

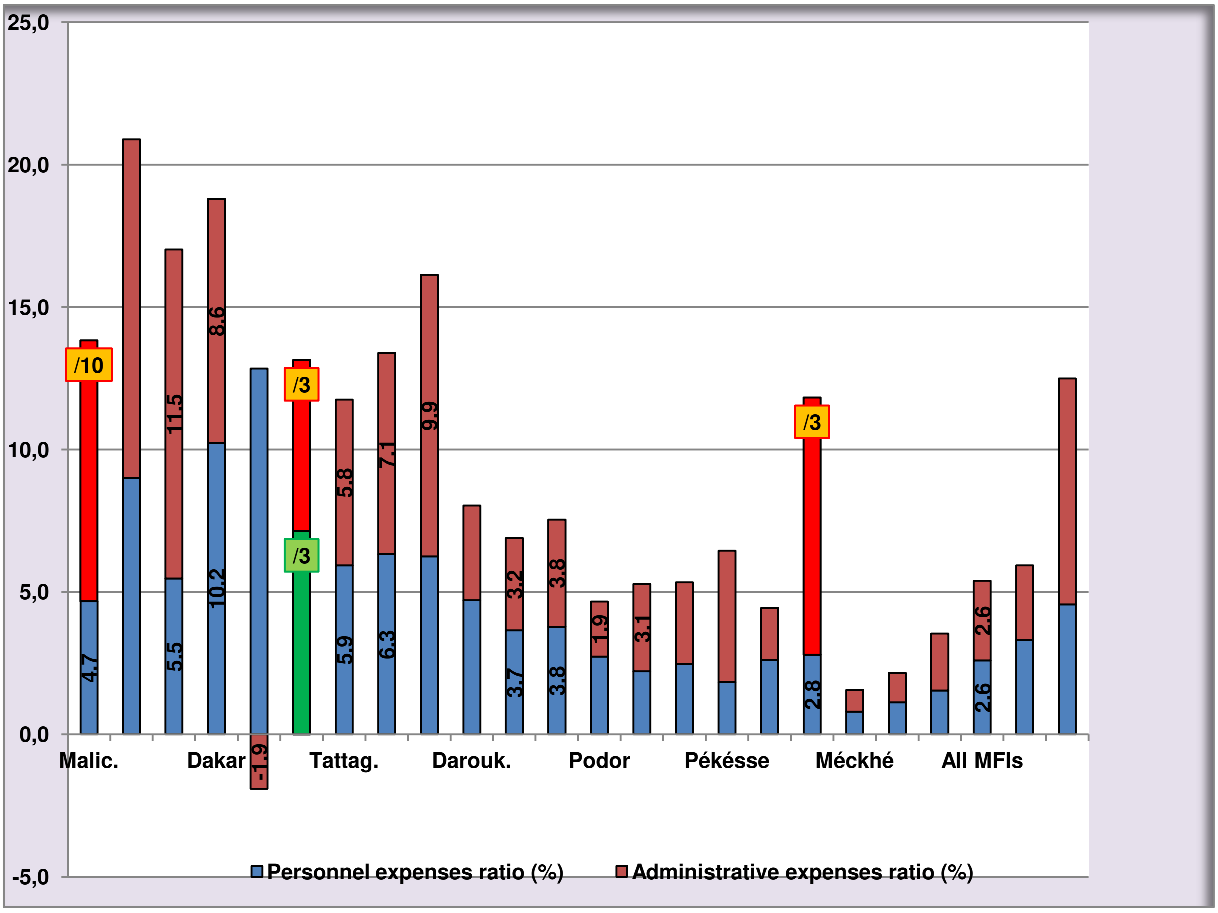
It appears important for MFIs to implement a better loan monitoring system which will systematically track their PAR especially for long term loans with annual instalments or bullet repayment. That's why the provision should respect the standards set up by the regulation. An analysis of the risk coverage ratio pinpoints that most of MFIs do usually not make the required provision to cover their PAR even though some provisioning are made. These practices are opposite to the common understanding of systematic loan losses provision to preserve client deposits especially in deposits-based MFIs.

5.1.2 Efficiency

5.1.2.1 Sound controlled operating expenses ratio

Operating expenses ratio appears as on major indicator to assess whether MFIs are cost effective and expresses all the operating expenses as a percentage of the period average gross loan portfolio (Rosenberg, 2009). The figure 9 shows up the evolution of operating expenses ratio of the MFIs over the last three years.

Figure 9: Operating Expenses Ratios 2009-2011



/**X:** The real value is X times de value on the figure
Source: *Our survey (may-august 2012)*

The figure brings out that in more than 85% of the cases, operating expenses ratios are below 20%. However, the MEC MFR of Malicounda recorded the highest operating expenses ratio of more than 95% in 2009 but significant improvements are made in 2010 and 2011.

In opposite, the MEC of Dakar recorded the highest operating expenses ratio in 2011 of about 40% after sound improvement in 2010. The negative administrative expenses ratio in 2010 (-1.9%) is due to the recovery in depreciation expenses.

The CREC of Meckhé recorded the lowest operating expenses ratio subsequent to its high average loan size.

If for Lafoucarde et *al*. (2005) operating and financial expenses are high in African regions, the specific case of this study might be due to the fact that MFIs hire fewer and underpaid staff, use a very simple accounting system, sometimes without any Management Information System with low administrative expenses. For example, the use of paid internship positions at the MEC of Tattaguine, and the opening of periodic services points along with additional remunerated interns increased the operational expenses in 2011. The same trend is observed at the MEC FAM of Dakar where they permanently hire internship positions in addition to old staff.

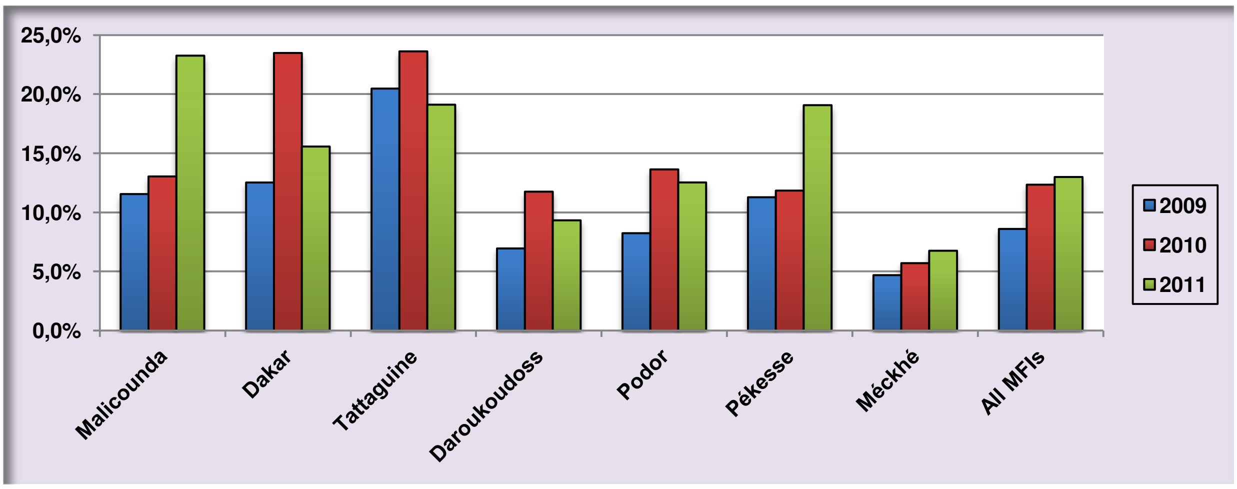
The analysis of the breakdown of operation expenses ratio reveals that the most important part of operating expenses is pertained to administrative costs.
However, opposite situation is observed at the MEC of Dakar where personnel expenses are higher than administrative expenses over time. This might be explained by higher staff salaries in urban areas compared with MFIs operating in rural areas.

