

**Analyzing the micro finance sector in:**

# **Burkina Faso**



Wouter Rijnveld

© 2006 Woord en Daad

This document can be freely copied and distributed under the following conditions:

- The author's name or names has to be included in every copy of this document
- This notice should be included in every copy of this document
- This document should only be copied or distributed as a whole
- This document should not be distributed for profit

## General

General data (per end of 2004) <sup>1</sup>	
GDP per capita (PPP)	USD 1,280
GDP growth	3.5 %
Consumer price inflation	6.5 %
Population	13.2 million
Informal economy	38.4 %
Exchange rate (Cfa/USD)	528

## Micro/meso level

Burkina Faso is a member country of the West African Economic and Monetary Union (WAEMU or UEMOA, later UMOA in French). Since the 80's many banks, development banks and agricultural banks in these countries went bankrupt as a result of liberalisation policies<sup>2</sup> while these mostly inefficient and malfunctioning institutions were not replaced by more efficient institutions. Remaining banks focused on medium and large enterprises, while informal lending systems are diversified and dynamic but unable to supply the poor with sustainable access to credit. This led to the emergence of many MFI's.

According to the FIRST Initiative, Burkina Faso's banking sector consists of eight commercial banks as of January 2004. The financial system of Burkina Faso is integrated on a regional level, with the BCEAO supervising the banking sector and finance institutions. A series of reforms that occurred in the 1990's included limiting state ownership in banking institutions and privatization. Despite these measures, however, intermediation remains low. By 2003, all major banks had varying degrees of foreign ownership, primarily by France and other African nations.

Mixmarket mentions only two MFI's (CVECA and RCPB) and Microcredit Summit mentions three MFI's (FAARF, FCPB and MFDB) totalling 330.000 borrowers.

However, Congo (2002) mentions that the microfinance sector comprises of 50-60 MFI's. Lai and Javoy estimate that 85% of the Burkinabe micro finance sector is in the form of cooperatives ('mutuelles') for saving and credit. They estimate that there are 50 MFI's with 309 authorized structures for micro financial services ('Structures Financières Décentralisées')<sup>3</sup>. Many of these structures are in the province Kadiogo where Ouagadougou is situated. A total of 730,400 people make use of these services with a savings portfolio of EUR 55.1 million and a loan portfolio of EUR 38.6 million<sup>4</sup>. The term 'decentralised finance' or 'local finance' are sometimes used to designate the microfinance sector as a whole.

FCPB (Fédération des caisses populaires du Burkina) as the name implies is itself a network or apex organisation of people's banks (97). It has 380.000 savers and 54.000 active borrowers in its 'caisses locales'. RCPB alone has 70% of the volume both of savings and of credits. It offers a wide range of products and was given C rating with positive tendency in 2005 by Planetrating.

The Africa Microfinance Network (AFMIN) has a member network organisation in Burkina Faso: the Association Professionnelle des Institutions de Microfinance du Burkina Faso (APIM-BF)<sup>5</sup>, but only RCPB and CVECA are members of this network. Also the fact that only two MFI's are listed in

---

<sup>1</sup> [www.viewswire.com](http://www.viewswire.com)

<sup>2</sup> Congo, 2002

<sup>3</sup> Online data for these SFD's are only available for 1997. The list mentions 23 institutions in three categories: savings and credit cooperatives, credit institutions and projects where micro credit is only one aspect.

<http://www.ilo.org/public/french/employment/finance/databank.htm#tit2>

The database of ngo's at [www.devdir.org](http://www.devdir.org) mentions 67 actors that are active in micro finance. However, this also includes other actors, such as the central bank and donor offices. On the other hand, the organisation CREDO is not among the 67 organisations while it does have a micro credit component. This suggests that the actual number of ngo's with micro credit components may actually be higher.

