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Balancing MF financial sustainability and poverty orientation in Mali

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Preface

The primary goal of the ILO is to contribute, with member States, to achieve full and productive employment and decent work for all, including women and young people, a goal embedded in the ILO Declaration 2008 on *Social Justice for a Fair Globalization*,[1] and which has now been widely adopted by the international community.

In order to support member States and the social partners to reach the goal, the ILO pursues a Decent Work Agenda which comprises four interrelated areas: Respect for fundamental worker's rights and international labour standards, employment promotion, social protection and social dialogue. Explanations of this integrated approach and related challenges are contained in a number of key documents: in those explaining and elaborating the concept of decent work,[2] in the Employment Policy Convention, 1964 (No. 122), and in the Global Employment Agenda.

The Global Employment Agenda was developed by the ILO through tripartite consensus of its Governing Body's Employment and Social Policy Committee. Since its adoption in 2003 it has been further articulated and made more operational and today it constitutes the basic framework through which the ILO pursues the objective of placing employment at the centre of economic and social policies.[3]

The Employment Sector is fully engaged in the implementation of the Global Employment Agenda, and is doing so through a large range of technical support and capacity building activities, advisory services and policy research. As part of its research and publications programme, the Employment Sector promotes knowledge-generation around key policy issues and topics conforming to the core elements of the Global Employment Agenda and the Decent Work Agenda. The Sector's publications consist of books, monographs, working papers, employment reports and policy briefs.[4]

The *Employment Working Papers* series is designed to disseminate the main findings of research initiatives undertaken by the various departments and programmes of the Sector. The working papers are intended to encourage exchange of ideas and to stimulate debate. The views expressed are the responsibility of the author(s) and do not necessarily represent those of the ILO.

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Executive Director, Employment Sector

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1 See http://www.ilo.org/public/english/bureau/dgo/download/dg_announce_en.pdf

2 See the successive Reports of the Director-General to the International Labour Conference: Decent work (1999); Reducing the decent work deficit: A global challenge (2001); Working out of poverty (2003).

3 See http://www.ilo.org/gea. And in particular: Implementing the Global Employment Agenda: Employment strategies in support of decent work, "Vision" document, ILO, 2006.

4 See http://www.ilo.org/employment.

Acknowledgements

This paper is based on fieldwork conducted in Mali during September 2004, and further interviews and data collection during 2005. This research is part of the wider GIAN/RUIG project "Microfinance and Public Policy", coordinated by Bernd Balkenhol, ILO, and conducted in over 20 countries (see Balkenhol 2007). Renata Serra[*]and Fabrizio Botti[**] and Cherel-Robson (2007) represent a first output of the Mali research component. We would like to thank ILO, GIAN and RUIG for financial support; Bernd Balkenhol for being a constant source of inspiration, and all other colleagues in this project for useful comments and suggestions. Many thanks go to Milasoa Cherel-Robson for her admirable contribution during fieldwork; to Renée Chao-Beroff from CIDR for facilitating fieldwork in Pays Dogon and for sharing her many insights; and last but not least to all the people met and interviewed in Mali, especially Moctar Yalcouyé, Director of the CVECA's Service Commun, and Oumou Sidibé, Nyèsigiso's Director. The authors remain sole responsible for the content of this paper, and any remaining error.

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1. Introduction

The world of microfinance is constantly evolving and changing. One of the largest world microfinance institutions (MFIs), BRAC, based in Bangladesh, closed in 2006 the first micro-credit securitization in the developing world with support from major international financial groups. Such an operation will ensure BRAC access to US$180m for a period of 6 years.[5] This initiative is only one of several indicating the recent increasing commercialization of the micro-finance sector, as well as the greater profit opportunities open to big and small investors in this expanding market.[6] The attractiveness of a philosophy based on self-sufficiency, the urge to further expand operation scale beyond what allowed by limited and often temporary donor support, and the enthusiasm for social investment concepts have paved the way for some MFIs to turn to international financial markets for capitalization. Revolutions in technologies and in product characteristics have considerably reduced the transaction costs of doing business with the 'bottom of the pyramid', a newly coined term referring to the four billions people in the world living on less than two dollars per day (Prahalad, 2004).

Access to commercial capital, however, may not be the only constraint to serving the people at the very bottom of the pyramid. A substantial portion of the one billion living on less than $1 a day, lack the complementary assets that make dispensing microfinance to them a rentable enterprise, and live in non-conducive geographical, economic and policy environments. A recent IFPRI report shows that this "bottom of the bottom" has lagged seriously behind recent improvements in global poverty (Ahmed *et al*, 2007). While populous South Asia is home to the largest number of the global poor, the African continent has the highest proportion of its population living in absolute poverty and is home to 3/4 of the world's poorest (those living on less than 0.50 cents a day). Is it just a coincidence that Sub-Saharan Africa (SSA) is home to none of the financially successful MFIs that are big players in the capital market and attract the media attention?

Data from the Microfinance Information eXchange (MIX) are extremely telling of the African specificity. SSA is the only region in the world where returns on both assets and equity are negative (against returns on equity in Latin America over 10%), where average assets have declined over 2003-05, and where the median MFI does not attain financial self-sufficiency (Microfinance Information eXchange, 2006b). Small MFIs in the region are not even operationally self-sufficient. Though this fact is often explained by high personnel costs relative to low income levels and high delinquency ratio, a wider and complex set of reasons need to be invoked to explain the more difficult circumstances under which MFIs operate in the poorest African countries. The central question is whether MFIs are not self-sufficient because they

5 Securitization involves the selling to other financial institutions of loans or credits, which can then be removed from the MFI's balance sheet, thus boosting capital ratios. The proceeds of the transaction can be used to finance new loans.

6 Pierre Omidyar, E-bay Inc. founder, for instance has given $100m to set up a trust fund, to be invested in microfinance. E-bay also bought a web-based company 'Microplace', through which individuals can place their savings, which are then lent to small borrowers around the world (see www.microplace.com). This is one of many internet platforms arisen recently, offering intermediation and brokerage services between investors in the rich world and poor borrowers in developing countries.

have not compressed their costs sufficiently, or rather because they face insurmountable exogenous constraints.

The predominant paradigm within the microfinance world denies the existence of a trade-off between the two main objectives of financial self-sufficiency and poverty orientation. The belief is that a sufficiently large scale can allow any MFI to introduce cost-effective management techniques to provide the same services, without compromising on the quality or depth of outreach. An efficient MFI is reputed to be able to attain this level of maturity in the medium term. Thus, donor funding needs only to be temporary in nature, after which they can be comfortably phased out.[7]

This view is based on a selective understanding of both conceptual and empirical facts. At a conceptual level, the introduction of cost-effective management techniques, which lower the per-unit cost of providing services, positively depend on the existence of economies of scale, an untapped demand for financial services, and the possibility to reach a sufficiently large operational scale. An MFI in these conditions could, for instance, expand its operations by diversifying its pool of clients, from the poorest to the non-poor categories, and by cross-subsidizing among products with different returns. However, this argument takes into account neither the potentially prohibitive costs of operation expansion into some of the most rural and remote areas, nor other obstacles to cost compression that are outside of the MFI's sphere of control, such as clients' low and volatile incomes, government regulation, and high staff costs.

The empirical argument to support the orthodox view is based on comparative data showing MFIs becoming financially self-sufficient after some years of operations. For instance, the "Trend Lines 2003-05" tables from the already mentioned Micro-Banking Bulleting (Microfinance Information eXchange, 2006b) show that, in each of the three years, the only non-financially sustainable MFIs are the youngest (in the 0-4 years old category). The median MFI in both the young (4-8 years old) and mature (>8 years) age group exhibits consistently an index of financial self-sufficiency (FSS) well over 100%. What commentators fail to notice, however, is that the MIX sample is already a biased selection of worldwide MFIs, which, by adhering to the strict reporting requirements demanded, signal considerable institutional capacity, as well as a commitment to financial self-sufficiency. Even within this selected group, African MFIs, as noted above, are the worst in terms of financial performance: the median African MFI is not financially sustainable, and, when this figure is broken down by size, the small African MFIs appear to be particularly in trouble (FSS is between 68% and 75%).[8]

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7 The first edition of the so called "Pink Book" recommended a maximum of ten years of donor funding, on the basis of evidence that several micro-lenders had achieved operational efficiency in three to seven years, and full self-sufficiency within five to ten years (see: http://www.gdrc.org/icm/inspire/donor-guidelines.html). The most recent Pink Book, however, does not set any specific time limitation, only re-emphasizing that micro-finance can be both poverty reducing and financially sustainable, and that aid should be limited in time (see CGAP, 2004 and Microfinance Information Exchange, 2006a).