5.1.1.2 Portfolio Yield

The portfolio yield conveys how much an MFI earns in cash interest payment from its credit provision in a given period. It is perceived as a foremost indicator of an MFI's ability to create revenue in order to defray its financial and operating expenses (von Stauffenberg et *al*., 2003).

The figure 10 shows the evolution of the portfolio yield during the last three years

Figure 10: Portfolio yields 2009-2011



Source: *Our survey (may-august 2012)*

The analysis reveals that the MEC MFR of Malicounda recorded an increase in its portfolio yield during the last three years from about 11% to 23%.
Kindred growth trends are observed with the MEC MFR of Pékésse (11-19%) and the CREC of Méckhé (5-7%).

Notwithstanding that the CREC of Meckhé recorded an increase in portfolio yield, the latter remains the lowest of the group due to its low interest rate policy combined with the absence of additional fees linked to the loan granting process. In contrast, the highest portfolio yields recorded by the MEC of Tattaguine, Dakar and Pékesse (particularly in 2011) are due to the high rate and other additional fees and commissions on the loan.

For the other MFIs, no real trend can be concluded even though they recorded also important yield of their portfolios.

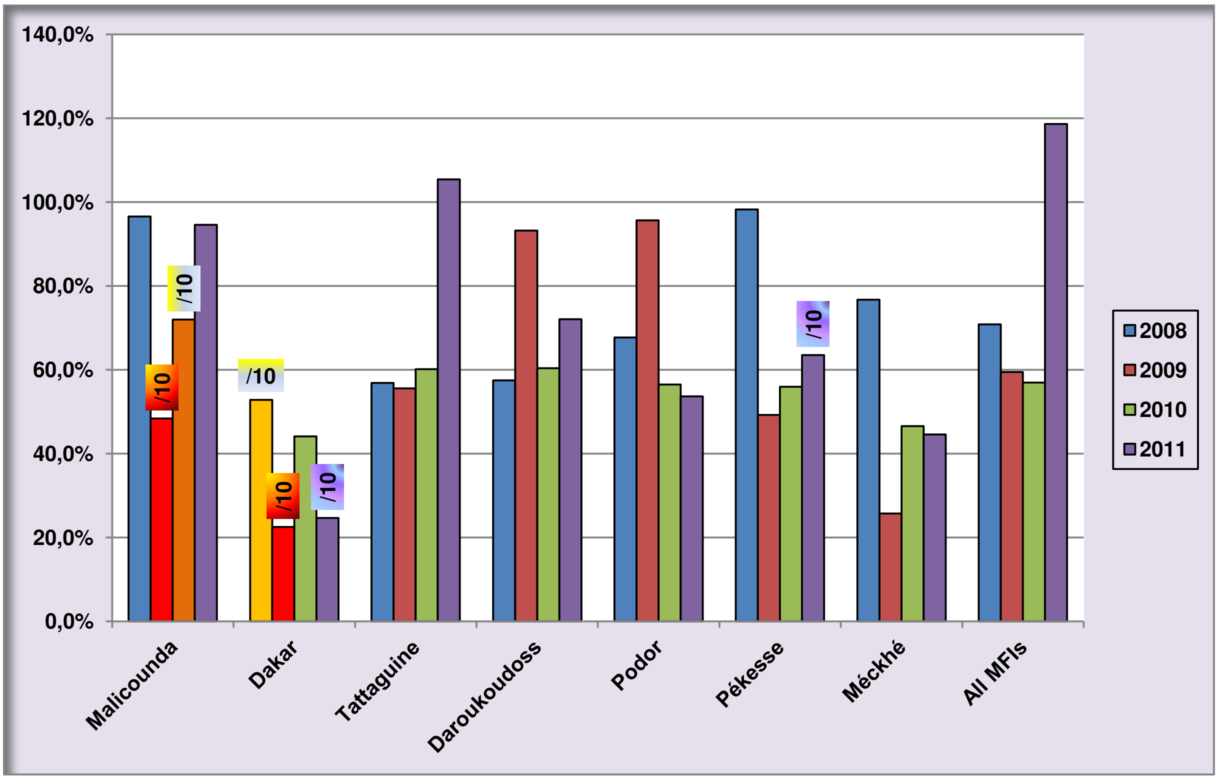
The differences reported in portfolio yields could be due to additional fees, the differences in interest rates each MFI applies, even though they have nearly loan products. For instance, the MFI of Méckhé does not apply a fee for loan processing and charge a low interest rate for investment loans (12) versus 1% for the MEC of Pékesse with an interest rate of about 15% charged on investment loans. That variability in loan product is due to the fact that each loan product is tailored for each MFI in line with the expectations of their members, expectation clearly stated during annual general meetings.

As the portfolio yield can be used as a proxy of effective interest rate, it appears that the MFIs of Malicounda, Tattaguine, Dakar and Pékésse apply the highest effective interest rates, which are however below the usury rate in the UMOA region (27%). On the other hand, an excessive social vision could lead to the application of very low interest rates threatening the viability of the institution (Ben Soltane, 2012).

5.1.3 Profitability: Cost Ratio Analysis

The cost ratio indicator is used to evaluate how much MFIs spend in operating cost to make their income. It also helps to know whether MFIs are losing money or not. The figure 11 shows the cost ratio of the seven MFIs assessed and the Network as a whole.

Figure 11: Cost Ratios 2008-2011



/**X:** The real value is X times de value on the figure
<u>**Source**</u>: *Our survey (may-august 2012)*

It comes out that the MFIs cost ratios vary inconstantly over year. Most of the MFIs reported below but nearer 100% meaning that they are neither losing money, nor extorting money from their operations. However, opposite trend is witnessed at the MEC FAM of Dakar scoring above 200% except in 2010 when good performance was recorded. It can be deduced an indubitable loss of money at that MFI over years.

The impressive cost ratio of the MEC MFR of Pékésse in 2011 (above 600%) is mainly due to a grant training programme and technical assistance they benefited and for which they have contributed. In the same vein, the MEC SAPP of Tattaguine reported an increasing cost ratio meaning excessive expenses given that their portfolio is increasing.

The cost ratio of the entire 07 MFIs was minatory in 2011 due exclusively to high operating expenses of the MEC SAPP of Tattaguine and the MEC MFR of Pékésse.

The CREC Méckhé presents a relatively soothing cost ratio the last two years (44-46%) despite its impressive negative loan loss provision expenses in 2011. The negative figure of the loan loss provision expenses is due to the important recovery on loan loss provision made by the MFIs for that year.

