

# AFD AND MICROFINANCE

1988 – 2008:  
A twenty-year milestone





## WHY MICROFINANCE?

In a number of countries the vast majority of the population has no access to traditional banking: its saving capacities and credit needs are too low compared with the cost of such operations for banks.

An yet it is essential to provide access to financial services (access to loans, security of savings, availability of means of payment) in order to reduce the vulnerability of these populations to life's hazards, create a fabric of small private enterprises and thus boost economies, create employment and increase incomes.

## CONDITIONS FOR SUCCESS

### FINANCIAL VIABILITY

Donor grants may be required at start-up phase for microfinance operations, but to provide a sustainable response to client needs Microfinance Institutions (MFIs) must build their financial viability themselves by covering costs with revenues from their activity. The time required to achieve this depends on the context and the target public. It always requires a sound and professional management of the MFI. Moreover, the MFI must also be able to charge high enough interest rates in order to achieve financial equilibrium.



### ADEFI MADAGASCAR: DIVERSIFIED PRODUCTS, PRIVATE SECTOR LINKAGES

ADEFI is a microfinance institution created in Madagascar in 1995 by ACEP-Développement, financed by the French Ministry of Foreign Affairs, then AFD. ADEFI reached break-even point after three years of existence and became a mutual benefit association, the only legal status available to MFIs at that time.

ADEFI's client base is made up of urban microenterprises with a 600 euro average amount for loans in 2008. Outstanding amounts stand at 6 million euros for a 7 000 strong client base. Production and service artisans benefit from half of this financing and 58% of clients are women.

In 2003 ADEFI implemented a new loan methodology in order to open an SME facility to finance investments by microenterprises which had already benefited from its financings. The mechanism was consequently extended to other SMEs excluded from classic bank financing. The average amount of loans to SMEs stands at around 10 000 euros with 2 to 3 year maturities.

ADEFI, in order to secure its governance and obtain the resources required for its development, (has ?)engaged upon (in?) a process to create a public limited liability company to which the credit union's financing activity and loan portfolio will be transferred. The public company's capital will be open to private investors, ethical funds and local banks at a later stage. The ADEFI Association, the main shareholder of the public company, will use revenues from this transfer to become a health union and will therefore be able to finance healthcare services for microentrepreneurs.



## AL AMANA

Al Amana, a Moroccan association created in 1997, contributes to social integration and economic development via microfinance and by promoting microenterprises. In order to meet Al Amana's financing needs AFD has intervened:

- firstly, in the form of a long-term concessional loan in euros to finance growth in its activity;
- firstly, in the form of a long-term concessional loan in euros to finance growth in its activity.

Since 2007 AFD has again supported AL Amana in implementing an innovative product: the housing loan for slum dwellers targeted by the national "Cities Without Slums" program. The project will support some 14 000 households in 230 slums inventoried in Morocco.

Finally, Proparco, AFD's private sector financing arm, provided a full guarantee to AL Amana enabling it to benefit from a subordinated loan from a Moroccan bank in order to strengthen the structure of its balance sheet.

## INSTITUTIONAL VIABILITY

To be sustainable MFIs must be institutionally viable, i.e. they must have good governance and exist within a suitable regulatory framework.

The quality of governance is essential to maintaining long-term vision and strategy, whatever the legal status of the MFI: association, union or cooperative, public limited liability company. MFIs can be supported in this via international networks of microfinance operators, with support from donors or reference bank shareholders.

MFIs fall within national legal and regulatory frameworks which must integrate the specific nature of microfinance compared with classic banking operations. Most countries have adopted specific regulations for the microfinance sector since the 1990s. AFD, with the French Ministry of Foreign and European Affairs, supports the efforts made by States to enhance their regulatory framework and strengthen their supervision capacities.

## EXTENDING THE RANGE OF PRODUCTS AND RESOURCES

Microfinance does not just mean microcredit. Populations without access to banking services also need savings and insurance products to enable them to budget their expenses and face life's hazards. They need transfer instruments, migrant workers in particular, and home loans.

MFIs themselves can find the resources required to finance loans by borrowing from banks or collecting their clients' savings. The construction of the sector must take this complementarity into account by promoting MFI integration into the global financial sector.

## A FULLY-FLEDGED FINANCIAL SECTOR WINDOW

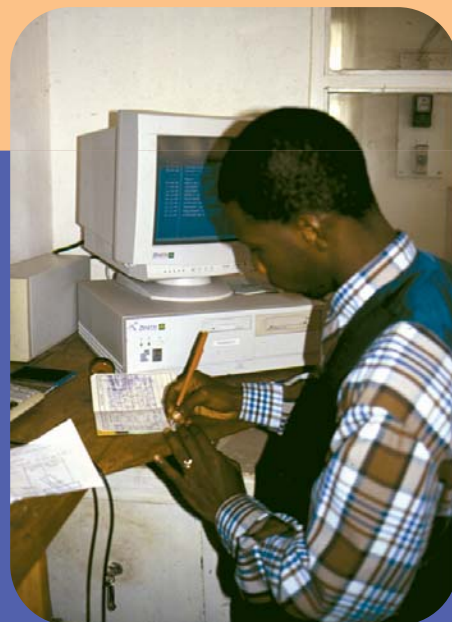
Microfinance came about outside the classic financial sector (banks, financial establishments...), often with the support of external grants and technical assistance from international NGOs. A number of MFIs went on to become approved financial institutions under the supervision of monetary authorities and established institutional and financial links with private partners: specialized investment funds, local banks, institutional investors etc.