8 Moreover, FSS in the MIX database is calculated with methods that largely overvalue sustainability. For instance, the shadow active market rate used is the savings deposit rate of 3.5%, which, as demonstrated later, largely underestimates the market cost of capital.

The question about the possible trade-off between financial sustainability and poverty outreach is not a purely academic one. On the contrary, it remains of major importance as micro-finance (in particular its micro-credit component) continues to be regarded as a fundamental instrument to reduce poverty worldwide, and help meet the Millennium Development Goals.[9] Moreover, such issues call attention to what the role of donor assistance should be, and which elements need to be considered when deciding on whether to give or withdraw such a support.[10]

The prevailing orthodoxy has been fixated on the goal of financial sustainability. This fact has obscured the substantive question of whether external assistance should instead encourage and promote efficiency, rather than self-sufficiency per se. While MFIs striving to reach the latter may manage to attain the former, the two variables do not always move together.[11] For instance, an inefficient MFI may become financially sustainable thanks to a favorable course of events. Most likely and relevantly, it is possible that an MFI is quite efficient, yet it cannot attain sustainability due to a series of external constraints. A cursory look at the Mix data on African MFIs may be suggestive in this respect. Despite being the least financially sustainable, African MFIs' efficiency indicators, such as operating expenses/personnel expenses over loan portfolio, and productivity measures, such as borrowers per loan officers, are comparable to those of MFIs from other regions, while others, notably cost per borrower and cost per loan, are even better (Microfinance Information eXchange 2006b). On the contrary, average salary per GNI per capita is much higher than in all other parts of the world (more than five times than in Asia) showing the high incidence of a cost that MFIs can only in part control.

The requirement of clear and firm guidelines for donor cooperation has tended to prevail over the need for flexible strategies that allow judgment on a case by case basis. This has ultimately translated into a predictable timetable for external support, taking away from fundamental questions. May donor support act as disincentive to the adoption of necessary changes within MFI management and operations? Or is more substantial and long-term support needed for those MFIs who operate in a challenging environment that fundamentally constrains the margins for reaching both financial sustainability and poverty reduction objectives? In other words, how can donors distinguish between MFI responsibility, i.e. lack of efficiency, and external constraints when evaluating the case of supporting or not a financially weak MFI? What is invoked here is the crucial issue of *which* type of donor support is appropriate, thus moving the debate beyond the mere quantitative aspect (Morduch, 2005).

The aim of this paper is to reflect and respond to some of these questions through an in-depth analysis of the recent experience of two MFIs in Mali, both of which have witnessed a donor withdrawal in recent years. The objective is to trace the consequence of the observed reduction in external funds in terms of changes in both breadth and depth of poverty outreach during the period 1999-2004. The finding that the two MFIs reacted differently to donor

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9 This point was repeatedly emphasized by many relevant actors during the year of Micro-credit. See, for instance, http://www.uncdf.org/english/microfinance/newsletter/pages/2005_09/news_ reaching.php, as well as UNCDF (2005).

10 See Murdoch (2005) and Balkhenol (2007).

11 For a persuasive argument for the need to distinguish between efficiency and self-sufficiency both in itself and as criterion to guide donor assistance to MFIs, see Balkhenol (2007), esp. Ch. 1.

withdrawal is interesting and enlightening. While Nyèsigiso has continued to assure sound financial profile as well as a growth in its clientele, by sacrificing in terms of poverty orientation, the *Caisses Villageoises d'Epargne et de Crédit Autogérées des Pays Dogon* (self-managed saving and credit village banks in Dogon Country, henceforth CVECAs) have kept their focus on very poor and vulnerable clients, but suffered in terms of financial sustainability.

The contrasting findings obtained from the two MFIs suggest, on the one hand, that a trade-off may exist between financial sustainability and poverty outreach, pointing to the need to reconsider priorities and policies attentively in the face of a seemingly more complicated reality than what generally assumed. On the other hand, the findings about multiple constraints at MFI level, such as unsupportive regulatory framework, lack of healthy competition and low human capital of employees, also imply the need to think outside the box of traditional financial donor subsidies, to contemplate wider and more creative forms in which micro-finance advocates may contribute to relax some of the constraints inhibiting MFIs to grow their client base.

Admittedly, the difficulty to analyze the relationship between the objectives of financial sustainability and poverty outreach lies in the influence of several intervening variables, acting at different level: MFI efficiency, geographic location, population density, financial market characteristics, government regulation, and so on. Though it is impossible to statistically control for the role of these intervening factors on the basis of just two MFIs, the paper will attempt to analyze their role and significance, in order to deepen our understanding of the features affecting the peculiar evolution of our two MFIs in their specific geographical, social, economic and political context.[12]

The paper is structured as follows. The next section outlines the Mali context, while section 3 describes the two chosen MFIs. Section 4 is the main part of the paper, analyzing the evolution of subsidies, MFIs' financial performance, and poverty focus over the study period. Section 5 analyzes the role and influence of the intervening variables, and Section 6 provides final reflections on the results obtained.

2. The Mali context[13]

Any analysis and discussion of the micro-finance experience in Mali cannot be properly framed unless one refers to the distinctive underlying socio-economic conditions in the country. Mali is one of the poorest countries in the world, when judged by any of the major indicators. It ranks 173 out of 177 countries in terms of the Human Development Indicator, which has increased only minimally since 2000, from 0.330 to 0.380 (UNDP, 2007). Adult literacy is only 24%, while primary enrolment ratio is just above 50%. Over 1/3 of the population live on less than one

[12] For a study that utilizes a much wider data set covering a sufficiently large number of diverse MFIs see Balkenhol (2007), especially Ch. 8.

[13] This and the next section rely heavily on Serra, Botti and Cherel-Robson (2007).

dollar a day, and 72% live on less than two dollar a day, a small improvement over the 1990s. These average figures mask important differences among the poor themselves, which represent a major challenge for micro-finance institutions, but they somehow helps us to put in perspective the frequently made comment that 'everyone is poor in Mali'.

Although the rate of economic growth has not been negligible lately, Mali's economy remains highly vulnerable due to its dependence on primary commodity exports (cotton, cattle and gold) and its lack of diversification, with most of the population occupied in the subsistence agricultural and trading sectors. Insufficient infrastructures and a very high-risk environment, due to very harsh agro-climatic conditions, namely the threat of droughts, limit investment opportunities and the potential to attract capital from outside (except into the new and growing gold sector).

Politically, Mali is considered a free and stable country since the fall of dictatorship in 1991, praised for the attainment of a peace agreement with the Touareg population living in the Northern regions, after years of bloody civil and ethnic conflict. Political stability has opened the door to increased donor intervention and funding, and enabled the country to become eligible for international debt reduction under the HIPC initiative,[14] which, among other things, has released new funding specifically for micro-finance development.

As in many other poor countries, there exists in Mali a large unmet demand for financial products, given the inability of the commercial banking sector to extend operations much beyond the cities. Low rural population density, low and extremely volatile incomes, and poor quality of infrastructures are among the main constraints. With 65% of the Malian population residing in the countryside and high rates of urban financial exclusion, there is therefore a high potential for the micro-finance sector to grow.[15]

The micro-finance sector in Mali has been regarded as among the most vibrant and promising in Africa, facilitated by an early clear regulatory framework, enthusiastic donor support, and a conducive social and institutional environment. MFIs do, however, face increasing challenges ahead, linked to a slow deterioration of credit portfolios, governance problems and poor definition of roles, the downturn in cotton prices, and a growing competitive environment.