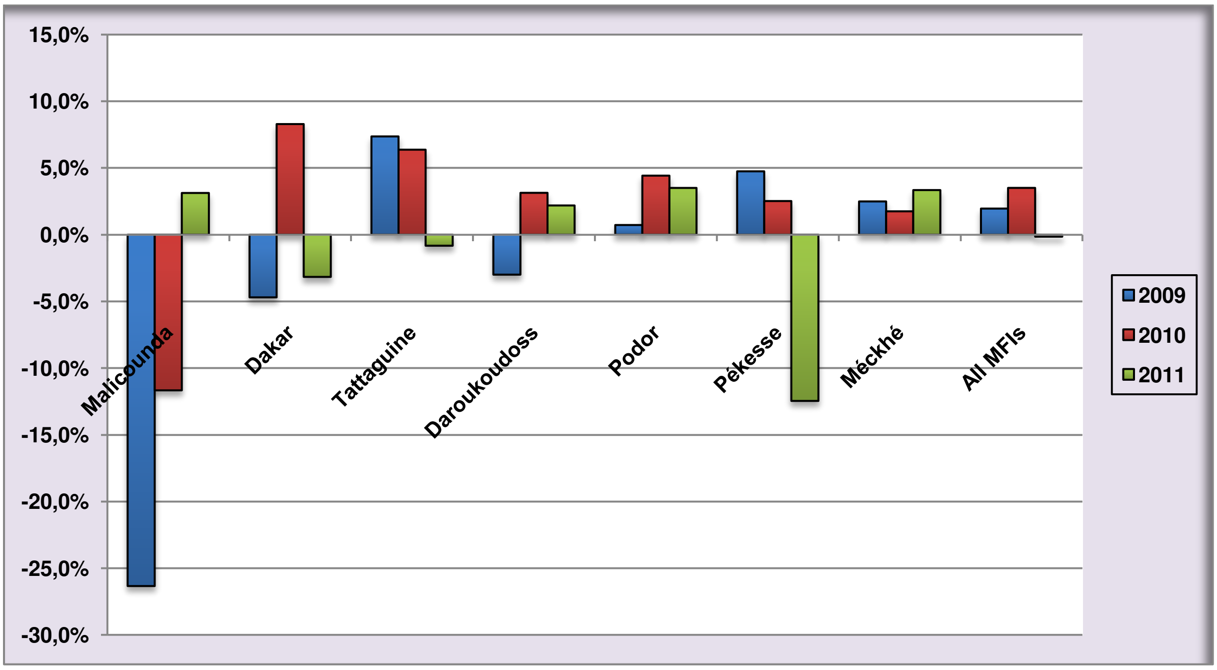
5.1.4 Sustainability

5.1.4.1 Volatile and low Returns on Assets

It is generally ascertained that the Return on Assets ratio is an important indicator for profitability analysis because it measures the efficiency of managing assets investment and measures the profit gained pertained to the level of investment in total assets[18]. We however recognize that it is also a device for assessing sustainability within a company, especially in MFIs.

The evolution of the Returns on assets of the seven MFIs is shown in the figure 12.

Figure 12: Returns on Assets 2009-2011



__Source__: *Our survey (may-august 2012)*

The analysis of the figure shows that while some MFIs present alternatively negative and positive figures of ROA, other report quite stable one over the last three years.

Specifically in 2009 and 2010 the MEC MFR of Malicounda obtained high negative values of return on assets mainly attributed to highly negative net incomes. Indeed, net incomes increased negatively between 2009 and 2010 of about 2455% and 9% respectively. This situation might be attributed to the fact that from 2010 the MFI

[18] See http://bizfinance.about.com/od/financialratios/a/Profitability_Ratios.htm

recorded a tremendous increase in its Gross loan portfolio induced by the support of the FAIR. But as most of the loans maturities are one year and the MFI applies a bullet repayment schedule, the loans disbursed in 2010 are repaid partially in 2011. As the MFI apply a cash-based bookkeeping, this induces strong fluctuations in the indicators.

Another reason is that during that period, the MFI didn't operate really but kept supporting administrative and staff expenses. The positive figure of ROA observed in 2011 is partially due to the increase in loan portfolio and in interest and fees received from the loans disbursed.

The GLP of Dakar is boosted by the external funding (loans and operating expenses). But as the organisation was already struggling with the management of the GLP, this boost has worsened the organisation situation.

The ROA of MFR PEKESSE decreased over years from a positive figure (4.7%) in 2009 to a negative situation (-12.5%) in 2011. As aforementioned, the situation in 2011 is to a high investment in staff and board members training along with technical assistance.

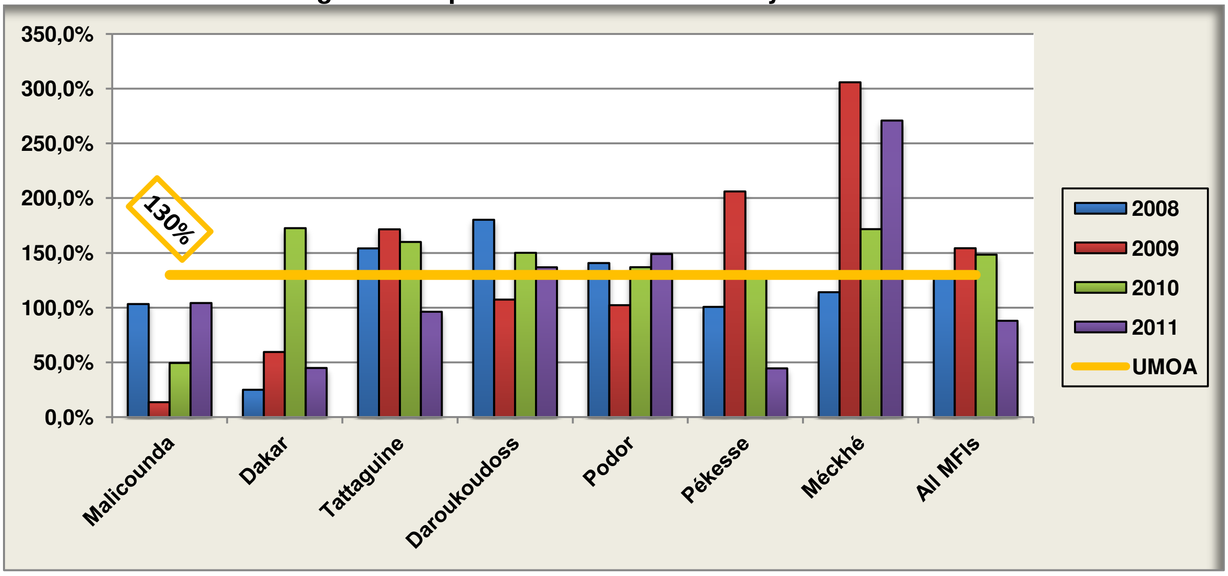
The inflated personal and administrative expenses (46%) and the loan losses provisioning expenses (9%) at the MEC SAPP of Tattaguine might ascribe the negative figure of their ROA in 2011.

For all the remaining MFIs, the ROA are below 10% showing a low profitability. This finding is in line with Lafoucarde et *al*. (2005) according to whom MFIs in Africa tend to report lower levels of profitability, as measured by return on assets, than MFIs in other global regions.

5.1.4.2 Operational self sufficiency: struggling to survive

Operational self sufficiency appears as on key element of an MFI performance. Measuring the extent to which a MFI can cover its ordinary cost through operating income, it helps to evince whether a given MFI can sustain without any subsidy. The figure 13 reveals the operational self sufficiency of the seven MFIs over the past four year.