<sup>4</sup> per 31-12-2004; Lai and Javoy, 2005. Based on official statistics of SFD's. As an indication of the variation in data: Mixmarket reports 54.000 borrowers / 380.000 savers for RCPB for 2004, Microcredit Summit reports 103.000 and Lai and Javoy mention 54.000 borrowers and 335.000 savers for 2004

<sup>5</sup> <http://www.afmin-ci.org/imf.php?lang=en&pays=Bf>, [apimbf@cenatrin.bf](mailto:apimbf@cenatrin.bf)

Mixmarket and three in Microcredit Summit seems to indicate that networking and information exchange are limited in Burkina Faso.

Microfinance went to the agricultural sector (4.61 percent); the crafts sector (1.77 percent), stock raising (38.77 percent), processing (22.68 percent), and commerce (31.86 percent). Support was also extended to other sectors (fruits and vegetables, poultry farming, fish farming, forestry, and wildlife/game farming, among others).<sup>6</sup>

Dutch investors in the sector include: Stichting DOEN, ICCO, Oikocredit and Rabobank Foundation.

Congo (2002) looked at the performance of MFI's in Burkina Faso. His conclusions are that

- MFI's do reach the poor in Burkina Faso
- MFI's are mainly focused on rural (or peri-urban) areas
- Women are underrepresented, especially in savings groups. In credit solidarity groups they are well represented.
- Products offered:
  - short term savings (average one month, no interest paid, 3-5% interest p.a. paid on longer term loans)
  - short term individual or group loans (averages: 6-12 months, 10-17% interest, loan size CFA 5.000-300.000, group based liability or traditional guarantee schemes)
  - medium/long term individual credit (loan size CFA 300.000-3.000.000, 12+ months, interest varies, collateral required, interest 12-24% - 14% at commercial banks)
- Credit is given for productive as well as consumptive purposes. Group credit usually only for productive purposes.
- Interest rates, though higher than at commercial banks, should be increased in order to make the MFIs' self sufficient (sustainable interest rates<sup>7</sup> 12-44%; higher s.i.r. for the smaller ngo's). Congo argues that such rates should be no problem for the target group, since interest rates in informal systems are up to 50% for a few months. As a result, MFI's are not self sufficient. However, there is a correlation between age of the MFI and self sufficiency (which supports the thesis that MFI's need time to become self sufficient) en MFI's with (compulsory) savings are also more self sufficient.  
[However, Planetrating reports that RCPB has an operational self sufficiency of 116% and financial self sufficiency of 99% in 2004]
- Repayment rates are 94-100%. These are higher when credit is combined with savings.
- Administrative costs are high, clients per staff relatively low: ±100.

## **Macro level**

Burkina Faso shares its currency, the CFA franc, with other members of the West Africa Monetary Union (UMOA)<sup>8</sup>. On January 1st 1999 the CFA franc became tied to the euro at a fixed exchange rate of CFA 655.96:€1, and ended its relationship with the French franc which had been set at CFA 100:FF1.

According to the World Bank, the public credit registry covers 2 borrowers per 1000 adults, and there is no private credit coverage. In terms of the World Bank's Credit Information Index, Burkina Faso scores a 2 on a scale from 0 to 6, which is position 109. Overall position for Burkina Faso's business environment is 154 which means Burkina Faso's business environment is one of the poorest.

## **Regulation**

Regulation of the MFI sector is done through the PARMEC law. Lolila-Ramin (2005) summarizes this law and its implications for the MFI sector. The UMOA was established in 1973 and has one central bank for all its member states: the Bank Centrale des Etat de l'Afrique de l'Ouest (BCEAO)<sup>9</sup> with headquarters in Senegal and branches in all member states. This bank is the supreme regulatory and supervisory body for all financial institutions in the region.

<sup>6</sup> PRSP 2005

<sup>7</sup> S.i.r.: viable interest rate accounting for: administrative costs, loan losses and financial costs

<sup>8</sup> Benin, Burkina Faso, Ivory Coast, Guinea Bissau, Mali, Niger, Senegal and Togo are member states of the UMOA.