3. Nyèsigiso and CVECA

The paper is based on fieldwork undertaken during September 2004, and further financial and statistical data obtained in 2005.[16] Fieldwork was carried out both in Bamako, Mali's capital, and in the *Pays Dogon*, located in the Mopti region in the Northern part of the country, and

[14] The Heavily Indebted Poor Countries (HIPC) Initiative grants some forms of debt relief to qualifying countries as part of the assistance and reform packages delivered by the World Bank and IMF.

[15] Although the MF sector provides only 7% of the total volume of credit and 5% of deposits, it assures a more capillary presence in the territory, with a number of counters open to the public amounting to 85% of the total (Bruntrup 2002).

[16] Besides a number of phone contacts to follow-up on the fieldwork, we also met Moctar Yalcouye, Director of GIE Guinedou, which provides assistance to the individual CVECA branches in Pays Dogon, during the ILO-sponsored conference in October-November 2005.

resulted in the collection of quantitative and qualitative data from a number of sources: survey questionnaire administered to MFI managements; focus group meetings with actual and potential clients; and interviews with MFI staff, local people, donors, and government representatives.

Table 1. Nyèsigiso and CVECA Pays Dogon compared

	Main focus	Legal status	Year of Creation	Capital (US$)	Compulsory deposit requirement	Clients No	Group lending	Staff
NYÈSIGISO	Urban/Rural	Cooperative	1995	1,092,551	Yes	199,204	In some products	Paid
CVECA	Rural	Village bank	1986	49,800	No	33,505	No	Mostly ınpaid

Figures are valid for 31 Dec. 2003. Exchange rate FCFA/US$= 522.466 (as of 31.12.2003).

Sources: Fieldwork Questionnaires

The reasons for the selection of Nyèsigiso and CVECA are multiple. Although quite different in institutional structure, nature of operations, and size (Table 1), the two MFIs are among the most relevant and interesting examples of MFIs in Mali, exhibiting innovative strategies, leadership quality, and long-term vision. They both have existed for over ten years now, and have been object of considerable attention in the literature due to their visibility, permanence, impact and number of clients. As they operate in different regions, and geographical and socio-economic realities, their joint study can potentially highlight the influence of a distinct set of factors.

The first Nyèsigiso branch was created in 1990 in Bla (Segou region), with technical support by Developpement International Desjardins (DID) and financial support by the Canadian International Development Agency (CIDA). The institution became a credit union network in 1997 and is now, after Kafo Jiginew, the second largest MFI in Mali, active in the capital Bamako, and in the urban and rural areas in the Segou and Koulikoro regions.

Organized according to cooperative principles, each branch mobilizes savings and distributes credits to its members. Both individual and group loans are conditional to preliminary saving, and subject to a personal guarantee. Individual loans constitute the vast majority (79% in 2003) of the loan portfolio,[17] although some of its most renowned products are special integrated loans targeted at groups of poor women. Credit and saving with education (in French, *Credit et Epargne avec*

[17] Interview with Ely Terra, Nyèsigiso Administrative and Financial Director, September 2004.

Education or CEE)[18] is a group-lending scheme that includes an educational and nutrition-training component. Although no specific poverty-targeting tool is employed, some features of the operational methodology are deemed to induce poor people to self-select into the programme. Credit is offered to solidarity groups of 15-20 women, often located in isolated areas, who meet weekly for repayment, and to receive their educational, nutrition or business training. Loan sizes are small, starting from about $US 50 (25.000 FCFA) during the first cycle loan, and up to $US 200 (100.000 FCFA from the fourth cycle). A comparison between CEE clients and clients of other products offered by Nyèsigiso has shown that the former are significantly poorer than the latter.[19]

In 2002, Nyèsigiso initiated a reform process, consisting in reducing and restructuring the number of branches, and computerizing the management system, with the aims to address governance dysfunctions, improve internal controls, and achieve financial and institution sustainability [20]. Nyèsigiso is now listed in the Mix Market database since 2004.

CVECA Pays Dogon was launched by a French NGO, CIDR (*Centre International de Développement et Recherche*), in 1986, with financial support by the German development bank KfW, and the cooperation of the Malian Ministry of Rural Development (*Direction Nationale de l'Action Coopérative*, DNACOOP). This highly decentralised system of self-managed branches of savings and credit represents the first example of village-based MFI in Africa, then successfully transplanted in several other African countries. Its main innovative feature is to start with the village as the territorial basis for solidarity and for generating social pressure, and then integrate the bank upon the pre-existing village institutions. The CVECA's system exhibits a two-tier governance structure, with village banks (*caisses villageoises*) at the bottom, and Regional Associations (one for each administrative district hosting CVECAs, e.g. Bandiagara, Bankass and Koro) at the top. Village banks are managed by an executive organ, whose mostly voluntary members are elected by the village assembly, called *Comité de Gestion* (management committee). The village assembly, involving both members and non-members of the CVECA, takes decisions on internal regulations, interest rate policy, actions against loan defaulters, and profits allocations. The overlapping between village bank regulations and community rules lowers screening and monitoring costs, and makes social enforcement effective, even with weak formal structures for contract enforcement.

Part of the village bank's funds come from refinancing contracts with the National Bank of Agricultural Development (BNDA)[21], through a special line mainly funded by the German bank KfW (Kreditanstalt fur Wiederaufbau).[22] BNDA lends to regional associations at an annual interest rate of 8%. Associations charge individual banks an 18% annual interest rate and, in turn, each bank provides loans to its members at 27% interest rate (ceiling set by the agreement with Ministry of Finance). BNDA refinancing amount is proportional to deposits mobilised (150% of village bank

[18] The NGO Freedom From Hunger has introduced CEE in a number of MFIs in Mali and in the region, with USAID financial and technical support, but has ended its subsidies to Nyèsigiso for this product in 2002.

[19] See MkNelly and Nteziyaremye (2001).

[20] The restructuring was a partial response to severe managers' fraud and the consequent 1998 growth crisis.

[21] CVECA still relies on deposits as the main source of loan funds, but the share of loan portfolio financed by BNDA soft loans has grown since 2000, and it was 29.2% at the end of 2004.

[22] Regional Associations submit village banks' loan requests to BNDA, and provide a guarantee for the loans. Each village bank is jointly responsible for loans guaranteed by their association, and in case of one bank default, the association repays BNDA with funds collected by member contributions.

deposits for the first two years; 200% of their deposits afterward)[23] providing village banks with the incentive to savings accumulation. In turn, by offering attractive interest rates on deposits, CVECAs manage to transfer funds from surplus to deficit households, thus fulfilling a true financial intermediation function within the village.

When CIDR support ended in 1997, an independent structure *GIE Guinedou,* also called *Service Commun*[24] took over CIDR functions, such as auditing, management training, and assistance in preparing the general assembly and the refinancing dossier. The *Service Commun*, which is a legally autonomous entity, charges each village bank for the services provided. The role of the *Service Commun*, in practice, goes far beyond its institutional mandate, in that it virtually keeps the village bank system together and on its feet. The staff is dedicated and motivated, galvanizing in turn banks' management committee members; it fosters trust, and promotes villagers' confidence in long term bank sustainability.[25]

Before analyzing recent changes in the relationship between subsidies, growth, and poverty outreach, it is important to consider how the chosen MFIs compare to others in the region when it comes to poverty outreach. In Mali, as in many other African countries, accurate poverty targeting is not a widespread feature of poverty interventions (Serra, 1999). This is the result of a combination of factors, mainly the widespread poverty in the country – which leads to the presumption that most beneficiaries of any intervention are poor anyway – and sheer lack of resources for undertaking costly targeting exercises and training project personnel. Typically, pro-poor interventions consist of providing services to categories of the populations that are *a priori* deemed to be particularly vulnerable, such as women, children, old people; and rural, isolated, and disadvantaged communities. MFIs are no exception in this respect. For instance, Nyèsigiso has aimed at female clients, initially in urban areas, while CVECAs have chosen to locate in the poorest and most remote areas of Mali, e.g. in the Mopti and Segou regions.