Figure 13: Operational Self Sufficiency 2008-2011



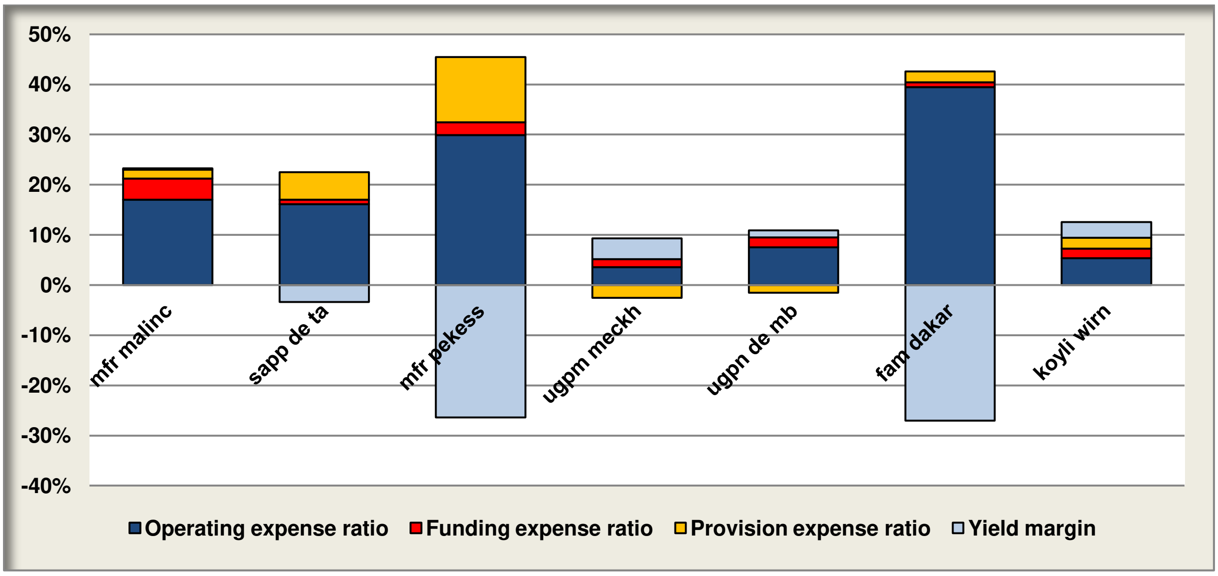
Source: *Our survey (may-august 2012)*

The surveyed MFIs show up different features of OSS over time. While some have reached the OSS and continue keeping the trend, others continue striving to reach the OSS.

For example, the figure 13 underscores that for the last four years OSS of the MEC MFR of Malicounda fluctuated tremendously between 103% and 104% whereas the MEC FAM of Dakar recorded only once a ratio higher than 100% (in 2010). In the industry and specifically in UMOA region, a minimum threshold of 130% is required to become really operationally self sufficient. As consequence, the two MFIs cannot really survive without any donation or subsidy. However since 2009, the operational self sufficiency ratio of Malicounda is increasing showing some improvement.
The MEC SAPP of Tattaguine and MFR of Pékésse recorded in 2011 a very low operational self sufficiency ratio (96% and 44% respectively) due mainly their aforementioned administrative and personal expenses.

The CREC of Méckhé sustained its OSS over 130% during the last three years implying its ability to operate without any kind of donation.
The case of the MEC FAM is mainly due to its operating areas, urban and peri-urban. It is the only one MFI of the network operating with headquarters in Dakar, the capital city of the Senegal. Therefore personnel expenses might be higher than the other operating in rural areas as shown through the figure 14.

Figure 14: Breakdown of portfolio yield 2011



Source: *Our survey (may-august 2012)*

The figure 14 shows indeed that the MEC of Dakar reported the highest operating expenses ratio compared with its peers; entailing then a negative yield margin.

Considering the network as a whole, after having recorded very high operational self sufficiency ratios in 2009 and 2010 (figure 13), the operational self sufficiency of the entire seven MFIs is about 88% in 2011, showing that the network still need subsidy to operate properly. This ratio is mainly affected by the high operating expenses but very low financial performances of the MEC of Tattaguine and Pékesse which contributed of about 27% and 30% severally to the expenses of the entire network in 2011.

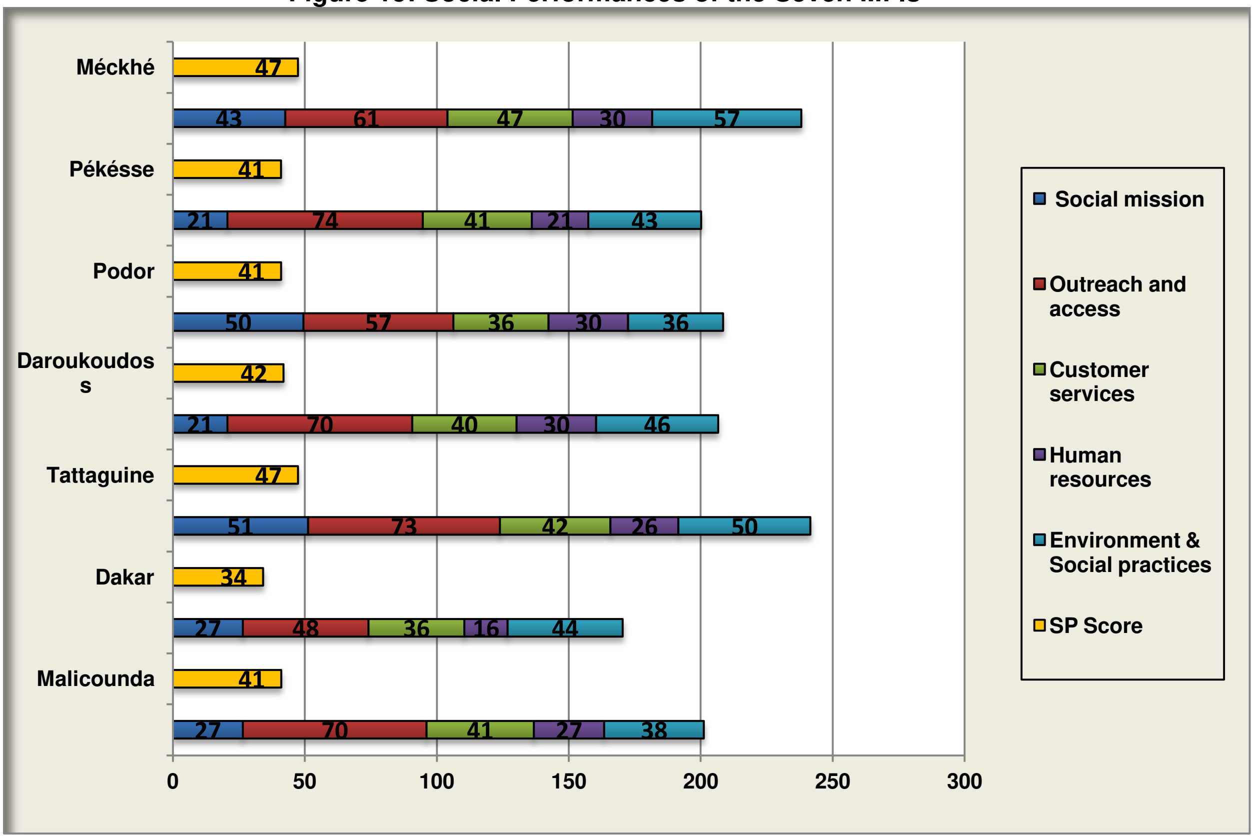
5.2 Social performance Analysis

Since 2000, miscellaneous initiatives were developed around the world to improve the social performance measurement and management which are perceived as the real implementation of social goals of MFIs (Hashemi, 2007:3 quoted by Bédécarrats, Baur & Lapennu, 2011). The social performance measurement helps at assessing an MFI's social performance as it permits to identify the level of application the social mission of an MFI (Dewez & Neisa, 2009). It also helps at improving reciprocal trust, client participation and satisfaction. As consequence, MFIs record higher repayment rates and low their transactions costs (Lapenu, 2007 quoted by Bédécarrats, Baur & Lapenu, 2011).