<sup>9</sup> <http://www.bceao.int/>

In 1994, the PARMEC law (Projet 'd'appui à la réglementation sur les mutuelles d'épargne et de crédit) was drafted to regulate the MFI sector in the UMOA region. This law elevated the status of the MFI sector and made it an essential sub-sector of the formal financial sector in the region. The most important point of this law is that it is based on the single model of cooperatives or mutuals ('mutuelles'). Lolila-Ramin calls this the 'false assumption of a uniform evolution of the micro finance sector'. MFI's that are not based on this model, can make a Tailored Agreement ('convention cadre') with the minister of finance with a maximum duration of five years. In this agreement the procedures and guidelines and operational modalities of the MFI are set up. It depends on the bargaining power of the particular institution how this agreement looks like. There are examples of MFI's that are allowed to use unique performance indicators or that are allowed to charge higher interest rates than the set maximum interest rate<sup>10</sup>. Practically, it means that NGO's that want to be involved in micro finance activities should create a separate structure: either a cooperative ('mutuelle') as 85% of the MFI's or with a tailored agreement with the ministry of finance. However, in this case, institutions are not allowed to mobilize deposits from the public. However, savings that are withheld as partial collateral are allowed and some MFI's have tailored agreements that do allow them to mobilize deposits from their clients.

Regulation is done through internal supervisory organs, but there are many instances where the capacity of such organs is insufficient which results in embezzlement of funds and poor governance. This is also part of the cause of unreliable data and sometimes misleading financial information. Supervision is also carried out through the apex organisation of the mutuals (FCPB) but this organisation has only advisory power (with copies to ministry of finance). External regulation is done through departments ('cellules') in the member countries' ministries of finance. However, regulation and supervision is often poor due to lack of human and institutional resources and capacity. There is a trend to transfer this responsibility directly to BCEAO, esp. for the larger MFI's.

BCEAO has established a Regional Decentralised Finance Support Programme (PRAFIDE) to strengthen the MFI sector in the region. It essentially has four parts which are the layout of the legal framework, the reinforcement of the internal and external supervision, the implementation of capacity reinforcement actions for the players involved and the improvement of the information available on the sector.<sup>11</sup> Apart from statements that the legal framework is being revised it is not yet clear what exactly will change and what will be the impact of such changes.

Lolila-Ramin lists (amongst others) the following problems with this regulatory framework:

- The maximum term of 5 years for the tailored agreements (15% of the MFI's)
- The inflexibility caused by the assumption of a single model (cooperation).
  - This hinders MFI's that want to turn in to a bank
  - This hinders banks that want to start a 'microfinance window'. Such a department has to be registered separately with a tailored agreement. Some banks have escaped such requirements by providing funds to MFI's and not to clients directly.
  - This hinders diversification of products, innovation and growth, hence limiting access to finance for the poor.
  - This hinders investment funds to invest in MFI's because bank licenses are required. E.g. the AfriCap fund from Senegal is not able to invest in UMOA countries even though it is based in one.
- Governance of member based organisations (the 'mutuelles') is sometimes a problem as powerful members may approve loans for themselves or relatives that cannot be paid back. Employees with more technical know-how have no power to intervene and internal supervision organs are too weak.

He lists the following challenges that would improve the micro finance sector in Burkina Faso:

- Different forms of MFI's should be allowed, that are relevant to their target groups
- Governance issues of the cooperatives should be reviewed, e.g. by limiting maximum terms for positions.