Data show that even these easily identifiable markers can be indeed a cost-effective way for MFIs to reach the poor in Mali. Both the average loan balance (ALB) and the average saving balance (ASB) across the main MFIs in Mali are half the respective averages for MFIs in West Africa, and about 2/3 of the averages for MFIs in Africa as a whole (see Table 2). Although this may simply reflect the higher levels of poverty in Mali, at least the lack of specific targeting does not seem to prevent Malian institutions from serving a large number of the poor.

Data from Table 2 suggest that CVECAs, even within Mali, are among the most successful MFIs in terms of reaching very poor people, a fact confirmed by other evidence. For instance, a study found that in the districts of Bandiagara, and Bankass respectively, 73%, and 48%, of households that are members of CVECAs have wealth below US $2,000, compared to only 54% and 38%,

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[23] Nguyen, Ouattara and Gonzalez-Vega (1999).

[24] A GIE, *Groupement d'Intèrêt Economique*, is a Malian-specific legal form corresponding to a private association allowed to conduct business activities.

[25] Visits to the village banks in Bagou, September 14th, and in Guillassogou, September 15th, 2004, both in the Koro district.

respectively, for non-members (Nguyen *et al*, 1999). Also Nyèsigiso is good in targeting female clients (half of the total) and in keeping a relatively poor clientele, judging from its loan and saving balances, which are below Malian average, and certainly lower than those of its main competitor, Kafo Jiginew.

Table 2. Malian Microfinance Industry: Outreach indicators - Tot, (Avg)

MFI	Active borrowers	GLP *US$*	N. savers	Savings *US$*	ALB per borrower *US$*	ASB per saver *US$*	Women Borrowers *%*
Nyèsigiso	27780	12169755	182571	10700240	151	84	49.9
CVECA	6585	408825	2050	170231	62	83	39
Kafo Jiginew	94428	20959211	149109	13430012	222	90	28
Kondo Jigima	5314	3051781	49714	2374520	574	48	41
Miselini	11431	1026639	11431	221084	90	19	100
Piyeli	4745	1206656	11118	675628	254	61	63
Soro Yiriwaso	11385	692603	0	0	61	na	100
MALI	161668	39515470	405993	27571715	(202)	(64)	60.1
West Africa*	574983	258851781	1762458	236929906	(406)	(121)	Na
SSA	2257894	703502136	5919652	685809765	(307)	(112)	61

Data refer to 31/12/2003

* West Africa here includes 66 MFIs from 9 countries (Benin, Ghana, Guinea, Ivory Coast, Mali, Nigeria, Senegal, Sierra Leone and Togo).

Sources: Field work Questionnaires, September 2004; www.mixmarket.org; Lafourcade *et al*. (2005).

4. The relationship between financial sustainability and poverty outreach

The aim of the central section of the paper is to analyze the relationship between financial sustainability and poverty outreach in a period of tightened donors' funding. Therefore, it is first necessary to trace the declining trends in subsidies.

4.1. Evolution of subsidies

Accounting for the trend of subsidies provided by the respective donors to the selected MFIs is a challenging task. The shortage of reliable studies on the topic proves there exist both technical difficulties and psychological barriers among MFIs and donors to identify clearly subsidy trends.

In contrast with the spirit of the guidelines on donors' "best practice" (CGAP 2004 and 2006), protracted subsidization is still an on-going part of microfinance. Donor support to MFIs translates into different types of direct subsidies (e.g. grants to cover temporary operational deficits, capacity building, equity or the provision of technical support to local staff and management) and indirect support (provision of loans at below market rates or "soft loans", and loan guarantees to commercial banks).

The overall cost-effectiveness of microfinance programs is still largely unknown, which prevents comparisons of the returns to microfinance subsidies with the returns to alternative poverty-reducing measures. Though donors should be most interested in this type of exercise, they do not seem to have invested in it, and only few attempts have been made to measure subsidies, mainly within academia.[26] Yaron's (1992) "subsidy dependence index" was the first attempt to systematically synthesize the different sources of subsidization of development financial institutions, by estimating the active interest rate level required to make a lender able to cover its full costs.

In this paper, we measure subsidies in terms of annual flow transfers to MFIs, adjusted for the market opportunity cost of capital, in order to develop a consistent representation of the evolution of donors' support during 1999-2004.

Assessing implicit subsidies through soft loans requires an estimate of the market cost for capital the MFI would incur in the absence of the cheap credit (Yaron, 1992). The implied subsidy equals the net gain earned through the MFI's access to a concessional rate that is lower than the market rate. It needs to be noticed that, here as in similar exercises (e.g. the Subsidy Dependence Index), there is a strong underlying assumption that "all else is equal", implying that the MFI would not adjust its borrowing amount, were it to borrow exclusively at the market rate (Armendariz de Aghion and Morduch, 2005). Capital grants are recorded, in the balance sheets of both the MFIs, on the liability side, accounted as equity because they neither have to be returned as debt nor do they accrue interests (Schreiner, 2003). These subsidized equity funds are thus treated as zero-interest loans, and the annual measure of implicit subsidies estimated accordingly (Morduch, 1999). Operating subsidies and what is usually recorded in the income statement as "annual depreciation of donated fixed assets" are treated as yearly flows of subsidization without any adjustment.

A different market interest rate has been used to calculate implicit subsidies for the two MFIs in order to capture the diverse access opportunity and linkages to banking funding.

The Malian banking sector is small and consisting of nine banks, some of them providing financial services to the local microfinance industry. The *Banque National de Developpement Agricole* (BNDA), a government-owned agricultural development bank, has been the main provider of financial services to MFIs, operating as an executive bank for international donor agencies (AFD and KfW) with a small share of its portfolio devoted to microfinance operation lending at an 8% interest rate. The *Banque International pour le Mali* (BIM) has also been lending to selected networks at 8% interest[27]. Nyèsigiso, as all the local mutualist networks, relies on bank loans mostly to bridge seasonal liquidity shortages (Seibel, 2005); being in the pool of relatively internationally renowned Malian MFIs listed in the MIX market database it has had a stable access to private lender funds at 8% interest rate.

[26] See Khandker (1998) and (2003) on Grameen Bank and BRAC in Bangladesh; Morduch (1999) and Schreiner (2003) on the Grameen Bank; Towsend and Yaron (2001) on BAAC, Thailand.

[27] Nyesigiso and Kondo Jigima were also BIM clients.

On the other hand, the CVECA system has limited access to commercial bank credit, given the risky profile of its activity, target clientele and location. Its refinancing demand is exclusively met by BNDA's subsidized funds at 8%. Therefore, the implicit subsidies accruing with the capital grant (which has zero-interest) and through soft loans would need to be estimated assuming, as a counterfactual, that CVECA would have paid, if it were not for concessional loans, an interest rate equal to the 8% benchmark plus a 3% adjustment (mark-up) as a reflection of its riskier profile and extremely constrained access to market sources of capital. The rate of 11% is also slightly below the average of the cost that CVECAs have incurred over the same period in order to mobilize deposits. Since CVECAs follow a first-saving approach[28], whereby up to 2/3 of their assets have been financed through deposits, a shadow interest rate of 11% better reflects the fact that CVECA faces a true cost of capital greater than Nyèsigiso.

In the light of the criteria thus far exposed, Table 3 reports the amount of subsidies provided to Nyèsigiso for the period 1999-2004, where the shadow interest rate used to calculate the implicit subsidies is 8%, reflecting the opportunity cost of capital for a major Malian mutualist institution.

The declining trend in the table reflects the progressive withdrawal during 2001-2004 of the financial, and respectively technical, support provided by the Canadian Development Agency (CIDA) and the NGO Developpement International Dejardins (DID), Nyèsigiso's main donors. Whereas DID is still providing ad hoc support, for instance for the renovation of the network information and administrative system, and the provision of low cost technologies to branch cashiers, CIDA is not planning any additional funding for Nyèsigiso. Other donors withdrew also in 2002, e.g. Fond Commun de Développement Mali-Canada and USAID/Freedom From Hunger (FFH), the latter discontinuing subsidies to CEE, the special financial product targeted at the poorest women.