The social performance analysis is mainly based on the ECHOS© tool of Incofin and includes five main dimensions: social mission management, outreach and access, quality of customers (members) service in compliance with client protection principles, human resources management, environment and corporate social responsibility. The main intention was not to assess and grade the social performance of the MFIs, rather the tool helped us to have a sound insights on the situation among FONGS FINRURAL Network affiliated MFIs as far as social performance is concerned.

The figures 15 and 16 hereafter shows FONGS FINRURAL network affiliated MFIs.

Figure 15: Social Performances of the Seven MFIs



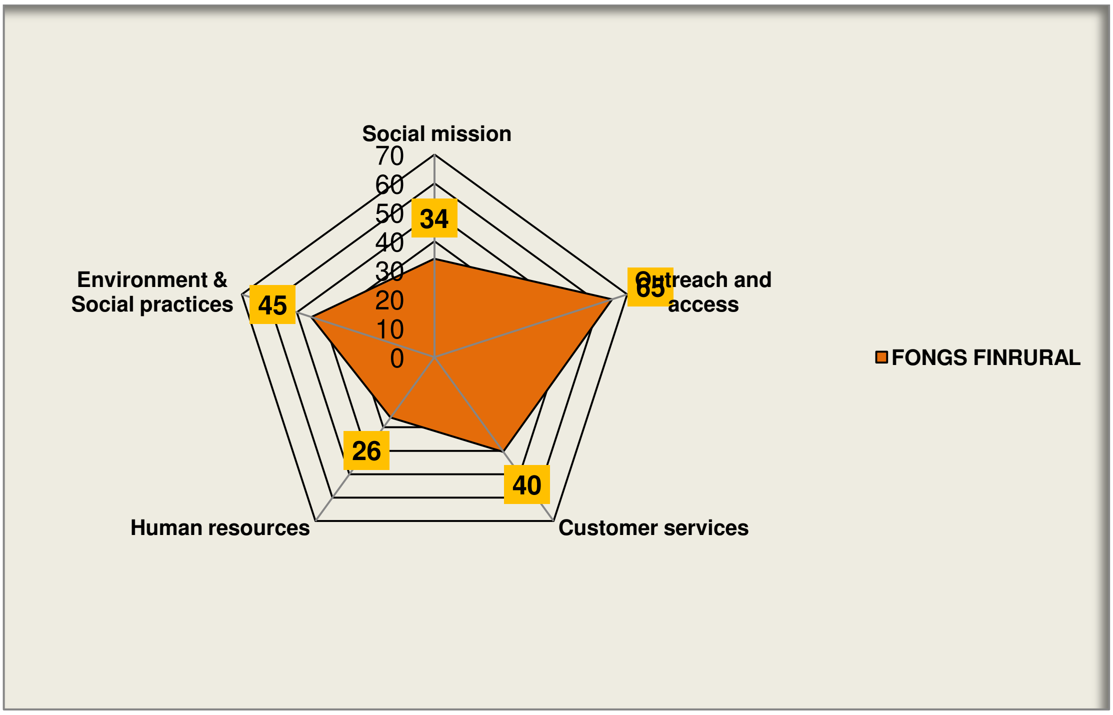
Source: *Our survey (may-august 2012)*

All the seven MFIs recorded social performance scores under 55% (based on ECHOS© scale) meaning a low social performance situation.

The MEC SAPP of Tattaguine and the CREC of Méckhé recorded the highest score (47% each one) whereas the MEC FAM of Dakar recorded the lowest score (34%).

All the seven MFIs present good scores in outreach an access (65% in average). This is due mainly to their access conditions which are competitive (affordable shares for membership, low cost for adhesion) and the targeted area. Some MFIs are sole in their operational areas (Malicounda) whilst others have opened additional periodic branches (SAP and FAM). This finding corroborates Angora, Bédécarrats & Lapenu (2009) for who sub Sahara MFIs tend to perform better in people targeting.

Figure 16: Social performance of FONGS FINRURAL



Source: *Our survey (may-august 2012)*

In the opposite, low scores are observed in social mission and human resources management (34% and 26% respectively). MFIs are perceived as financial levers of mother associations and their missions are supposed to be ingrained in the social mission of development associations. However the social missions of the seven MFIs are not clearly stated with key indicators people could track. The lack of training and information regarding social management is one of the causes of the situation. Moreover, the staffs of these self-managed MFIs are most often hired within local human resources, are unqualified even if they hold strong records in the field of microfinance. Their position is mainly perceived as volunteer services. Nevertheless, the staff rotation is really low as the staff members are also members of the MFIs.

In addition, the overall score in customer services dimension is low (26) despite of the adapted products delivery. This might be due to the non provision of diversified products such as Business development services, insurance, remittances etc... The provision of BDS is mainly assumed by the mother associations which officers are involved in the devising of members or households investment projects, their follow up and loans repayment monitoring as well. But these services are only limited to members which belong to both MFI and mother association. Moreover, the MFIs assets level might not be sufficient to get involved in the provision of others products.

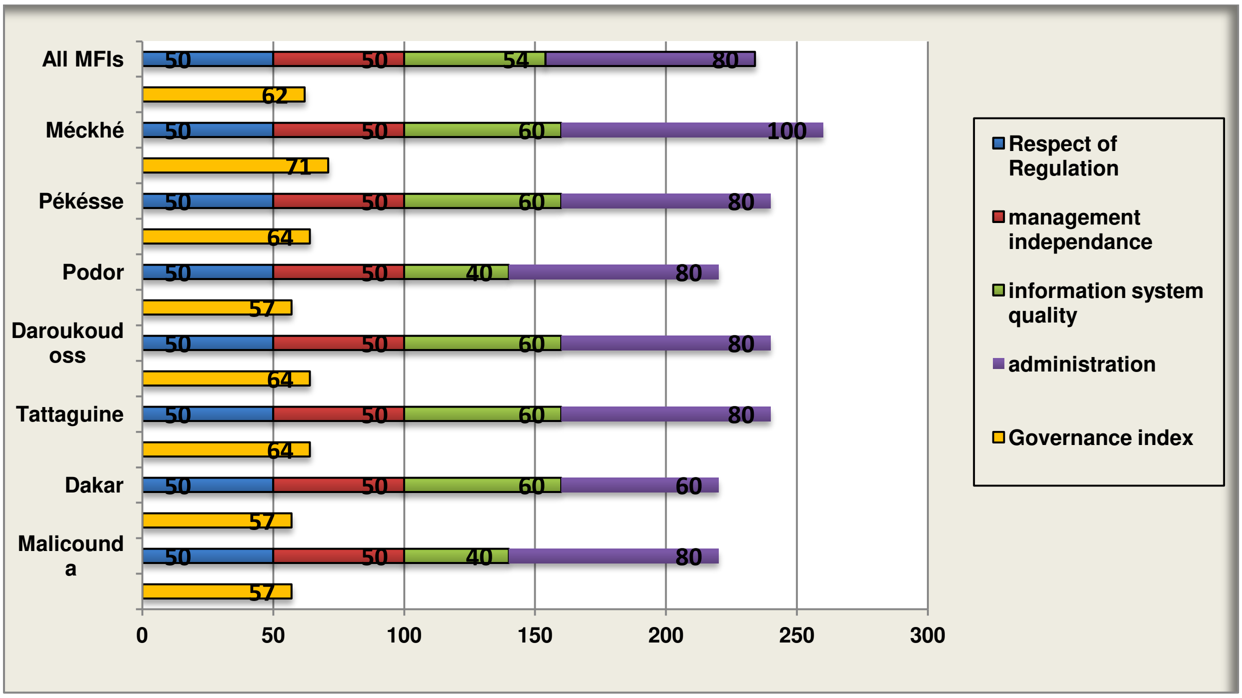
The CREC UGPM of Méckhé recorded the highest score in services to customers (57%) because of their experience in solar energy loans in partnership with KAYER.

