CREDIT FOR ARTISANS!

Bridging the Gap Between Formal and Informal Loan Systems Through Local Public-Private Partnership

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ABSTRACT

The present research is in line with the debate on rural finance and the old versus new paradigm[1] *discussion (Nagarajan and Meyer, 2005; Meyer and Nagarajan, 2000). It poses the question of the feasibility of a microfinance initiative (the Fund) as a local economy development tool undertaken by a local government and an Artisans' Union in Djakotomey, a rural commune in South West Benin. The mobilisation of local savings and the access to credit for artisans to sustain their economic activities were studied.*

A survey was conducted on a stratified random sample of recipients and non recipients of loans from the Fund supplemented by individual qualitative interviews with keys partners of the initiative. Results show a strong legitimacy of the artisan leaders and the Mayor which makes the members feel their savings are secure with the Fund. Contrary to what literature commonly suggests credit is accorded more to young illiterate women than to other groups. Although the Fund is a typical subsidised microfinance case this does not influence negatively on the ownership feeling of its members. The Fund so far is producing the effect its initiators were expecting, as loans are being spent in investments and income generating activities.

[1] The old rural finance paradigm promoted for instance subsidized interest rate, and other incentives in order to finance rural people. This showed its limits and gave birth to the new paradigm that suggests that rural finance incentives should take account of market conditions. For a better understanding of the old versus new rural finance paradigm we suggest to refer to Meyer and Nagarajan (2000).

1. INTRODUCTION

In most developing countries, financial services reach only a small minority of people. Rural areas in particular are underserved (UN, 2006). Putting money in a savings account or obtaining a loan from a formal financial institution is an exception rather than the rule. In the eighties a new development paradigm promoted the importance of microfinance for effective poverty alleviation and economic development (UN, 2006; Morduch, 2002).

According to Claessens (2006) the costs of the financial services offered by formal microfinance institutions are too high and the institutions do not operate closely enough to the applicants (FAO, 1998a). In other words, they are not recognised by the prospected clients as perennial local institutions, truly at the service of the local population.

All over the world different systems as an alternative for the formal finance institutions are being experimented, with varying results. In West Africa, these systems can be classified into three models[2] (FENU, 1999):

- Group-based or solidarity groups systems (Yunus, 1998)
- Mutualist or co-operatives systems of saving and credit
- Village self-managed saving and credit banks.

Usually a development project stimulated the creation of the solidarity groups, the co-operative or the village bank, and the majority of these approaches are built on formal or semi-formal models[3].

In 2005, however, an interesting experiment started in Djakotomey a rural commune in the South Western part of Benin. As a result of the dynamics induced by the installation of local elected municipal councils and mayors, collaboration started between the Union of Artisans[4] Associations and the local government. The collaboration aimed at mobilising the savings of the artisans in order to meet their need for credit: the Djakotomey Artisans Promotion Support Fund[5] was thus born. Such collaboration between local government and private actors to offer microfinance services is quite new and rare in the literature.

The experiment in Djakotomey is certainly original, and many questions are raised concerning its capacity to achieve its goals. Whereas some studies (FAO, 1998a) state that the mobilisation of local savings is seen as an important source of funds for lending and that this is a major stake for rural microfinance, the question is whether the Djakotomey Fund could mobilise and secure the local savings? And does it offer better conditions and easier access to credit for the artisans? These questions will be addressed in the present study.

2. RESEARCH FRAMEWORK

Context

The commune of Djakotomey is one of the 77 of Benin's communes. It has approximately 100,000 inhabitants who live in a rural setting. The poverty indicators in Table 1 show poorer living conditions in Djakotomey than average for Benin. Benin itself ranks among the poorest countries in the world.

Table 1 : Poverty indicators of the Commune de Djakotomey

	Population without access to drinking water (%)	Illiteracy rate (over 6 years of age) (%)	Human Poverty Index (HPI) in %	Poverty Incidence P_0 (%)
Djakotomey	51.3	69.3	54	55.4
Benin	65	46	48.9	51.3

Source : INSAE (2002)

[2] For an extensive explanation of each model please refer to Ouattara & al. (1999)

[3] Some examples are related in the BIM N°53 of January 18th, 2000: ASF (Association des Services Financiers) promoted by the International Fund for Agricultural Development (IFAD); the CVECA (Caisses villageoises d'Epargne et de Crédit Autogérées) with the Centre International de Développement et de Recherche (CIDR); the Village banking promoted by the Foundation for International Community Assistance

[4] The term "artisans" here includes tailors, carpenters, welders, mechanics, restaurant owners, traditional cosmetics producers, potters, etc.