Table 3. Nyèsigiso subsidies trend 1999-2004

	1999	2000	2001	2002	2003	2004
Capital grant	23719	22785	19666	13486	18621	15680
Operating subsidies	435712	319357	348317	172349	117592	83684
Annual depreciation of donated fixed assets	93933	98466	83766	60763	92768	69364
TOTAL	553434	440608	451750	246598	228981	168728

Sources: Fieldwork questionnaire; Nyèsigiso consolidated balance sheet data. All figures converted in US$ at 2003 exchange rates.

[28] Since the first phase of the project implementation, each village bank has lent only deposits mobilized within the village. Incentives to maintain a higher loan to deposit ratio has not been diluted since BNDA refinancing loans were added to CVECA liabilities given the multiplier-mechanism to deposit accumulated locally of soft loan provision explained above.

The evolution of donors' support to CVECA during 1999-2004, shown in Table 4, shows a declining trend over the period, although less consistently than for Nyèsigiso.

This is so because donor withdrawal was experienced, in a gradual form, well before our starting cut-off year of 1999. During 1993-1995, while the costs of structural design and training were still covered by donors, village banks and their clients began assuming part of the project costs, as well as continuing to cover the operation costs. CVECAs achieved fuller autonomy from both CIDR and the government of Mali in 1995-1997, when the newly created *Service Commun* started to charge for service provided to network members. In 1997, the network was able to cover all its operational cost and achieve financial sustainability, thanks to its successful governance and organisational structure. However, difficulties surfaced soon after, showing the vulnerability of the CVECA structure in the face of systemic and institutional crises, the worst of which occurred during the period 1998-2000. Some village banks were victim of illegal fund appropriation by staff, while others suffered the negative impacts of a poor harvest, and the Ivory Coast crisis. As a result, several village banks were forced to close down. For these reasons, the network continued to benefit from various forms of support, for instance to cover its operational deficit in both 2000 and 2001.

Overall, and despite these ad-hoc forms of support, Table 4 does shows a marked decline in the extraordinary forms of aid between 1999 and 2004, thus emphasizing the tendency already in act since 1993.

Table 4. CVECA subsidies trend 1999-2004

	1999	2000	2001	2002	2003	2004
Soft loans BNDA	6452	3076	2438	1804	3174	3019
Annual depreciation of donated fixed assets	10484	6986	9528	10429	10391	9734
Capital grant	7203	8555	9046	7836	6667	5554
TOTAL	24139	18617	21012	20069	20232	18307

Sources: Fieldwork questionnaire, September 2004; CVECA consolidated balance sheet data. All figures converted in US$ at 2003 exchange rates.

4.2. Financial sustainability

Lessened external financial support usually leads MFIs institutions to improve their financial sustainability indicators in order to ensure survival through time, and our two MFIs are no exception in this regard. We have calculated indices of both operational self-sufficiency (MFI's ability to cover operating costs with its revenues) and financial self-sufficiency (ability to cover expenses with revenues net of subsidies, i.e. priced at market rates) according to standard microfinance practices (see Ledgerwood 1999). We reemphasize that we use higher shadow interest rates than, for instance, Microfinance Information eXchange, whose inability to reflect more realistic costs of capital masks, according to us, the extent to which even the best MFIs may be dependent on subsidies. As a result, our FSS indices appear to be lower than those elsewhere (see Figure 1A and 1B). In addition, our calculations suggest that the two Malian MFIs have difficulty even in reaching operational self-sufficiency.

When plotting sustainability indices during the period 1999-2004, it is apparent that both MFIs indeed strived to attain a greater financial soundness, pushed in all likelihood by the decrease in external financial support. There is an opposite movement between the subsidy lines on the one hand and the OSS and FSS lines on the other hand, especially in the case of Nyèsigiso. Although such a correlation does not prove causation, it does point to the context and the pressures under which the two MFIs have operated more recently.

The question to analyze next is whether the observed reduction in donors' subsidies and associated incentives for improving financial self-sufficiency have narrowed the margins for maintaining breadth and/or depth of outreach. Any decrease in the poverty impact potential over time or any reversal of a previous positive trend in outreach will be carefully looked into as potential signals that the subsidy's withdrawal may involve the exacerbation of the trade-off between poverty focus and financial self-sufficiency.

4.3. Poverty impact: breadth and depth of outreach

To address this issue, we analyse trends in the volumes of activity and in the breadth and the depth of outreach for both MFIs during 1999-2004, by means of a variety of quantitative and qualitative evidence, the latter mainly gathered from discussion with MFI managers, staff, and actual and potential clients.

Table 5. Outreach measures, Nyèsigiso

	1999	2000	2001	2002	2003	2004
Personnel	282	347	351	337	327	337
Total Clients[a]	69,367	81,354	88,425	159,416	199,204	na
Loans:						
Active Borrowers[b]	7,928	8,785	10,516	9,977	27,780	25,423
No. Loans Disbursed	7,928	8,785	10,516	9,977	14,347	na
Gross Loan Portfolio *US$*	6,458,007	7,048,262	8,632,855	10,053,058	12,169,755	8,438,797
Savings:						
Voluntary Savings *US$*	7,449,593	8,226,019	9,187,070	10,346,710	10,700,240	7,507,669
No. of Savers	69,367	81,354	88,425	99,522	127,435	182,571

[a] Due to changes in Nyèsigiso's reporting methods, number of clients refers to MFI members (individuals, groups or associations) until 2001, but to the number of individual clients thereafter.

[b] Figures for active borrowers are not available for 1999-2002, and thus number of loans has been used instead.

[c] GNI per-capita is Gross National Income, converted in US$ using World Bank Atlas Method, divided by the mid-year population

Exchange rate FCFA/US$=522.466 (as of 31/12/2003).

Sources: Fieldwork Questionnaires and Interviews; www.mixmarket.org.

Nyèsigiso encountered a steady period of growth during 1999-2004, reflected in the continuous rise in the number of clients, in its activity portfolio, and in the volume of loans and deposits (see Table 5). It was only during 2004, according to data obtained after fieldwork that Nyèsigiso experienced a setback in its growth trends – which seems to have been episodic and has reversed into a more positive trend more recently.[29]

Poverty outreach indicators for Nyèsigiso are summarized in Table 6. Unfortunately, it is difficult to obtain a consistent picture of the average loan size indicator in the case of Nyèsigiso, because of changes in the methodology of client records (up to 2002, each lending group was recorded as one client, whereas afterwards all records are individual), and discontinuities in the series for the number of active borrowers. Nonetheless, the data available point to a 30% increase in the average loan size for the period 1999-2002 for which consistent data exist.

[29] See www.mixmarket.org.

Table 6. Poverty Orientation Proxies, Nyèsigiso

	1999	2000	2001	2002	2003	2004
Transactions size:						
Average Loan Balance per Borrower *US$*	814	802	821	1008	438	332
Average Loan Balance per Borrower/ GNI per capita *%*	325.6	334.16	356.95	420	151	92.2
Average Savings Balance per Saver *US$*	107	101	104	104	84	41
Average Savings Balance per Saver/ GNI per capita *%*	42.8	42	45.2	43.3	29	11.4
Gender:						
Female Clients *%*	Na	56.6	51.8	45	43	49.9
Female Managers *%*	Na	30	22	27.7	29.2	25.1
Credit to women *%*	Na	44.8	36.5	39.5	37.1	38.5

Exchange rate FCFA/US$=522.466 (as of 31/12/2003).

Sources: Fieldwork Questionnaires and Interviews; www.mixmarket.org; www.did.qc.ca.

An increase in average loan size over time seems to be a common feature to many MFIs, especially when they mature in age. In fact, the positive correlation between age, financial self-sufficiency and average loan and saving balances is a quite constant feature reported in data from Microfinance Information eXchange. Although the positive correlation between self-sufficiency indicators and average loan size should not be read as indication of a causality nexus, this type of evidence demands serious consideration. Greater loan size may indicate either that the client population is able to borrow larger amounts over time, possibly because of the successful poverty reduction impact, or, instead, a shift in the characteristics of the average client, towards better-off segments of the population. We argue that, in the case of Nyèsigiso, the latter possibility seems much more likely, when additional confirming evidence is considered.

