

Project Proposal for a West Africa MicroFund

*Didier Djoi
PlaNet Finance, Benin*

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Summary

The project proposes the creation of an APEX fund for microfinance in West Africa. This fund, the *MicroFund for West Africa*, will provide resources in a sustainable way to microfinance institutions (MFIs) in the eight countries that comprise the Economic and Monetary Union of West Africa (UEMOA), specifically, Benin, Burkina Faso, Ivory Coast, Mali, Niger, Senegal, Togo, and Guinea-Bissau.

The fund will be established jointly by PlaNet Finance and commercial banks in West Africa, with the support of international development agencies. The purpose of the Fund will be to:

- encourage the development of young and promising medium size (Tier 2) MFIs in the region by providing them with credit funds targeted to their particular stage of development, and with technical assistance grants to strengthen their governance and internal procedures; and
- support the development of the largest MFIs (Tier 1) by providing them with access to loans and grants that will facilitate their transition to formal financial institutions.

The *West Africa MicroFund* will be conceived as a replicable model for other regions in Africa, in accordance with the framework of the New Partnership for Africa's Development (NEPAD).

Goal/Purpose

The development of adequate financial services to serve the poorest has become a worldwide challenge in the context of the fight against poverty. In Africa, where less than 5% of the population has access to financial services, the development of microfinance is particularly urgent, and corresponds directly to the United Nations' Millennium Goals as stated in the report of the Secretary General of 6 September 2001, in

particular Article 134, Section III, where the recommended strategy specifies the development of “well functioning and diverse financial systems that allocate savings to those capable of investing efficiently, including microfinance borrowers, women and the rural sector.”

The *Microfund for West Africa* aims to contribute to the development of promising MFIs in the region and to create a replicable APEX vehicle for Africa — a sustainable mechanism to foster the development of microfinance institutions and to achieve visible results by providing the poorest with easy access to affordable resources to develop income-generating activities.

The *MicroFund* will help to reduce poverty and improve the quality of life by supporting micro-entrepreneurs. It will become a tool that will give African-owned microfinance initiatives the ability to develop on their own.

Strategic Objectives

The development of micro-enterprises through access to adequate financial services in Africa forms part of the strategic objectives of a number of actors internationally and regionally. The *Microfund for Africa* will support existing priorities and initiatives of European organisations, as well as regional and national organisations in Africa, and the private sector. In particular, it will:

Support objectives of the European Commission and the European Investment Bank

In the framework of the Cotonou Agreement, the European Commission has established a € 25 billion fund over 20 years to contribute to the development of the African Caribbean and Pacific (ACP) countries through a number of instruments. The *Microfund for West Africa* falls within the objectives of this agreement, particularly Articles 21 and 22, which aim to “support the development of micro-enterprises by enabling improved access to financial services”; to “develop ...viable microfinance operations” via an “appropriate regulatory framework,” and especially, to promote the creation of “ ... instruments aimed at financing development.”

Support NEPAD and the efforts of the African Union

The *West Africa Microfund* responds to key priorities of NEPAD and the newly established African Union (AU), particularly those defined in Chapters three and five of the NEPAD calling for initiatives to facilitate access to credit for micro-enterprises and strengthen the role of women in the African economy through microfinance programs.

Meet G8 objectives

The *MicroFund for Africa* falls within the framework of the G8 Africa Action Plan in support of NEPAD announced by G8 countries at the Kananaskis Summit in June 2002. Specifically, Paragraph III of the G8 Kananaskis Communiqué calls for “African initiatives aimed at fostering efficient and sustainable regional financial markets and domestic savings and financing structures, including micro-credit schemes.”

Objectives

The main objectives of the project to create a *Microfinance Fund for West Africa* are to:

1. Create an efficient and accessible fund for MFIs in the UEMOA region that can offer financial products adapted to their needs, in particular, loans, grants, and guarantees, as well as technical assistance (TA) grants.
2. Select and serve the most promising MFIs in the region. *The MicroFund for West Africa* aims to work with a limited number of microfinance institutions who will be able to use efficiently its resources either to improve their operations (through TA grants) or to extend them (through loans and guarantees).
3. Ensure good coordination with other actors supporting microfinance in the region, in particular donors, commercial banks, and existing funds (AFRICAP). *The MicroFund for West Africa* aims to contribute to and strengthen existing efforts; therefore, it will work in close coordination with existing organisations supporting microfinance in the region.
4. Ensure professional management of the *Fund*. *The West Africa MicroFund* will assign particular attention to ensuring a zero default rate for the *Fund*, allowing for the progressive extension of access to second tier MFIs.

Structure

The *MicroFund* will be created as a financing fund in partnership with commercial banks in West Africa. It could be housed within a partner bank, and will be managed jointly with the expertise of PlaNet Finance.

The *MicroFund* will be composed of three sub-funds, offering different services:

- Institutional support;
- Guarantees for facilitating linkages between banks and MFIs; and
- Credit funds adapted to the needs of MFIs.

The *Fund* will be managed by a specialised structure within PlaNet Finance and localised in West Africa. It will be responsible for:

- identifying MFIs able to benefit from the support of the *Fund*, and identifying and delivering the services that will be most suitable to them;
- coordinating the activities of the *Fund* with those of other actors in the sector, in particular, donors, banks, and other microfinance funds; and
- ensuring effective surveillance of MFIs supported by the *Fund*.

Particular attention will be given to the proximity of *Fund* decision-makers to its beneficiaries. Experience has shown that local presence by the financing agent allows for greater awareness of the realities of candidate institutions, better assessment of their needs, and improved ability to adapt products (technical assistance/loan/guarantee) that will increase the MFIs efficiency and rate of loan reimbursement.

Implementation

Once the agreement has been reached with the donors, the project will be implemented through the following steps:

1. Creation of the *MicroFund* as a legal entity empowered to provide loans, grants, and guarantees. The *Fund* will be created either under the direct dependence of West African financial institutions, or as an autonomous fund.
2. Establishment within the first three years of a team of 2 to 6 professionals who will be in charge of the management of the Fund. The team will principally concentrate on identifying MFIs (mainly first tier) in need of financing, and on evaluating their capacity for managing and repaying funds provided to them.