[5] The official name is Fond d'Appui pour la Promotion des Artisans (FAPA) de la Commune de Djakotomey.

The artisans form an important segment the working population of the commune, second only to the farmers. The Union of Artisans Associations[6] of Djakotomey has approximately 1600 registered members, whereas all the artisans are estimated to number around 30,000 according to the president of the Communal Union.

Using the facilities of the Heavily Indebted Poor Countries (HIPC) initiative of the World Bank, the Government of Benin contracted in 2005 an NGO (*Centre pour la Formation et l'Appui au Développement à la Base* - CFAD) to set up a 1.5 billion francs CFA[7] micro credit programme for artisans. Credit would be obtained at a 12% yearly interest rate. In the African micro credit context where the average monthly interest rate for a financially sustainable IMF is around 3% (FENU, 1999), this was obviously a subsidised interest rate. In Djakotomey the expectations were high as this was considered a low interest rate. Several artisan associations encouraged their members to prepare eligible projects. More than 800 affiliated artisans mobilised at least 10,000 francs CFA which was required for the loan application. Finally, 13 of the artisans' applications were accepted and a total of 3,600,000 francs CFA of credit was received for projects of varying size. Among the reasons put forth for the rejection of more than 98% of the applicants was that there was not enough funding to satisfy them all. One can easily imagine the disappointment of the artisans in Djakotomey. The president of the artisans union wondered whether the 8,000,000 francs CFA that had been mobilised for the loan applications could not be used differently to start a credit scheme that would serve far more people. After consultation with the communal authorities the answer to this question was found in the creation of the Djakotomey Artisans Fund in January 2006, with the proclaimed goal of easing access to credit for the artisans.

Research question and hypotheses

The Djakotomey Fund resembles the national micro finance initiatives, but is transferred to the local level, in the full spirit of decentralisation. Several questions can be raised concerning the legality of this experiment, but the present research is concerned with the technical aspects. The present paper is intended to research whether the Fund is indeed a development tool as claimed by its stakeholders. This question being very large, we will analyse it through two specific sub-questions. Firstly, can a micro finance scheme, built on a partnership between the local government and the private sector (the artisans), offer good conditions for mobilising and securing artisans' savings? And secondly, can such a partnership accommodate credit and technical support for investment projects that result in the development of the local economy and improved income for the community?

When the two actors joined to launch the initiative of the savings and credit fund, they were intuitively convinced of its feasibility. To specify the hypotheses of this research, it is important to understand the operation of the system.

The Djakotomey system is based on the principle of solidarity groups (Harper, 2002; Yunus, 1998). It starts by mobilising savings from the artisans who wish to participate and registering them. Each saver deposits 5,000 francs CFA which is divided into savings (2,000) and expenses for opening a file (3,000). The savings in 2006-2007 are supplemented by a subsidy of 2,000,000 francs CFA from the municipality, which also covered the operating costs of the Fund (office space, furniture and equipment, staff). To get a loan, the savers are constituted in solidarity groups of 6 to 10 people who agree to contribute 10,000 francs CFA each. The group indicates the first 4 or 6 people who will benefit from 50,000 or 100,000 francs CFA loans. They must pay an interest rate of 1% per month and pay back the loan in 12 monthly payments. The groups are based on mutual trust between the members. The selection of the first recipients follows a complex mix of criteria like the urgency of the need for credit, the capacity to repay and the drop-out risk; but in all cases it is the discretionary power of the group to decide upon the recipients. The members all agreed on the principle that any group failing to repay is excluded from the Fund. This means that even the non-defaulting members of the group cannot obtain credit anymore. This way there is a certain social group pressure on individual members to repay on time (Milgram, 2001). This microfinance system seems close to the informal systems, such as the *tontines* and close to more formal systems such as the co-operatives or the village banks. The main difference is that its funding comes from a public-private partnership at the commune level: the subsidy of the local government and savings of the artisans. Plus, the system targets specifically artisans.