Firstly, Table 6 shows a decrease in both the number of female borrowers and in the proportion of loans to women, indicating a move away from potentially more vulnerable categories. Accordingly, the percentage of total volume of credit going to solidarity groups rather than to individuals declined, in just one year, from 25% to 21% during 2002-3.[30]

Secondly, the main product targeted at the poorest women, CEE, appears to have undergone serious difficulties recently. Elements emerging from fieldwork discussion and meetings suggest in a compelling manner that some of the changes induced after donor withdrawal to make the product sustainable have made it expensive to clients and less efficient for the staff. As for clients, although Nyèsigiso provides CEE at the same interest rate level as before (33%), higher collateral is now required as well as additional charges for training costs, which were previously

[30] The corresponding figures for previous years could not be obtained due to changes in the way the MFIs records clients since 2002.

subsidised. Clients at two different branches visited in Bamako expressed their complaints at the excessive terms associated with the product: for instance, out of a loan amount of about US$100 (50.000 FCFA), CEE clients have to pay $20 in guarantee, $30 in training costs, and $20 to a security fund, which leaves them with only $30 in actual credit to use. Members have admitted that they often seek credit from family and informal lenders in order to pay back CEE loans, a fact that, if true on a larger scale, would undermine the substance of the claim that this type of credit schemes are characterised by high repayment rates.

Other problems with CEE schemes frequently mentioned are the large group size (up to 20 women), which results from the need to lower costs; and group heterogeneity (e.g. members' different socio-economic status and business opportunities), which suggests insufficient investment in the process of client selection. Both features have apparently resulted in weaker within-group solidarity and commitment, and thus lower repayment rates. In other words, attempts to curtail costs of managing CEE products have led to their reduced rentability. Furthermore, field staff do not like CEE products, and, typically, push clients to graduate sooner to other loans, such as CEFA[31] , based on smaller group size and higher average amount, which yield a more sustainable and profitable client portfolio. In conclusion, despite CEE is, in terms of revenues, the second most profitable Nyèsigiso's financial product, and Nyèsigiso's management was formally committed to CEE as tool to target and attract potential poor clients, the volume of CEE average active loans decreased from about US $2,000 to $1,500, just during the first year subsidies were withdrawn, while delinquency rate increased from 1% to 6.41% (Union Annual Report 2003).[32]

A third factor pointing to a diminished poverty focus is the observation that about 70% of the female clients met during focus group discussions could read and write. In a country like Mali, where adult literacy is still restricted to a tiny minority, such a figure suggests that the typical client cannot be easily classified as poor.

Finally, Nyèsigiso managers have manifested quite openly to us their inability, given the increasingly difficult environment for MFIs, to keep up with the poverty reduction objective, which, according to them, should be instead pursued by the government or by donor-financed projects. Nyèsigiso is clearly aiming at transforming itself into a modern financial institution that provides services to those who lack access to it - and here financial exclusion is an even larger concept than poverty. In order to maintain financial soundness, Nyèsigiso is planning to target urban sections of the populations, such as civil servants, and private sector employees. This strategy is presented not just as a choice, but as a necessity of times.

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31 Crédit et Epargne Femme d'Affaires (CEFA) is a solidarity group lending scheme targeted to women clients upgrading from several successfully completed CEE loan cycles. Women self-select themselves in solidarity groups of 4 to 7 jointly liable members who access greater loan amounts (480 US$ on average) with monthly repayments. The solidarity group manages autonomously current transactions (repayment and savings collection) with the local branch with less involvement of *animatrices* (field agents).

32 Moreover, the intention is to discontinue CEE in Bamako (Interviews with Mr. Ely Terra, Nyèsigiso Admistrative and Financial Director, September 2004).

CVECAs Pays Dogon, contrary to Nyèsigiso, experienced a serious decline in the volume of its operations. The value of the loan portfolio decreased by more than 45% throughout 1999-2003 (see Table 7),[33] while the value of the short-term deposits was halved. The number of active clients, e.g. those who actually borrowed or deposited in the given period, declined by a significant amount, reflecting CVECA's diminished ability to reach its clientele.[34]

Table 7. Outreach measures, CVECAs

	1999	2000	2001	2002	2003
Loans:					
Personnel	688	817	856	824	658
Total Clients	29,007	30,762	32,628	32,413	33,505
Active Borrowers	7,504	7,963	7,031	6,849	6,585
No. Loans Disbursed	10,554	10,294	9,639	8,983	8,638
Gross Loan Portfolio *US$*	765,411	669,910	426,295	378,589	408,821
Savings:					
Voluntary Savings *US$*	747,684	592,021	604,764	392,803	362,808
No. of Savers	2,155	2,859	2,110	1,878	2,050

Exchange rate FCFA/US$=522.466 (as of 31/12/2003).
Sources: Fieldwork Questionnaires and Interviews.

At the same time, CVECA Pays Dogon does not seem to be heading away from a focus on the very poor. On the contrary, all indicators in Table 8 attest to their increased ability to reach potentially vulnerable groups, such as women. The percentage of female borrowers went up from 17% to 39% during 1999-2003, while the average loan and saving balances halved in the same period. This dramatic decline could be due to the reluctance of either clients to borrow larger amounts (women are particularly conservative in this respect) or of the branch to expose itself to higher levels of credit, in a period of economic crisis and institutional difficulties. However, the fact remains that CVECA clients continue to be poor or very poor villagers, who find no other means by which supplementing their demand for credit or saving.

The CVECAs may thus present a contrasting case to Nyèsigiso, in that they witness a considerable decline in their outreach potential, in the context of a possibly increasing, or in any event undiminished, poverty profile of their clientele. Though this is not the classic case of mission drift, the growth crisis is particularly damaging for an institution that should, and could, reach an increasingly large number of poor people in the region where it operates. Although, again, it is difficult to demonstrate a causal link, several elements suggest that, for

[33] Unfortunately, due to lack of sufficient number of data, the year 2004 could not be included.

[34] The increase in the number of MFIs operating in the region can only partly explain this setback, given the still large unmet demand for financial services in Pays Dogon.

micro-finance units catering typically to poor farmers in the poorest areas in the world, the continuation of financial service provisioning, at times of declining donor support and external constraints, is increasingly difficult.

Table 8. Poverty Orientation proxies, CVECA

	1999	2000	2001	2002	2003
Transactions size:					
Average Loan Balance per Borrower *US$*	102	84	61	55	62
Average Loan Balance per Borrower/GNI per capita *US$*	40.8	35	26.52	22.9	21.38
Average Savings Balance per Saver *US$*	347	207	287	209	177
Average Savings Balance per Saver/GNI per capita *US$*	138.8	86.2	124.8	87	61
Gender:					
Female Borrower	17	29	35	37	39
Female Saver	15	14	15	17	17

Exchange rate FCFA/US$=522.466 (as of 31/12/2003).
Sources: Fieldwork Questionnaires and Interviews.

Reduced donor support has meant that the CVECAs need to pay by themselves for the high cost of bank staff training, an item which was formerly subsidised by CIDR, and which now limits to a great extent the needed increase in client number and operation volumes. As mentioned earlier, training costs are quite substantial since CVECAs use unpaid personnel in the administration, and the latter changes after a fixed term – typically, every batch of volunteers in the management committee is trained every five years.

Moreover, without external support, geographical expansion is also limited. This is so, because new operations imply moving to under-served areas, which are also the most remote and/or the poorest, and thus present the highest costs of implantation, by a large factor greater than comparable institutions in urban areas (Cerise, 1999).[35] According to GIE Guinedou's managers,[36] there is a sort of catch-22 implied here. Full financial sustainability may be possible only by attaining significant economies of scale, which would require an increase in number of village banks well above 60. However, further expansion of branches is too costly a

[35] A village with an insufficient number of people who can read or write would require very high costs of training for a CVECA to be established, given a CVECA recruits staff from within the village.

[36] Interviews with GIE direction in Koro, 13-15/09/2004: Mr. Moctar Yalcouyé (GIE director), Mr. Mallick Tembely (Finance and supervision), Mr. Daniel Saye (training).

strategy to be possibly undertaken at the current stage. If nothing else changes, substantial amounts of finances at concessional rate will be required in order to expand the network to a size sufficiently large to reap necessary economies of scale.