For the last dimension, social practices and environment, the MFIs are not trained enough to include environmental dimension in their credit policies. Nevertheless, credit committees are aware that they should not grant loan for activities that may damage the environment. Rather, MFIs are striving to have access to some credit line to finance solar energy and biogas.

5.3 Governance Analysis

The figure 17 shows governance situation of the MFIs based on the aggregated index of governance.

Figure 17: Aggregated Index of Governance



Source: *Our survey (may-august 2012)*

The analysis of the governance based on the aggregated index of governance reveals an average index of 62% meaning that all the MFIs are performing in governance issue. 43% of the MFIs recorded a governance index below 60%, others 43% between 60 and 65% when only 14% recorded an index over 65%.

Overall, prudential ratios are not fully respected by any of the MFIs. Moreover Committee of Control which endeavours the role of internal audit does usually not operate as required. Excepted this year when the FONGS committed a legal and external audit for 2011 fiscal year, no external audit was done upon the initiative of the MFIs.

Only one MFI holds procedure manuals. Yet the latter is not up to date, neither in accordance with the new regulation.

Regarding the management independency, the survey MFIs are self managed institutions and operate as stated. Any of them is under the supervision authority's management. However, it is important to underscore the influence of the mother association on the management of the MFIs, especially the mother association board members. In most of the cases, certain mother association board members are elected in the MFIs boards. As consequence, the mother association can sustain their social vision inside the MFIs.

Most of the MFIs show good performance in administration. The overall average score is 80% meaning the existence of required management committees, the execution of general assembly decisions, the difference between the board of directors and the staff.

5.4 Linking financial performance, social performance and governance in MFIs

The most commonly used test to appreciate the linkages between two variables remains the linear regression often measured by the coefficient of correlation r of Pearson. However when the variables are ordinal, discrete or when the values themselves are not meaningful or don't fulfil the normality conditions are verified, it is recommended to use the rank coefficient ρ of Spearman since the latter is based on rank orders and is not affected by outliers.

To deepen our perception on the relation between financial, social performance and governance, we compute the rho coefficient of Spearman. The OSS used as financial performance indicator and the governance index have been crossed with the five dimensions of social performance and the global social performance score as well.

Table 1: Correlations between OSS, Social Performance Indicators and Aggregated Index of Governance

Spearman's rho		**OSS**	**Social mission**	**Access and outreach**	**Customers services**	**Human resources**	**Environment and social practices**	**Social Performance Score**
Operational Self sufficiency (OSS)	Cor.	1.000	.364	-.414	.164	.927**	.179	.487
	Sig		.423	.355	.726	.003	.702	.268
	N	28	7	7	7	7	7	7
Governance Index	Cor.	.231	-.039	.448	.766*	,280	.810*	.808*
	Sig.	.618	.933	.314	.045	.543	.027	.028
	N	7	7	7	7	7	7	7

. Correlation is significant at the 0.01 level (2-tailed). **Source: Our survey (*may-august 2012*)

*. Correlation is significant at the 0.05 level (2-tailed).

The table evinces no significant relationship between governance and OSS meaning that for our surveyed MFIs the governance level does not affect the financial performance. As illustration, the MEC of Tattaguine showed acceptable governance index in 2011 (64) but low financial performance (96.4%) the same year. This finding diverges with Ben Soltane (2012) according to whom the governance in MFIs mainly focuses on financial performance.

On the other hand, there is a neutral relationship between financial performance and social performance; which confirms many the findings of Ben soltane (2012) between financial and social performance However, OSS is positively correlated to human resources. This could be also evident as a better care of human resources might lead to better efficiency even if operational expenses do not change. For Bédécarrats, Angora & Lapenu (2009), the more the employees are esteemed by the MFI, the more they are eager to obtain good performances for the MFI in return.

The results reveal that for the surveyed MFIs, the governance index is positively correlated to the global social performance score. Moreover, the governance index is positively correlated to customers' services and environmental and social practices. This is in accordance with Ben Soltane (2012) according to whom the institutional form of an MFI (viewed here through the governance) influences its social practices.

As the surveyed MFIs are savings and credit cooperatives, the financial products are regularly tailored according to members' needs and suggestions from Annual General Meetings

Despite these aforementioned results, it seems important to underpin that the exact shape of the relations pertain to the context. That is why a strong socially oriented approach does not directly lead to low financial performance and a strong financially oriented approach does not lead irremediably to a very low social performance[19]. Moreover as mere correlation analysis between social and financial variables is restricted (Bédécarrats, Angora & Lapenu, 2009), deepened researches should be done do identify the form of relationship exist.

5.6Toward sustainability: An endless fight

The attempt to analyse the viability of a rural MFI network evinces that rural MFIs, particularly those savings and credit self managed MFIs, are daily compelled to dwell uncertainties and hopes for their survival.

The first challenge they need to come up remains the delivery of affordable services which should not jeopardise members' deposits and the financial viability of the institution as well. This challenge appears really tricky regarding the increasing portfolio at risk reported, exclusively due to flexible loan delivery (investment loan and seasonal loans for instance). For Buchenau (2003), investments loans (especially those provided without appropriate guarantee and legal framework) are riskier than short term loan because the longer the loan maturity the more likely inauspicious situation might occur. Three main risks are underscored: the market risks, the conditions of production (climate changes, pests' management, natural disasters...) and the purpose of the investment. All these aspects should be considered in the project appraisal process before the loan granting. Moreover, even if rural MFIs members/clients are more eager for bullet repayment loans, for Rutherford (2011), one key element of microfinance success remains the loan repayment based on frequent instalment of small or tiny amount.

The second challenge for rural microfinance institutions is their fitful financial performance. It appears that these rural MFIs recorded low financial performance not because they are grudging performing but mainly due to the specific features of

[19] See https://ojs.lib.byu.edu/spc/index.php/ESR/article/viewFile/1524/1485

their target group, their financial products, their loan procedures, the volatility of rural activities. This finding espouses AFD (2008) which stipulated that the time a MFI takes to reach sustainability is related to the context and the target group though it thrusts a good management of the MFI. That is why amongst all these MFIs, some emerge meaning that in some key conditions, there are still possibilities for rural members-managed MFIs to attain good financial performance. For these latter their financial sustainability is also due their low operating expenses for financial services (Goujon, 2009).