<sup>10</sup> BCEAO currently sets interest rates at minimum 12% and maximum 27% ([www.bceao.int](http://www.bceao.int) at 06/03/06)

<sup>11</sup> Micro Finance Matters 10 / March 2005, Interview with Mr. Charles Konan Banny, governor of BCEAO. ([http://www.uncdf.org/english/microfinance/newsletter/pages/2005\\_04/featured\\_quest.php](http://www.uncdf.org/english/microfinance/newsletter/pages/2005_04/featured_quest.php))

- Standard performance norms should be applied and better supervision guaranteed. Now this is only the case for the cooperatives. The MFI's with a tailored agreement can negotiate theirs.
- The maximum for interest charged (27%) should be removed to allow for self sufficiency. [However, the study of Congo showed that for the better MFI's an interest rate of around 25% or even 12% is sustainable]
- Taxes placed on deposits in formal financial systems should be removed.
- Refinancing of MFI's can be a problem: e.g. deposits at MFI's cannot be considered as collateral for obtaining funds.

### *Poverty Reduction Strategy Paper (2004)*

In the PRSP some attention is given to micro finance. In the discussion about access and rights to land for the poor, it is said that land is often the only asset that can serve as collateral for micro credit. "Microfinance is the instrument of choice for financing the diversification of income-generating activities in rural areas; to that end, a rural microfinance development strategy needs to be worked out, with terms and procedures appropriate to the specific needs of activities such as the development of rural handicrafts, the production, preserving, processing, and marketing of agricultural and livestock products, and the export of forest and fish products. In addition, the Government will continue its efforts to create conditions conducive to the geographic expansion of decentralized financial systems and organizational capacity-building for such systems through the development of refinancing and guarantee fund mechanisms at other financial institutions. Special attention should be given to the needs of food producers, who are the poorest and most vulnerable group.

The Government intends to develop a comprehensive microfinance strategy based on the following principles: (i) promoting the establishment of microfinance institutions that comply closely with best practices and apply strict auditing procedures, (ii) creating an environment that will provide incentives to the country's commercial banks to invest some of their liquidity in the microfinance sector, and (iii) making micro credit an effective means of empowering the poor."

The above two paragraphs are about everything that the PRSP mentions about micro finance and it is not very concrete. However, as mentioned above, work is in progress (at BCEAO level) to create a better regulatory framework for micro finance.

### **SWOT analysis**

General SWOT is in the sector analysis and are not repeated here.

<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>• MFI's do reach the poor / rural areas</li> <li>• Generally high repayment rates</li> <li>• Savings integrated in the sector</li> </ul>	<ul style="list-style-type: none"> <li>• Many MFI's not yet self supporting</li> <li>• Inefficient / expensive administration</li> <li>• Networking weak</li> <li>• Information systems weak</li> <li>• No uniform performance monitoring</li> </ul>
<b>Opportunities</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>• Regulatory framework (PARMEC law) being revised</li> </ul>	<ul style="list-style-type: none"> <li>• Infrastructure weak → higher operational costs</li> <li>• Very inflexible regulatory framework</li> </ul>

### **Recommendations for projects and programmes**

- Saving schemes combined with credit increases self sufficiency
- Lobby for adjusting regulatory framework
- Attention for networking and information provision

### **Literature:**

- General sources: mixmarket, microfinance gateway, CGAP.
- Poverty Reduction Strategy Paper Burkina Faso, 2004.
- Year of Microcredit, country report Bangladesh.
- Congo Youssoufou, 2002. Performance of microfinance institutions in Burkina Faso. United Nations University / WIDER Discussion Paper No. 2002/01.

- Lafourcade Anne-Lucie, Jennifer Isern, Patricia Mwangi and Matthew Brown, 2005. Overview of the outreach and financial performance of microfinance institutions in Africa.
- Lolila-Ramin, Zahia, 2005. Regulation and Supervision of MFIs in the West African Monetary Union, How the PARMEC law impedes access to finance for SMEs and the poor. Essays on regulation and supervision No. 5. Iris Centre, University of Maryland
- Lai, Minh-Huy and Emmanuelle Javoy, 2005. RCPB Burkina Faso. Planetrating.
- Ernst and Young, 2001. Planetfinance study Burkina Faso.