As a result, two principal working hypotheses were drawn from the research question:

- the partnership between the municipality and the Union of Artisans' Associations of Djakotomey, in comparison to other microfinance systems, offers good conditions for the mobilisation and security of savings because the members deposit their money with the local authorities. They

[6] They are organised in village associations by corporations which gather on the districts level to form districts associations of artisans. District associations gather to form the collective of artisans of associations of the commune (all corporations included). The communal collectives gather in departmental collectives which in their turn form the National Federation of Benin Artisans (FENAB).

[7] € 1 = 655.9557 francs CFA

are willing to do so because the savings allow them to obtain credits at a competitive interest rate.

- the partnership offers better conditions of access to credit for investment projects of local artisans; these investments create higher revenues; the guarantee conditions are within the reach of the applicants; and credit is offered at a lower interest rate, compared to other formal or informal microfinance institutions.

Methodology

The methodology used to tackle the research question, and which is mainly inspired by that suggested by the Small Enterprise Education and Promotion Networks[8] (SEEP 2001), is a combination of quantitative and qualitative approaches. Quantitative information was collected on a stratified sample of 71 individuals, all registered members at the Fund. The categories are composed of individuals having already been given a loan from the Fund (recipients) and individuals who have not yet benefited from a loan from the Fund (non recipient), in the following proportions:

Table 2 : Sampling for the quantitative study

Stratum	Number of individuals
Recipients	35
Non Recipients[9]	36
Total	**71**

This distinction was introduced to measure the differences in terms of membership feeling to the Fund, level of trust, etc., which could be factors determining the sustainability of the initiative. Inside each category, the individuals were selected in a random manner through a random numbers table. The selected individuals were then localised and interviewed through the entire commune during a four-day period; the work load was shared with a team of two very motivated research assistants. At the time of the investigation, the total number of the registered members of the Fund was 128. According to the Artisans Union's (the *Collectif)* leader the disappointment experienced in the past with the CFAD explains the reluctance of those among the 800 artisans having unsuccessfully requested credit to register to the new scheme. Some artisans are probably taking a cautious approach and waiting to see how the Fund works before taking part in it. In addition, the existence and the ambitions of the Fund are not yet known by the large majority of the artisans. Above all, despite significant potential demand, lack of funding is not the main problem which hinders the Fund's expansion.

The information collected during the quantitative data-gathering was supplemented by qualitative data which were collected through thorough individual and group semi-structured interviews with recipients and non recipients to clarify a number of questions. The stakeholders in the partnership were approached directly through individual and group semi-structured interviews with the two involved parties: local authorities (represented by the mayor[10], the secretary general, the chief of the municipality's finance department and two other persons working at the municipality) and the Artisans Union represented by its leader and the Fund's manager.

These thorough interviews made it possible to understand certain questions such as the vision each party has towards the Fund and the influence of the legitimacy of the local authorities on the sustainability of the partnership. Secondary data were also collected from local microfinance institutions for purposes of comparison.

3. RESEARCH RESULTS

Characteristics of the survey respondents

An analysis of the survey respondents shows a strong presence (a posteriori) of women among the recipients. Indeed, they account for 80% of recipients compared to 20% for men. Amongst the non recipients, the men/women distribution is more balanced - around 50% for each sex.

In the two groups sampled, the individuals were for a great part under 40 years of age (69.4% for non recipients and 85.7% for recipients). 80% of the recipients cannot read against 61% for non recipients.

[8] The Small Enterprise Education and Promotion (SEEP) Network, "the leading international network and promoter of best practices in enterprise development and financial services", is a global organisation whose membership is committed to reducing poverty through the power of enterprise.

[9] The non recipients are those who have not yet formulated a loan request or those whose requests have not been met due to lack of funding.

[10] According to the decentralisation scheme in Benin, the mayor is elected by the Municipal Councillors who are elected through direct universal ballot for a five-year term. The Artisans Union leader is directly elected by the district artisans associations' representatives in a general assembly.

The educational level shows that more than 65% of the recipients have not had any schooling, while this rate is 53% for non recipients.

Mobilisation and security of endogenous savings
The mobilisation and security of the savings were studied using a number of variables, including the incomes of the individuals, their level of saving, and their propensity to save money; the latter is defined as the proportion of respondents who declared that they were able to save money after paying all their expenses. The legitimacy of the local authorities and the leaders of the Artisans Union was also considered. From the Fund, incentive measures set up to mobilise the savings of the members were investigated.