Governance appears as the third issue in rural MFI pathway toward sustainability as it is positively correlated to social performance and some indicators of financial performance. This finding corroborates the thought of AFD (2008) which stipulates that MFIs sustainability depends on their institutional viability meaning good governance ingrained in an adequate regulatory framework. Rather, for Mersland & Strøm (2009) the governance measured by board members enhances MFIs' performance peculiarly with endogenous and well informed board.

The fourth concern of rural MFI network and accordingly rural MFI is their lack of knowledge about social performance mainstream even if arguing that they are socially ingrained with allegations that they have real social impact on their communities. Not only they do lack information, but also they lack method and tools to record, report and track both financial and social facets of their institutions. This obviously should lead to the bad performance results recorded. For Rosenberg (2009) indeed, there is a strong relationship between attentive reporting and good outcome of MFIs. As consequence, for the same author, MFIs holding accurate information tend to be more successful and vice versa.

Finally, most of the MFIs surveyed faced the issue of vision and mission and consequently a lack of leadership. After five years of implementation, regardless their status and operating areas, MFIs should clearly be able to show up their mission a vision. They should have well stated objectives and indicators to assess them in short, mean or long term. Rural MFIs do not need to transform before being more professional. They need more cogency in their methodology.

CHAPTER SIX: CONCLUSION

There is a widespread evidence that MFIs should become operationally self sufficient, rather sustainable (Hermes, Lensink & Meesters, 2011), as subsidies and development agencies aid are becoming scarce in environment marked by a global financial crisis where number of previous donors countries should themselves face new challenges for emerging. Besides, MFIs need to be sustainable in order to expand their activity and thus continuing providing practical solution for poor and unbanked people in other to contributing to the poverty alleviation process.

In rural areas particularly, considerable improvement are needed as the sustainable of MFIs involving in untapped rural and remote areas are matter of concern.

The analysis carried out on the viability of the FONGS FINRURAL Network underpins the weakness of the isolated and single rural microfinance, especially the community based or community managed MFIs, which daily face uncertainties and threats: survive or disappear. It also reveals that in the same time, a number escape threats and reach sustainability bringing out that rural MFIs, particularly rural cooperatives can be managed in a sustainable manner. Thus networking of both nonperforming and performing MFIs belonging to the same group (for example their legal status and their operating areas) seems more likely to be sustainable. The financial results showed by FONGS FINRURAL reasserts that evidence except in 2011 when two of the affiliated MFIs recorded high operating expenses due to training and accounting expertise hiring. Therefore it can be concluded that involving in MFIs networking process, especially for rural microfinance institutions, supposes that all the MFIs are well informed about the financial situation of each other as well as their financial implications.

Moreover, the findings of this research draw out that the main challenges for rural microfinance social performance remain, in addition to being informed about the recent trends in the field, the availability of adequate information with required indicators to track the effective application of their social mission. If outreach and services quality appears as the main dimensions well performed by MFIs, they should not occult other dimensions such as social responsibility toward clients, staff and environment.

Nevertheless, financial and social performances cannot be achieved without any good governance inside the MFIs: good financial governance and good institutional governance. All these combined with more discipline and more commitment of staff, members and all stakeholders intervening in the financial services delivery process of MFIs.

References

AFD (2008) - AFD and Microfinance 1988 – 2008: A twenty-year milestone. AFD, Paris, France, 6p.

Angora, W.; Bédécarrats, F. and Lapenu, C. (2009) Social and Financial Performance: The relationship between social and financial performance in microfinance

Armendariz, B. (2011) Women and Microsavings in *The Handbook of Microfinance*. Armendariz, B. and Labie, M. (eds). World Scientific Publishing Co. Pte. Ltd. Singapore. pp:503-515

Azocli, R. and Adjibi, W. (2007) – Microfinance au Bénin: Evolution and Perspectives. Paper written for the African MFI Performance Evaluation Forum, 9p.

BAfD, OCDE, PNUD and CEA (2011) - Perspectives économiques en Afrique 2011 : Bénin 2011, 18p.

Barres, I.; Bruett, T.; Curran, L. ; Escalona, A.; Patapievici Nelson, E. ; Norell, D. ; Porter, B. ; Stephens, B. and Stephens, M. (2006) - Measuring Performance of Microfinance Institutions: A Framework for Reporting, Analysis and Monitoring. Bruett, T. (Editor), The SEEP Network, Washington, USA, 110 p.

Bédécarrats, F.; Angora, R.W. and Lapenu, C. (2009) - Is Social Performance Profitable? The Relationship Between Social and Financial Performance in Microfinance. Feature articles? MicroBanking Bulletin, issue 19, december 2009, 8p

Bédécarrats F.; Baur, S. and Lapenu, C. (2011) - Combining social and financial performance: A paradox? 2011 Global Microcredit Summit, Commissioned Workshop Paper, November 14-17, 2011 – Valladolid, Spain. 27p.

Ben Soltane, B. (2012) Social and Financial Performance of Microfinance Institutions: Is There a Trade-Off? *Journal of Economics and International Finance* Vol. 4(4), pp. 92–100, 22 February, 2012.

Buchenau, J. (2003) - Innovative Products and Adaptations for Rural Finance. Lead theme paper for “Paving the Way Forward for Rural Finance” An International Conference on Best Practices, 39p.

Charreaux, G. (1996) - Vers une Théorie du Gouvernement des Entreprises http://leg.u-bourgogne.fr/wp/0960501.pdf

Collings, D.; Morduch, J.; Rutherford, S. & Ruthven, O. (2009) – Portfolios of the Poor: How the World’s Poor live on $2 a Day. Princeton University Press, Princeton, New Jersey, USA, 271p.

Conning, J. and Morduch, J. (2011) - Microfinance and Social Investment. The Financial Access Initiative- NYU Wagner Graduate Schoo, New-York, USA, 27p.

Dewez, D. and Neisa, S. (2009) – MFI’s Social Performance Mapping and the Relationship between Financial and Social Performance: Evidences against the Trade-off Theory. Incofin Investment Management, 12p.

Diao, O. (2006) - Viabilité financière des Institutions de Microfinance (IMF) au Sénégal : Le Cas des Réseaux. Mémoire du Diplôme d'Etudes Approfondies (DEA). PTCI, Université Cheik Anta Diop de Dakar, 63p.

Fall, A. (2012) - Les mutations juridiques et institutionnelles de la microfinance au Sénégal in *Expériences de Microfinance au Sénégal*. Doligez, F.; Fall, F.S and Oualy M. (eds). Editions Karthala, Paris, France, pp: 27-44.

Gonzalez, A. (2010) - Microfinance Synergies and Trade-offs-Social versus Financial Performance Outcomes in 2008. MIX Data Brief No. 7, 15p.

Goujon, A. (2009) - Community Managed Microfinance: The mysteries of intermediation between irrational economic agents, *Voices of Microfinance*, International Development Law Organization (IDLO), 9p.

GTZ (2002) - La viabilité Sociale d'une IMF, Atelier de Formation et de Réflexion Ouagadougou – Burkina Faso, décembre 2001.

Hartarska, V. (2005) - Governance and Performance of Microfinance Institutions in Central and Eastern Europe and the Newly Independent States, *World Development* Vol. 33, No. 10, pp. 1627–1643, 2005.

Hermes,N.; Lensink, R. and Meesters, A. (2011) - Outreach and Efficiency of Microfinance Institutions, *World Development*, Volume 39, N°6, 938-948.