5. Contextual factors

The relationship between the objectives of financial sustainability and poverty outreach depend on a number of intermediate variables, both endogenous and exogenous. Within the former group, operational efficiency and productivity are very important. According to what we have already called the ‘orthodox view’, cost-compression is the key for attaining a lower depth of outreach while increasing breadth of outreach and financial self-sufficiency. Evidence of a trade-off between the MFIs objectives is therefore often dismissed as spurious correlation, due to the MFI inability to cut down on costs and reach the efficiency frontier.

This hypothesis however does not seem to apply, especially in the case of Nyèsigiso. Table 9 shows that a standard measure of efficiency, i.e. the ratio of operational expenses over loan portfolio, follows a variable pattern, in which the ‘increase’ episodes (in 2000 and in the already mentioned difficult year of 2004) appear to be temporary and not part of a trend. More interestingly, the productivity per staff member increased considerably over the study period, especially after 2002, reflecting the MFI pressure to withstand to the challenge of financial independence. Although it is difficult to say what the maximum efficiency would be, Nyèsigiso’s increase by 120% of staff productivity indicators can be interpreted as closing significantly the gap. Again, the singular increase in portfolio risk during 2004 appears to be an occasional event, rather than part of a trend of deteriorated risks.

Table 9. Efficiency indicators, Nyèsigiso

	1999	2000	2001	2002	2003	2004
Efficiency:						
Operational Exp/Loan Portfolio %	36.6	48.2	40.7	31.8	30.7	38.5
Productivity:						
Borrowers per staff member	28	25	30	30	85	75
Savers per staff member	245	234	252	295	390	542
Portfolio Quality:						
PAR > 90 days ratio %		4.09	2.53	1.81	3	9.83

Exchange rate FCFA/US$=522.466 (as of 31/12/2003).

Sources: Fieldwork Questionnaires and Interviews; www.mixmarket.org (for 2004 figures).

Efficiency indicators seem to be very good for the CVECA network, and sensibly improving over the period (except a peak in 2001), thanks mainly to the ability to rely on voluntary staff (Table 10). The drawback is of course that the productivity of such staff may be lower than otherwise, as attested in the Table. It should be noticed, however, that, as most of the staff works on a voluntary basis for just few hours a week, productivity indicators should be calculated on the basis of hours worked, not per total staff time. Also, CVECA's ability to maintain the same clients/staff ratio over a period of growth crisis can be regarded as a partial sense of success.

Most importantly, Malian MFIs operate under such wider environmental and institutional constraints, that it is not clear how large is the scope for further cost compression. A brief review of these exogenous factors will help put the wider context in perspective.

The Malian economy, as partly mentioned earlier, is characterized by low population density, major systemic shocks to agriculture mostly linked to the physical environment (droughts, the plague of locusts), increasing urban income uncertainty (as attested by the flux of entry of former civil servants into the informal urban sector), underdeveloped or missing markets, and high general levels of poverty. All these elements lower the size of potential transactions and the cost of financial intermediation, thus reducing the scope for sustainable microfinance.

Table 10. Efficiency indicators, CVECA

	1999	2000	2001	2002	2003
Efficiency:					
Operational Exp/Loan Portfolio %	44	45.2	61.9	39.3	26
Productivity:					
Borrower per Staff Member	11	10	8	10	10
Savers per Staff Member	3	3	2	2	3
Portfolio Quality:					
PAR > 90 days ratio %	10	na	Na	na	8[a]

Exchange rate FCFA/US$=522.466 (as of 31/12/2003).

Sources: Fieldwork Questionnaires and Interviews; www.mixmarket.org (for 2004 figures).

Furthermore, MFI's operational size and lending amount are limited by the Malian population's low propensity to save in financial assets, not only due to low income levels, but also to the traditional strong preferences to hold savings in physical assets, such as cattle, which serve the double purpose of wealth storing and production assets.[37] Women in particular continue to be reluctant to confide all their savings to MFIs, preferring to diversify and participate in traditional credit and saving associations (*tontines*), which provide them with invaluable non-economic services, such as information sharing and networking. A low propensity to save implies a greater need for an MFI to supplement own funds with outside funds if operations are to be conducted at a sufficiently large scale to attain financial viability. Furthermore, it obliges

[37] Importantly, cattle ownership is also a way of increasing one's social status in many African societies.

financial institutions to offer relatively high interest rates to attract depositors, which, given the cap on lending rates, reduces operation margins.

Tight formal regulation imposed by the government and by Mali's membership in the UEMOA can also act as significant constraining factors.[38] Several commentators consider the prevailing capped interest rates (with maximum lending interest rate at 27%) a major constraint. Others point instead the finger to internal organisational restrictions and prudential regulation, such as a tight deposit/loan ratio, which fixes the total amount of outstanding loans at twice the amount of deposit. Such features reduce operation margins and MFIs' scope to satisfy unmet financial needs, and can thus be, ultimately, regarded as conflicting with the goals of reducing financial exclusion and poverty.[39]

More determining factor seems to be the ambiguous commitment of the Malian government when it comes to supporting the poverty-reducing impact of MFIs. On the one hand, the government has demonstrated an earlier commitment to the MF sector, and, for instance, allocated a sizeable portion (14%) of the 144 million US$ released by the HIPC Initiative during 2003-04 to income-generating activities, including micro-finance, in the explicit aim to 'improve access to financial services by the poorest, and develop credit schemes for the most vulnerable'.[40] On the other hand, MFIs have received neither specific guidelines on how to target poor clients, nor opportunities to train their personnel in poverty-related issues, nor financial incentives to keep a poverty focus.

The high expectations placed by the government on MFIs with regard to their poverty outreach also contrast with actual practices. Far from actively sustaining financial institutions in their efforts, the government, by pursuing its own special and heavily subsidised micro-finance projects, gives rise to unfair competition and market distortions, which implicitly force pre-existing MFIs to move away from a poorer clientele.

The issue of the increasing competition to established MFIs by a varied and expanding constellation of ad hoc, short-lived projects, funded by the state or other donors, and offering microfinance products, is an increasingly serious one. These new schemes, by offering very low interest rates to borrowers, attract a substantial clientele that is poor, with possibly significant positive impact in the short-term. However, such initiatives, being temporary in nature, induce the risk of defeating their very objective of poverty reduction in the long run, if they lead to a crowding out effect, whereby established institutions move towards the upper end of the market as a result. This is what seems to be occurring with Nyèsigiso, which is now seeking to focus more on financial products targeted at urban, white-collar employees (employee credit, consumer credit and mortgage loans to salaried workers with employer guarantee or to informal sector workers holding land titles or capable to contribute 10-20% of the house value).

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[38] Mali was the first, among the eight member countries in the West African Economic and Monetary Union (UEMOA), to apply the PARMEC law. The latter regulates only MFIs with a cooperative structure (e.g. Nyèsigiso), whereas the others (such as CVECA) need to sign a special agreement with the Ministry of Finance.

[39] See Chao-Beroff (1999), and Christen and Rosenberg (2000).

[40] See Government of Mali (2002).

In the case of CVECA, the main problem is that donor-funded competing institutions, which are usually able to pay a relatively good salary to their personnel, manage to attract away the highly qualified, but unpaid personnel, formed within the CVECA system. CVECA's reliance on unpaid staff has therefore ambiguous advantages. Although it contains operating costs, it also involves high turnover and an increase in training costs. The recent end of subsidies to CVECA's staff training has clearly aggravated this problem.

To conclude, a number of environmental, and especially institutional, factors seem to have contributed to narrow the margins of choice for MFIs in Mali. There is limited scope for acquiring capital through either deposit or the bank system, clients' incomes are low and volatile as ever, and the financial market is becoming increasingly competitive, to name just a few. These factors have manifested themselves, ironically, at the very moment that donor policy was changing in a rather perverse manner for our two MFIs. While the latter have seen external support diminished, other institutions were benefiting from subsidies, thus distorting the competitive nature of the market in which self-sufficient institutions are expected to thrive.

6. Final reflections

The quantitative and qualitative data collected for the period 1999-2004 point to a possible trade-off between the objectives of financial sustainability and poverty orientation in the presence of declining donor subsidies, and of more constraining wider environmental and institutional factors. Interestingly, this trade-off manifests itself quite differently across the two MFIs.