The data revealed that more than a quarter of the respondents (recipients and non recipients) earn a monthly income of less than 30,000 francs CFA (the national minimum wage), and 38% have a monthly income[11] higher than 80,000 francs CFA. The remaining 35% have a monthly income between 30,000 and 80,000 francs CFA.

Table 3 : Revenues and Savings of the Respondents

	Amount (Francs CFA)	Frequency	Percentage
Monthly revenue of the respondents	Less than 30,000	18	25,4
	30,000 – 80,000	25	35,2
	More than 80,000	27	38,0
	Missing	1	1,4
	Total	71	100,0
		Frequency	Percentage
Monthly savings of the respondents	No savings	4	5,6
	Less than 5,000	19	26,8
	5,000 – 20,000	41	57,7
	More than 20,000	7	9,9
	Total	71	100

Source: survey data of 18-21 April 2007

With these incomes, a very high saving propensity of 94.4% was noted. Most of the interviewees said it is culturally accepted to not spend all the money that one earns. This is consistent with the results of Chao-Beroff (FENU, 1999) which affirms that the poor save. Group interviews also explain this by the culture of the *Aja* area that one never spends all the revenue earned. The savings range from 5,000 francs CFA to more than 20,000 francs CFA monthly. The majority of individuals (58%) save between 5,000 and 20,000 monthly, while the proportion of people having monthly savings of more than 20,000 is approximately 10%.

These savings are related to income in some cases; while in others, as explained by the people interviewed during the semi-structured interviews, it is an additional effort consented by the saver, to be able to benefit from a loan from an MFI. This is presented by Ouattara et al. (1999, p.20) as "forced savings" in opposition to "voluntary savings".

The savings are kept in various places. Barely 28% of individuals deposit their savings in formal institutions such as the *Caisse Nationale d'Epargne* (CNE) or the *Caisse Locale de Crédit Agricole Mutuel* (CLCAM). There is a preference to use informal institutions like *tontines*[12] (41%), or to simply keep one's money in one's house (21%). 7% of respondents did not answer this question.

Depositing savings with the "*tontinier*" (an initiator of a tontine) is a common option in African communities as the *tontinier* tends to be trusted by savers. Nonetheless, one of the survey respondents warned that one can be sometimes victim of dishonest "*tontiniers*" who run away with people's money.

The relative low levels of (individual) savings could partly explain the exclusion of artisans from the formal microfinance systems; this justifies the search for an alternative which takes account of their conditions, said the Artisans Union's leader and a municipal official during interviews. The Fund gave

[11] Note that generally, there is a tendency for respondents to underestimate their income in these kinds of surveys.
[12] There are actually several types of *tontines*. The guiding principle which underlies each type of *tontine* is mutual trust. Certain *tontines* are based on in-kind loans: for example each month, the members deposit the equivalent of the value of a ton of cement each. The total contribution of all members is allocated to a member chosen at random who is obliged to buy the equivalent amount of cement for the construction of his/her house – so the chosen member does not receive the cash, but cement. In this case, the principle of group solidarity dominates and nothing is paid to the *tontine* initiator. Other *tontines* are based on cash loans. If the *tontine* is in cash, one can have systems where the contributions of all the members in a given period are granted to the member chosen as the beneficiary. Another type of cash *tontine* consists in a depositor depositing at regular intervals a certain amount of savings with the *tontinier* (in this case a "professional") over an agreed period. At the end of this period, the saver withdraws his/her savings, while leaving as payment for the *tontinier* the equivalent of one regular savings deposit.

itself the role of mobilising these savings and returning them to its members in the form of loans, with the support of the local government.

Security is the most important determinant of where one chooses to deposit their savings. It was cited by more than 83% of the savers and 93% of respondents declared that they felt their money is safe with the Fund. The reasons evoked to support that feeling are as follows:

- More than 77% of the savers considered the fact that the municipality is a stakeholder in the Fund as a guarantee of the security of their deposits, as this meant for them that the local authorities were taking care of their money. The question of the legitimacy of the local authorities also seems to have a role in the establishment of this trust, which reinforces the perceived security of the savings: 88% of respondents indicated that they felt their money was safe because of the confidence they have in the local authorities (the mayor and his administration). The confidence in the security of the Fund is thus inspired by confidence in local authorities. Moreover, a large majority (88.6%) state that the fact that the municipality was a stakeholder in the Fund was a determinant factor ("essential or necessary") in their decision to join to the Fund.

