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Case studies: innovative initiatives to deal with the effects of rising socio-economic risks in West and Central Africa.



The workshop held on Monday 9 October 2023 in Lomé, Togo, as part of Africa Microfinance Week, brought together more than 100 participants, including many representatives of microfinance institutions from West and Central Africa (Mali, Burkina Faso, Niger, Cameroon, Benin, Democratic Republic of Congo, Senegal and Togo). Following an introduction by Mohamed Attanda, Executive Director of MAIN, and Mathieu Soglonou, Executive Director of CIF, participants shared their experiences in plenary sessions and then in working groups. The Grameen Crédit Agricole Foundation and ADA moderated the workshop. Dominique Lesaffre, Chairman of DAMAN, a guarantee mechanism in Palestine, also presented his experience.



Mohamed Attanda,
Executive Director, MAIN



Mathieu Soglonou,
Executive Director of CIF

"In the current socio-political context, West Africa is facing a new risk. The issue of securing savings and loan portfolios is becoming a major concern for microfinance players. The discussions at the workshop will continue, with a view to helping industry players to effectively manage the risks faced by microfinance institutions.

"This is a particularly delicate subject, because we have to deal on a daily basis with the dramatic events that are taking place in certain affected areas of the Sahel.

In these areas, the managers of microfinance institutions, who are committed to serving their customers, take a major risk in going to work. Conflicts seriously affect the populations and employees of microfinance institutions, to the extent that some MFIs have had to withdraw from the worst-affected areas. We need to work to make the gains we have made more secure and to find solutions in the sub-region, such as setting up guarantee funds.

Workshop summary

The discussions during the workshop illustrated and reaffirmed the major challenges faced by microfinance institutions on a day-to-day basis, and even more so during crises:

- ♦ They are local players on the ground with a strong capacity for innovation and adaptation;
- ♦ They are a key link in the international solidarity chain, thanks to the close links between the agency networks and their territories;
- ♦ Their digital transformation is decisive for maintaining access and service provision to end users; Physical branch networks make it possible to welcome, adapt and offer financial services to displaced populations;
- ♦ Building partnerships with a wide range of local players is key to revitalising or maintaining business activity in the areas affected.

The Daman experiment

By way of introduction, Dominique Lesaffre presented the experience of the DAMAN guarantee mechanism in Palestine, a support mechanism for Microfinance Institutions (MFIs) in Palestine to offer a sustainable economic and social perspective to the most vulnerable populations in fragile areas.

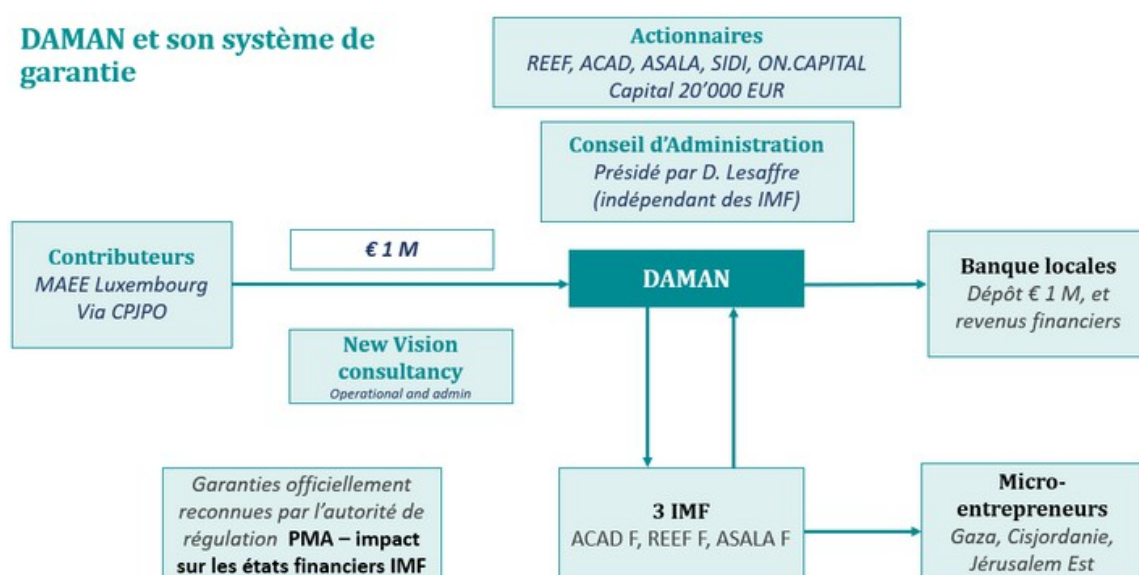
Designed as a financial tool for economic development and strengthening through financial compensation for MFIs working with entrepreneurs affected by the abuses and policies imposed by the effects of the occupation of Palestine, DAMAN makes it possible to maintain the sustainability of the mission of MFIs in Palestine through a system for securing their portfolios. The loans eligible for the DAMAN guarantee mechanism are loans granted to micro or small businesses for working capital needs or productive equipment loans.

Started in the West Bank and then extended to Gaza and East Jerusalem, the mechanism was used following the events of 2014 in Gaza and even more recently following the massive destruction in the Gaza Strip, where microfinance is often the only source of access to credit. It should be noted that DAMAN, institutionalised as a result of the structural contextual risk inherent in microfinance in Palestine, has adopted the status of a not-for-profit company. Its shareholders include the MFIs concerned and social investors, one of whom chairs the governance of the entity to avoid any conflict of interest.