Nyèsigiso seems to have experienced the classic case of dilution of its commitment to poverty depth in the attempt to maintain financial sustainability after donors' withdrawal. Some changes, such as the increase in the loan size, the declining volume of, and support for, products targeted to the poor, and the lower proportion of potentially vulnerable members such as women, may be connected on the whole to the efforts spent in reaching financial viability. Although it is difficult to establish an exact casual link between the moving away from strategies prioritising poverty reduction and the almost simultaneous phasing out of donor support, plenty of qualitative evidence from fieldwork meetings with MFI's managers, staff and actual or potential clients, seem to suggest this link exists. Managers and practitioners openly admit that if a MFI wants to survive in an increasingly competitive environment, it needs to prioritise products and clients that maximise returns.

The case of CVECA is instead more complex. Subsidies' reduction seems to have reduced expansion potential, and led to negative growth. Although in different ways, these changes threaten to diminish the poverty impact of the CVECA system as well. The CVECA system is in a situation whereby, if it does not find a solution to the lack of financial and human resources, it may see its impact in the region significantly reduced to the point of leading to irreparable decline.

The notion of mission drift transpired several times during fieldwork discussions and seems to be well understood by many actors involved. Phasing out of subsidies and the consequent pressure for financial sustainability are taken as inevitably leading to a change in MFIs' operational and strategic plans.

To reemphasize, we are very aware that many MFIs can, in the appropriate context, be financially sound without losing their grip on their poverty-reducing impact. However, the larger context matters. Geographical, social, cultural, policy-related, and institutional factors are all fundamental exogenous factors that may reduce the margins of flexibility for our two MFIs, in particular the CVECA, rendering them particularly vulnerable.

Two questions arise. The first is why the two MFIs reacted so differently to the subsidies' decline. A number of variables could be good candidate explanations, one of which is the MFIs' different structure and products. For instance, the compulsory deposit requirements in Nyèsigiso may limit very poor clientele anyway, thus making the "mission drift" option more feasible. Another important element is that the two MFIs operate in completely different environments. In particular, given a branch structure being totally managed by village members and the high levels of poverty in the *Pays Dogon*, the CVECAs couldn't possibly re-orient themselves to the less poor and cater to wealthier clients far away from the branch location, lest they change completely their institutional form.

The second question is what could be the evolution over time. It can be argued that a trade-off observed at a given point in time, as possible adjustment to a critical change, is not necessarily a permanent feature. In particular, it is neither obvious that Nyèsigiso will be unable in the future to reach the poorest people – it may do so, for instance, after reinforcing its governance structure and financial situation – nor that the CVECA system will not recover from its current crisis. However, with the economic situation continuing to be critical and difficult in Mali, in both urban and rural areas, the increasingly competitive financial markets, and the other constraints earlier mentioned, these developments are not very likely in the immediate future.

The situation is complex and donors can help in many ways, beyond traditional subsidies. There is plenty of room for support given, for instance, to promote and reduce distortions in financial markets, supply infrastructures and allied services, provide human and physical capital to borrowers and savers. But it is clear that a number of constraints need to be relaxed, for CVECA in particular to continue to operate. Withdrawal of donor support, without some sort of compensating actions and interventions, seems to have impacted adversely on the poorest clients and on the micro-finance institutions themselves.

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8. Appendix

Figure 1A. Nyèsigiso's sustainability indices and subsidies: trends during 1999-2004

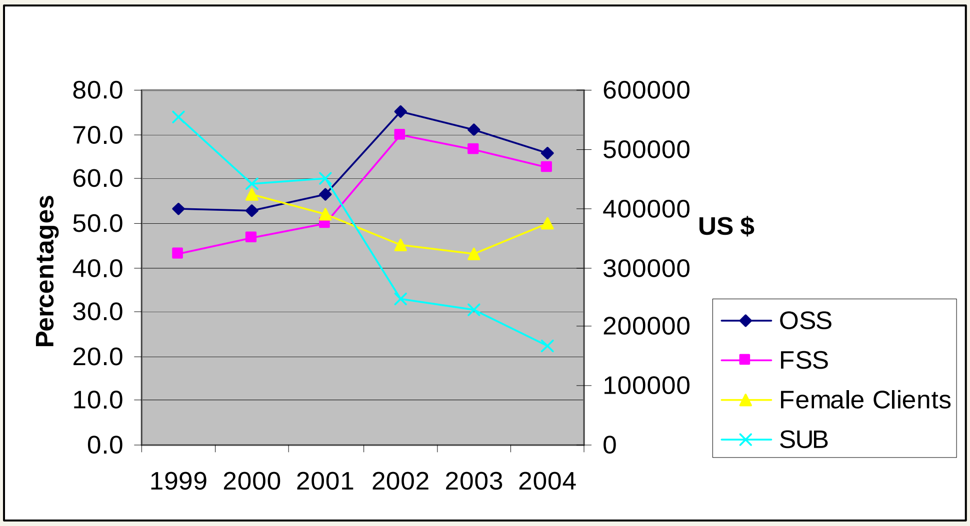
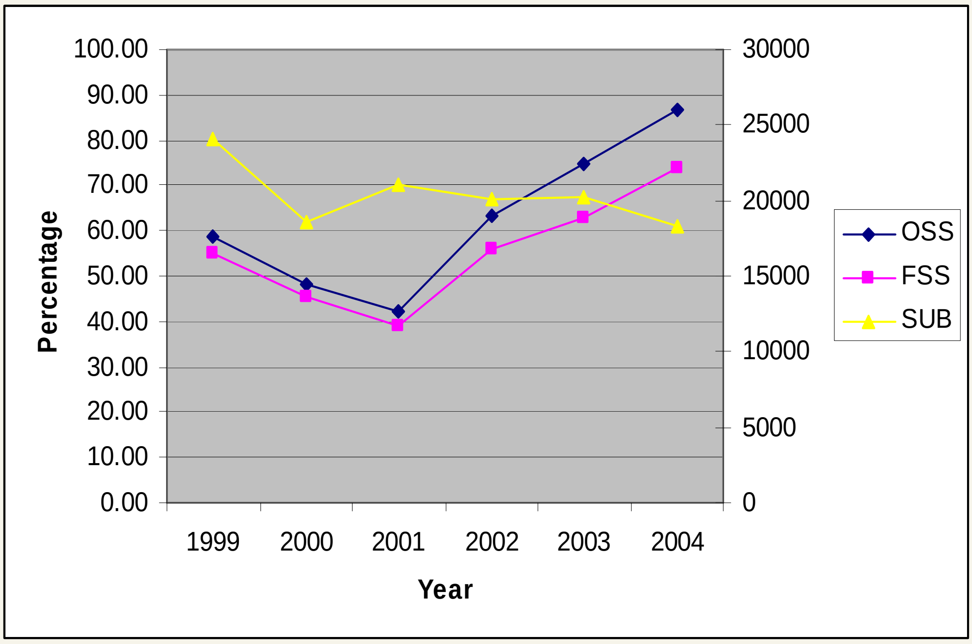


Figure 1B. CVECA's sustainability indices and subsidy: trends during 1999-2004



OSS: Operational self-sufficiency (%); left-hand scale

FSS: Financial self-sufficiency (%); left hand-scale

SUB: Subsidies (US $); right-hand scale

Female Clients: proportion of female clients over total clients (%); left-hand scale

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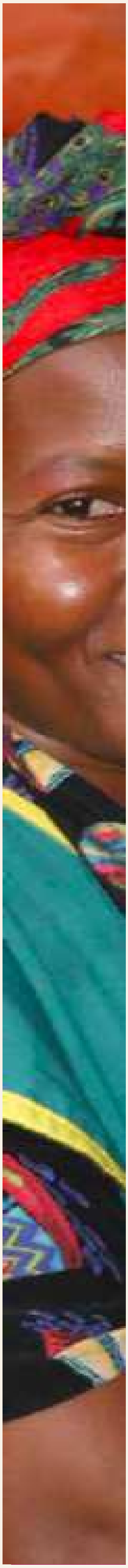

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