- Confidence in the Artisans Union leaders and the Fund's manager; the legitimacy of these persons was mentioned by the respondents as a factor reassuring them of the security of their savings. 94% stated they deposited their savings with the Fund because they trust the President of the Union, while 98.5% declared that it is because they trust the manager of the Fund.

- The confidence that one can get their money back anytime: this is also a guarantee of security of the savings for the respondents. 90% have confidence that they can get their money back whenever they claim it.

- The fact that the Fund is considered a credible initiative is also seen as a guarantee of the security of their savings. More than 97% of respondents stated that they trusted the initiative.

Unfortunately, due to the financial and time constraints of this study, these figures could not be compared to non-members of the Fund or to the average citizen's opinion.

The other reasons which determine the depositing of the savings in the Fund are the right to the credit that this confers (93%) and the feeling that it is a bank close to them: "it is the artisans' bank" (80%). All these elements put together show a very strong feeling and belief in the Fund from its members. This puts the Fund in an interesting position to secure the local savings of the artisans.

However, the investigation on how to mobilise local savings revealed that the sole profit a saver could expect, apart from the insurance to obtain a loan if he wants, is the remuneration at 3% per annum of his savings. This is not sufficiently attractive, compared to what is available for instance with Grameen II in Bangladesh (Yunus, 2002) or some of the other savings institutions in the immediate environment of the Fund such as the *Caisse Locale de Crédit Agricole Mutuel* (CLCAM) or the *Caisse Nationale d'Epargne* (CNE) which remunerate savings at up to 4.5% per annum for long term and/or large deposits. Notwithstanding, people choose to deposit their savings at the Fund because it costs less (5,000 francs CFA compared for instance to the CLCAM which claims 16,000 francs CFA) and there is less paperwork required to open an account. Furthermore, there are no account charges, which is not the case elsewhere; for instance the CLCAM charges 2,400 francs CFA per year to keep an account.

There thus remains much for the Fund to do to be able to mobilise local savings.

Access to credit

As shown above, access to credit is one of the most determinant elements in the decision of the members to join the Fund. Indeed, none of the respondents regarded this element as unimportant. But does the Fund really facilitate access to credit for the artisans? To answer this question, past experiences with accessing credit and the appreciation of these experiences by the individuals, as well as the real uses to which loans were put, were studied. Factors that would enable the fund to ease access to loans were also studied.

Only 2.9% of the respondents had had a credit experience with a bank, whereas 21% had an experience with other formal MFIs. The exclusion of artisans from the formal microfinance system could be the reason for this low rate. This exclusion is due in general to the conditions of access imposed by the formal credit institutions. Indeed, the existing data show that these conditions are not easily met by the applicants. Investigations show that whereas the most important MFIs operating in the municipality of Djakotomey apply monthly interest rates of 2%, the Fund claims only 1%. This is discussed further below. The repayment period varies from 12 to 36 months for other MFIs whereas it is between 6 and 12 months at the Fund - the repayment period is flexible and left to the borrowers' discretion.

As de Soto (2000) noted, few of the poor are able to value their capital and to draw benefit from it. It is the case of the artisans in Djakotomey. Rare are those who can satisfy the guarantee conditions imposed by the other MFIs. Only a few have a land title or other assets; few are accustomed to the questions regarding mortgages or other conditions of this kind; and few can pay interest rates of 2% or sometimes more per month.

According to the President of the Artisans Union, the loan procedure is the most difficult hurdle for the artisans. Most of the documents required for the loan application cannot quickly be provided and the procedure for approval is very long, even for the *Fonds de Garantie des Artisans* (FOGA) which is supposed to provide financial services to the artisans. The alternative suggested by the Fund is a model which, like the *tontines*, is based on solidarity and mutual trust between the loan groups of the Fund. What makes the Fund attractive here is that material collateral is replaced by social collateral in the form of organised peer pressure by the group members (Ito, 2003; Milgram, 2001).

The interest rate was decided upon by the Artisans Union and the municipality after thorough analysis of the practices of other MFIs and the operating costs of the Fund of which the very great part is covered by the local government (the wages of the manager, the buildings and furniture have been placed at the disposal of the Fund by the municipality). This is important to mention, as it reinforces the position of the local government as a partner in the initiative. Indeed, with the 2% interest rate charged on the loans, the Fund would not be able to cover the operating costs.