This transformation in microfinance makes it possible to provide greater access to services for an increasingly wider customer base.

## MICROFINANCE INVESTMENT FACILITY

AFD has a tool called the “Microfinance Investment Facility” which completes its range of microfinance instruments. The Facility has now reached 50 million euros and makes it possible to acquire stakes in microfinance investment funds and grant concessional long-term loans in local currency directly to MFIs.

This Facility targets MFIs in the start-up phase or undergoing transformation. Its payment and repayment conditions vary according to the type of structure receiving support, its level of maturity, the public concerned, the level of private sector involvement and the institution’s performance.



## AFD’S INTERVENTION AXES

Against this backdrop AFD defined a microfinance sector support strategy based on the main following axes:

### INTEGRATE LESSONS-LEARNED

- To help MFIs quickly attain autonomy and sustainability so they can provide sustainable financial services:
  - Support MFIs in their aim to reach financial equilibrium.
  - Integrate contextual differences (rural areas and urban areas, different categories of target populations) with conditions appropriate to achieving this equilibrium.
  - Support the expansion of MFIs which reach this equilibrium threshold and support the reproduction of models which perform well.
- Support institutionalization and capacity building for viable MFIs.
- Support monetary authorities in the construction of legal and regulatory frameworks adapted to microfinance.

### AND INNOVATE

- Support innovative actions by specialized operators with proven track records.
- Support MFIs in their quest to diversify their range of financial services: loans to microentrepreneurs, loans tailored to agricultural production cycles, home financing products, health microinsurance products etc.
- Foster linkages between high-performing MFIs and the formal financial sector and give grants a leverage effect in order to mobilize private resources.

## TWENTY YEARS OF MICROFINANCE AT AFD

- 1988** First microfinance operations in Guinea and Burkina Faso.
- 1992** Launch of a multi-country cross-cutting program recognizing microfinance as a sector of development aid.
- 1995** Participation of AFD and the French Ministry of Foreign Affairs in the Consultative Group to Assist the Poor (CGAP) as founding members.
- 2002** Microfinance projects are pooled within a financial sector department.
- 2003** Peer Review du CGAP, permettant à l'AFD de préciser sa stratégie pour accroître l'efficacité de son intervention dans le secteur de la micro finance.
- 2005** "Microfinance Year". AFD organizes the Paris Conference.
- 2007** Microfinance is included in the strategy of Proparco, AFD's subsidiary, thus completing AFD Group's range of products: equity investment, subordinated loans, commercial loans.
- 2008** Twenty years of operations in the sector, a total of 50 microfinance institutions financed in around thirty countries for an amount in excess of 300 million euros of cumulative investments.

## CAPACITIES IN LINE WITH AFD STRATEGY

- Microfinance is a priority of AFD's Strategic Orientation Plan.
- The microfinance support strategy is integrated into the broader problematic of supporting the development of the financial sector.

## A RANGE OF TAILORED PRODUCTS

AFD has a wide range of financing instruments meaning products can be tailored to the type of MFI and local regulatory framework:

- Grants for MFI investments and capacity building.
- Concessional loans in euros.
- Guarantees for MFI loans from banks in local currency.
- Guarantees for MFI bond issues on local bond markets.
- Subordinated loans, participative loans in local currency with concessional conditions tailored to MFI business plans (Microfinance Investment Facility).

Proparco, AFD's subsidiary, has tools at market conditions (equity or quasi-equity, loans in local currency or foreign currency, guarantees, subordinated loans).

## THE RIGHT TEAMS

- A microfinance team forms part of a multidisciplinary team which provides support to the whole financial sector. This organization provides a hub of competences and capitalization in terms of microfinance and developing synergies with classic banking activities
- A dedicated team at the Center for Financial, Economic and Banking Studies (CEFEB) organizes high-level training sessions for MFI managers and other operators in the sector: supervisory bodies, ministries of finance, commercial banks etc.
- A network of specialists at AFD headquarters, AFD agencies, the CEFEB and Proparco is led by the microfinance team.





Agence Française de Développement is a public establishment with a mission of general interest: to finance development. It is a specialized financial institution and supports projects with economic or social impacts in both public and private sectors: infrastructure and financial systems, urban and rural development, education and health.

AFD today operates in over sixty developing countries and in all France's Overseas Local Authorities via a wide range of financial instruments from grants to market condition loans. It also contributes, in collaboration with its supervisory authorities, to public policy design and France's influence in the development world.

AFD commits, in all its activities, to promote the Millennium Development Goals, at the crossroads of imperatives such as economic growth, poverty reduction and sustainable development which are priorities for France's official development assistance. AFD commitments in 2007 totalled 3.5 billion euros.

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