Hudon, M. (2007) - Use of Donor Funds in the Financing of MFI; CEB Working Paper N° 07/020, 24p.

IFAD (2006) - Assessing and managing social performance in microfinance. IFAD, Rome, Italy, 97p.

Labie, M. and Périlleux, A. (2008) - Corporate Governance in Microfinance: Credit Unions. CEB, Working Paper N° 08/003, 2008.

Lafourcade, A-L.; Isern, J.; Mwangi, P and Brown, M. (2005) - Overview of the Outreach and Financial Performance of Microfinance Institutions in Africa. Mix, 20p.

Lapenu, C. and Pierret, D. (2006) - Handbook for the Analysis of the Governance of Microfinance Institutions. IFAD-GTZ-IRAM-CERISE, 90p.

Lapenu, C. ; Zeller, M.; Grelley, M. ; Chao-Béroff, R. and Verhagen, K. (2004) – Performances sociales : Une raison d'être des institutions de microfinance et pourtant encore peu mesurées, Quelques pistes, *Mondes en Développement*, 2004/2 no 126, pp. 51-68.

MEF/DRSSFD (2010) - Données Consolidées des Systèmes Financiers Décentralisés. République du Sénégal, 36p.

Mersland, R. (2009) – Corporate Governance and Ownership in Microfinance Organizations. Ph.d. dissertation submitted to The Faculty of Economics and Social Sciences, University of Agder, Norway, 154p.

Mersland, R. and Eggen, Ø (2007) – You cannot save alone: Financial and Social Mobilisation in Savings and Credit Groups. Study Report. Norad Report 8/2008 Discussion. Oslo, Norway, 74p

Mersland, R. and Strøm, Ø. (2009)- Performance and governance in microfinance institutions, *Journal of Banking and Finance* 33 (2009) 662-669.

Mersland, R.; Randøy, T. and Strøm, R. Ø. (2010) - The impact of international influence on microbanks' performance: A global survey, *International Business Review* 20 (2011) 163–176.

Ndiaye, A. (2012) - Le Fonds d'appui aux initiatives rurales de la FONGS : une innovation pour financer l'investissement de l'agriculture familiale au Sénégal. Atelier d'écriture sur la microfinance au Sénégal, PAMIF1-CRES-CTB, 15p

Pearce, D.; Goodland, A. and Mulder A. (2004) - Microfinance Institutions Moving into Financing for Agriculture. Information note on microfinance and rural finance. CGAP No. 2, January 2004, 4p.

Périlleux, A. (2010) - Maturity Mismatch and Governance of Microfinance Cooperatives: Lessons from History. Centre Emile Bernheim Working Paper N° 10/005, 28p.

Périlleux, A. (2011) - Governance and Growth of Cooperatives in Microfinance. Thèse de doctorat en sciences économiques et de Gestion. Faculté Warocqué d'Economie et de Gestion, Université de Mons, Belgique. 160p.

Pistelli, M.; Simanowitz, A. and Thiel, V. (2011) - State of Practice in Social Performance Reporting and Management: A survey of 405 MFIs reporting to MIX in 2009-2010. Microbanking Bulletin, Imp-Act Consortium & Microfinance Information Exchange, Washington, DC, USA, 35p

Rosenberg (2009) Measuring Results of Microfinance Institutions: Minimum Indicators That Donors and Investors Should Track. A Technical Guide, CGAP, Washington, USA, 27p

Rutherford, S. (2011) - Boosting the Poor's Capacity to Save: A Note on Instalment Plans and their Variants in Armendáriz, B. and Labie, M. (eds): The Handbook of Microfinance. World Scientific Publishing Co. Pte. Ltd, Singapore, pp 517-535

Sos-Faim (2007)- Vers une Structuration du Secteur de la Microfinance au Sénégal : Dynamique de Mise en Réseau- L'Expérience de la FONGS. *Zoom Microfinance* N°22, Juillet 2007,10p.

von Stauffenberg, D.; Jansson, T.; Kenyon, N. and Barluenga-Badiola, M-C. (2003) – Performance indicators for Microfinance Institutions: Technical guide. MicroRate and Inter-American Developmemnt Bank, 3rd Edition, 51p.

Kumar P, V.V. (2011) - Analysis of Performance Indicators on Sustenance of Micro Finance Institutes: A Comparative Study of East Asian & Pacific, and South Asian Countries, *Research Journal of Finance and Accounting*, Volume 2, No 3, 2011, pp 1-15.

Wele (2009) – La qualité de la gouvernance microfinancière dans les pays de l'UEMOA, Université d'Economie d'Orléans, 9p.

Zerai, B. and Rani, L. (2012) - Is There a Tradeoff between Outreach and Sustainability of Micro finance institutions: Evidence from Indian Microfinance Institutions, *European Journal of Business and Management*, Vol 4, N°2, pp 90-94.

ANNEXES

Social performances scores based on ECHOS©2012

MFIS	Social mission	Outreach and access	Customer services	Human resources	Environment & Social practices	Total	Score
MEC MFR MALICOUNDA	27	70	41	27	38	201	41
MEC FAM DAKAR	27	48	36	16	44	170	34
MEC SAPP TATTAGUINE	51	73	42	26	50	242	47
MEC UGPN DAROUKOUDOSS	21	70	40	30	46	207	42
MEC KOYLI WINRDE PODOR	50	57	36	30	36	208	41
MEC MRF PEKESSE	21	74	41	21	43	200	41
CREC MECKHE	43	61	47	30	57	238	47
FONGS FINRURAL	**34**	**65**	**40**	**26**	**45**	**210**	**42**

Governance

MFI	Respect of regulation		Information system quality				
	licensed	Respect of prudential norms	Coherence of procedures manuals	Internal Auditors	Legal Auditors	Availability of Audits Reports	Participation to an International Audit
	"1" if the MFI is licensed "0" if not	"1" if 100% of prudential rules are fulfil "0" if not	"1" if coherence, "0" if not	"1" if available, "0" if not	"1" if available, "0" if not	"1" if available, "0" if not	"1" if the MFI participates, "0" if not
Mec Koyli wirndé	1	0	0	1	1	0	0
CREC Méckhé	1	0	0	1	1	0	1
MEC ugpn	1	0	1	1	1	0	0
MEC mfr Pekesse	1	0	1	1	1	0	0
MEC fam	1	0	1	1	1	0	0
MEC sapp	1	0	1	1	1	0	0
MEC mfr Malicounda	1	0	0	1	1	0	0

Governance followed

MFI	Management independence		Administration				
	Vis-à-vis Public officers	Vis-à-Vis Partners	Difference between the President of the Board of Directors and the General Manager	Decision Making Power	Direct Control by shareholders (General Assembly and Control Committee)	Salaries and Bonus Mechanisms	Financial Intermediation
	"1" if independence, "0" if not	"0" if influenced by partners "1" if not	"1" if deference, "0" if not	"1" if the board of directors autonomous, "0" if not	"1" if General Assembly and Control Committee are available, "0" if not	"1" if yes, "0" if not	"1" if yes, "0" if not
Mec Koyli wirndé	1	0	1	1	1	0	1
CREC Méckhé	1	0	1	1	1	1	1
MEC ugpn	1	0	1	1	1	0	1
MEC mfr Pekesse	1	0	1	1	1	0	1
MEC fam	1	0	1	0	1	0	1
MEC sapp	1	0	1	1	1	0	1
MEC mfr Malicounda	1	0	1	1	1	0	1