The president of the Artisans Union noted that being able to participate in deciding the interest rate was an exceptional event for the artisans, and it is this participation that makes them say today that the Fund is "their thing". It also seems that it is felt by all the members of the Fund that the creation and functioning of the Fund is a learning process and that, consequently, the current parameters could be modified in the future.

However, the question of the interest rate deserves to be discussed further as it presents a typical case of subsidised interest rate - since the operating costs are currently covered by the municipality. The studies on microfinance systems in Africa show that the equilibrium interest rate in general is around 30 to 36% per annum (FENU, 1999), which means a monthly rate of almost 3%. In addition, microfinance experts warn against market distortions caused by the subsidised interest rates. For instance, the Beninese Micro Finance Professionals Consortium (Alafia Consortium) vehemently criticised the government's Micro credit Program for the Poor (*Programme de Micro Crédit pour les plus pauvres - PMCPP*) which, according to them, would encourage poor repayment behaviour amongst customers. In addition, the PMCPP of the government could be perceived as a competitor of the Fund, since it provides 30,000 francs CFA loans at an interest rate located between 3% and 5% per annum without guarantees, repayable in six months. When asked for their opinion on the question, artisans indicated that the government scheme should support the Fund, as it is better organised. In addition, they confirmed that they have easier access to credit, for the reasons which are presented in appendix 5: 87% stated that they had easier access to credit with the Fund. In addition, 100% of the recipients stated not to have had any difficulty so far in repaying the loans they took out.

On the whole, beyond the questions of sustainability and self-financing which access to credit with the Fund pose, six factors appeared to favour the Fund and support easier access to credit for the artisans: less constraining lending procedures, a more reasonable interest rate, the solidarity of the borrowing groups, less constraining loan guarantee conditions, a more reasonable and flexible repayment period, and the offer of other financial services such as savings.

Follow up on the local project owners

For this part of the analysis, the sample was considered according to its two categories. But we especially were interested in the recipients of loans from the Fund of which 91% stated that they had invested the loan in an income-generating activity.

The uses made of the loans (a loan can be used for more than one purpose) go from investment in existing activities to the development of new activities. The research on the specific uses of the credit shows that more than half of the recipients (54%) used their loans to improve the quality of their products. The other declared uses are the expansion of their workshop (3%), the addition of new products in their workshop (20%), or the development of new activities (11%); some artisans (17%) declared that they had reduced their production costs as they had found cheaper source of resources (credit at a cheaper rate). In addition, the loans helped some artisans to recruit labour (9%), an example of the "second distribution" observed in Guinea (Conde et al., 2001).

It should also be noted that 11% of recipients indicated that they used part of the loan to feed their family, while 9% of them used part of the credit to put money aside or to fund family ceremonies.

In addition, 80% of the recipients declared that their incomes increased (beyond the amount of the loans received) during the last four months and more than three quarters of these recipients linked this increase in income to having obtained credit.

The results thus show that the majority of the recipients invested their loans in their enterprises. This confirms to some extent the assumption that the Fund promotes the creation of added value at the local level.

As regards support received for project implementation, 80% of the recipients stated that they received support in one form or another from the Fund for the implementation of their projects and that they were satisfied with this support. The support services offered by the Fund, through American Peace Corps volunteers and the management board of the Fund (the president of the Artisans Union, the manager and the representative from the municipality), consist of:

- training on business management and basic accounting,
- functional literacy training,
- other advisory services on project/business management, e.g. how to manage a small soap factory or a tailor's workshop.

Many of the loan recipients indicated that they would like a wider range of training subjects (68%), a larger number of training workshops (20%) or more personalised support (9%). This last point is indeed one of the criteria identified by Botzung (1998) and must be taken into account in the implementation of the support services to customers, especially small borrowers.

3. CONCLUSION

The partnership of a new type between the Artisans Union and the Djakotomey local government is original in the political context of Benin both in its approach and objectives. It is a public-private partnership bringing into play two important local development actors to mobilise savings and improve access to credit for artisans.

The research revealed that most of the loan recipients are relatively young and illiterate women. This is surprising compared to what the literature would suggest for such a credit scheme.

The new partnership offers the necessary conditions for the security of local savings of the artisans. However, the incentive measures seem insufficient to effectively mobilise endogenous savings.

The participation of the local government makes it possible for the Fund to offer to the artisans better conditions of access to the loans; in addition, the participation of artisans in the determination of the interest rate reinforces their capacity and sense of ownership in the partnership.

As the main actor for promoting local development, the Town Hall is engaged in an initiative that is producing the expected effects as a development tool since most of the loan recipients spend their loans on small investments in their enterprises and on income generating activities. The recipients receive support from the Commune's partners and the Fund's managing board to ensure continuous good use of the loans for the development of their economic activities.

This paper is a contribution to the debate on the various existing models of microfinance. The new field of collaboration which the paper puts forward deserves to be better investigated, in particular with a focus on the conditions of its sustainability. As Rogaly (1996) advised, it would be also interesting to deepen the actual analysis of the institutions and facilities which exist locally as regards of microfinance.

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Appendix 1: Characteristics of survey respondents

		Recipients		Not Recipients	
		Frequency	Percentage	Frequency	Percentage
Sex	Male	7	20,0	18	50
	Female	28	80,0	18	50
Age	19-30	14	40,0	12	33,3
	30-40	16	45,7	13	36,1
	Over 40	5	14,3	11	30,6
Marital status	Married/engaged	32	91,4	31	86,1
	Separated / Divorced	0	0,0	2	5,6
	Widowed	3	8,6	1	2,8
	Single / never married			2	5,6
Reading skills	Can't read	28	80,0	22	61,1
	Read with difficulty	4	11,4	4	11,1
	Reads	3	8,6	10	27,8
Education	None	23	65,7	19	52,8
	Primary	2	5,7	8	22,2
	Secondary	10	28,6	6	16,7
	University	0	0,0	3	8,3
Type of professional training	Apprenticeship	29	82,9	19	52,8
	Professional training	0	0,0	3	8,3
	None	6	17,1	14	38,9
Length of Training	Less than 3 years	17	48,6	7	19,4
	3 years or more	12	34,3	15	41,7
	Total	29	82,9	22	61,1
	Missing	6	17,1	14	38,9
Seniority at the Fund	0-10 months	10	28,6	6	16,7
	11-14 months	13	37,1	17	47,2
	15-16 months	12	34,3	13	36,1
	Total	**35**	**100,0**	**36**	**100,0**

Source: survey data of 18-21 April 2007

Appendix 2: Reasons why artisans feel their savings are secure with the Fund

The Local Authorities look after it		Frequency	Percentage
	No	15	22,7
	Yes	51	77,3
	Missing	5	
	Total	**71**	**100**

Trust in the Collectif leaders		Frequency	Percentage
	No	4	6,1
	Yes	62	93,9
	Missing	5	-
	Total	**71**	**100**

Trust in the Local Authorities		Frequency	Percentage
	No	8	12,1
	Yes	58	87,9
	Missing	5	-
	Total	**71**	**100**

Trust in the Fund's Manager		Frequency	Percentage
	No	1	1,5
	Yes	65	98,5
	Missing	5	-
	Total	**71**	**100**

Confident that can get their money back		Frequency	Percentage
	No	6	9,1
	Yes	60	90,9
	Missing	5	-
	Total	**71**	**100**

Source: survey data of 18-21 April 2007

Appendix 3: Determinants of the artisans' decision to deposit their savings at the Fund

Trust in the Mayor		Frequency	Percentage
	Essential	33	47,1
	Necessary	28	40
	Not important	9	12,9
	Missing	1	

		Frequency	Percentage
	Total	**71**	**100**

Trust in the Local Authorities		Frequency	Percentage
	Essential	32	45,7
	Necessary	34	48,6
	Not important	4	5,7
	Missing	1	
	Total	**71**	**100**

Trust in the Fund's Manager		Frequency	Percentage
	Essential	42	60
	Necessary	28	40
	Not important	0	0
	Missing	1	
	Total	**71**	**100**

Trust in the President of the Collectif		Frequency	Percentage
	Essential	51	72,9
	Necessary	19	27,1
	Not important	0	0
	Missing	1	
	Total	**71**	**100**

Confident to receive a loan		Frequency	Percentage
	Essential	53	75,7
	Necessary	17	24,3
	Not important	0	0
	Missing	1	1,4
	Total	**71**	**100**

Source: survey data of 18-21 April 2007

Appendix 4: Artisans' previous experiences with accessing credit

Through an informal lender		Frequency	Percentage
	No	61	87,1
	Yes	9	12,9
	Missing	1	-
	Total	**71**	**100**

Through a parent		Frequency	Percentage
	No	59	84,3
	Yes	11	15,7
	Missing	1	-
	Total	**71**	**100**

Through a bank		Frequency	Percentage
	No	68	97,1
	Yes	2	2,9
	Missing	1	1,4
	Total	**71**	**100**

Through a formal MFI		Frequency	Percentage
	No	55	78,6
	Yes	15	21,4
	Missing	1	-
	Total	**71**	**100**

Source: survey data of 18-21 April 2007

Appendix 5: Reasons in favour of the Fund as a more attractive loan scheme

Access to loan is easier with the Fund		Frequency	Percentage
	No	9	12,9
	Yes	61	87,1
	Missing	1	
	Total	**71**	**100**

Guarantee conditions are less constraining		Frequency	Percentage
	No	4	6,6
	Yes	57	93,4
	Missing	10	
	Total	**71**	**100**

Lower interest rate		Frequency	Percentage
	No	3	4,9
	Yes	58	95,1
	Missing	10	
	Total	**71**	**100**

Offer of other financial services such as savings		Frequency	Percentage
	No	4	6,6
	Yes	57	93,4
	Missing	10	
	Total	**71**	**100**

Group solidarity		Frequency	Percentage
	No	4	6,6
	Yes	57	93,4
	Missing	10	
	Total	**71**	**100**

More reasonable repayment period		Frequency	Percentage
	No	8	13,1
	Yes	53	86,9
	Missing	10	
	Total	**71**	**100**

It's the artisans' bank		Frequency	Percentage
	No	13	21,3
	Yes	48	78,7
	Missing	10	
	Total	**71**	**100**

Possibility to participate in selecting loan recipients		Frequency	Percentage
	No	44	72,1
	Yes	17	27,9
	Missing	10	14,1
	Total	**71**	**100**

Source: survey data of 18-21 April 2007

Appendix 6: Uses of loans obtained from the Fund

Investment of the loan in an income generating activity		Frequency	Percentage
	No	3	8,6
	Yes	32	91,4
	Total	**35**	**100**

Use of the loan as stated in the loan request		Frequency	Percentage
	No	14	40
	Yes	21	60
	Total	**35**	**100**

Type of project submitted in the loan request		Frequency	Percentage
	Expand my workshop	2	5,7
	Buy small size tools	15	42,9
	Improve quality of my products	5	14,3
	Trade	9	25,7
	Other uses	4	11,4
	Total	**35**	**100**

Source: survey data of 18-21 April 2007

Appendix 7: Comparison of loan access conditions of the Fund to those of major MFIs

	Monthly interest rate	Repayment period (in months)	Amount of loan (in francs CFA)
CLCAM	2%	12 to 36	100,000 to 10,000,000
PAPME / PADME[13]	2%	12 to 36	75,000 to 80,000,000
CFAD BENIN[14]	2% on the remaining capital	12	50,000 to 5,000,000
FOGA[15]	2% on the remaining capital for loans for less than 2 years, and 1.5% on the remaining capital for loans for more than 2 years	12 to 36	20,000 to 10,000,000
Fund	1%	6 to 12 (left to the discretion of the borrower)	50,000 or 100,000

Source: data collected directly from the MFIs in April 2007

Appendix 8: Effect of loans on recipients' income

Increase in income during the 4 last months		Frequency	Percentage
	No	7	20
	Yes	28	80
	Total	35	100

Is the increase in income linked to the loan obtained?		Frequency	Percentage
	No	2	7,1
	Yes	26	92,9
	Missing	7	
	Total	35	100

Source: survey data of 18-21 April 2007

[13] Associations pour la promotion et l'appui au développement de la micro-entreprise (PADME) ou à la promotion des petites et moyennes entreprises (PAPME)
[14] The Centre pour la Formation et l'Appui au Développement à la Base (CFAD Benin) signed a partnership contract in 2004 with the Beninese Government to provide loans to artisans across the country
[15] Fonds de Garantie des Artisans: an initiative of FENAB, PADME and the Swiss Development Cooperation to provide equipment loans to artisans.