Although DAMAN cannot compensate for all losses, this mechanism initiates an approach to covering exogenous risk that ensures the sustainability of the MFIs' mission while complying with regulatory expectations. In fact, the guarantees granted by the DAMAN mechanism are officially recognised by the Palestinian Monetary Authority.

Each context is unique, but when it becomes more fragile, the risk to the quality of the portfolios increases automatically. DAMAN's experience shows that over time, the design and implementation of a compensation system can be achieved by the stakeholders concerned. Donors may be receptive to a proposal that is (i) relevant (recognition of the effects of the context) and (ii) credible (profile of the system to be designed).

♦ Illustration of the DAMAN mechanism in Palestine



Participant testimonials

The workshop participants, who were then invited to share their experiences of changes in socio-economic conditions in the Sahel and other countries in sub-Saharan Africa, described a very difficult situation in the affected areas, manifested by :

- ◆ Security issues, such as attacks on agencies, property (theft of livestock) and people. In addition to terrorist actions, participants observed the development of organised crime; Humanitarian and health issues, with
- ◆ many populations being displaced;
- ◆ Economic issues linked to the closure of borders, markets, fairs and schools.

The effects on microfinance institutions are manifold: unpaid debts ranging from 50% to 70% of the portfolio in some regions, massive withdrawals or difficulties in mobilising savings, difficulties in supplying branches with liquidity, branch closures, displacement of customers and loss of life in the most extreme cases.

The deterioration in financial performance is reflected in the failure to comply with prudential standards. Many jobs cannot be maintained. Unfortunately, existing insurance policies do not cover the risks associated with terrorist attacks.



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**Mamadou Coulibaly, Director
Deputy General, Kafo Jiginew, Mali**

"Kafo Jiginew serves customers throughout most of Mali, except in the north of the country. In the south, the teams have been the victims of armed attacks aimed at intercepting funds as they are being transferred. As a result, Kafo Jiginew had to relocate 17 branches, further away from high-risk areas and therefore from certain customers. To continue to serve its customers while minimising transport costs and security risks, Kafo Jiginew is currently testing an electronic wallet service, Bank-to-Wallet.

Against a very difficult backdrop, the players on the ground, committed to their social mission, have not lacked initiatives to find solutions:

At operational level

- ◆ Agencies have been set up or specialised in providing financial services to displaced persons.
- ◆ Non-financial services were offered in the form of financial education to develop customers' resilience in such a context.
- ◆ Loans have been restructured or sometimes abandoned.
- ◆ Action plans have been devised to ensure a rapid return of services as soon as the situation improves.

IT infrastructure

- ◆ Branch interconnection has been improved to facilitate the exchange of data on displaced customers.
- ◆ The servers housing the databases have been replicated to secure the data.
- ◆ Digital innovations have been accelerated, in particular by Bank-to-wallet services, enabling customers to access financial transactions more efficiently and securely and in degraded environments.

Human resources

- ◆ Employees have been redeployed to other areas in order to preserve their jobs. Recruitment policies have been modified to attract local staff who speak the local language
- ◆ and are able to travel to the affected areas.

At partnership level

- ◆ Some MFIs have distributed aid (e.g. from the Red Cross) to the worst affected populations, in exchange for a commission enabling from perpetuate m
- ◆ Whistleblowing systems have been put in place to alert other financial institutions in the marketplace to security incidents. New partnerships have been formed with banks,
- ◆ cash-in-transit companies and the government (e.g. to rebuild schools and mobilise police forces).
- ◆ Some international funders continued to provide financial support. Global partnerships aimed at revitalising these
- ◆ areas, known as "nexus approaches", have been put in place with all the stakeholders in the area (local communities, the State, the armed forces, etc.).
- ◆ (police, etc.) to improve their autonomy.

At regulatory level

- ◆ Through requests for greater flexibility, to which the government agreed.



Abdou-Rasmané Ouedraogo,
Managing Director, UBTEC,
Burkina Faso

"UBTEC is an institution operating in rural areas in the north of Burkina Faso, including the borders with Mali, Benin and Niger. For 8 years now, the institution and its beneficiaries have been severely affected by the deteriorating security situation.

Many customers lost their property and production tools, their livestock was stolen, markets were closed and people were forced to flee their homes. UBTEC's staff have also suffered from the insecurity and, faced with recruitment difficulties and an unprecedented credit risk, UBTEC has had to close five branches. Deeply rooted in this region, UBTEC decided to innovate to support internally displaced people: firstly, with the creation of an agency dedicated to the displaced, enabling it to continue to provide them with services, as well as setting up a partnership with the Red Cross to distribute subsidies to them; secondly, in a more sustainable way, with the establishment of nexus partnerships bringing together all the stakeholders on the ground, following the example of a programme to develop a market-gardening area for women micro-entrepreneurs, in partnership with NGOs, the local authority and the Ministry of Social Action and Solidarity. In this context, UBTEC has benefited from the technical and financial support of partners such as ADA, SOSFaim and SIDI".



Louis Ekollo, Head of Compliance,
Cameroon Cooperative Credit Union
League (CamCCUL), Cameroon.

"CamCCUL is a network of 200 cooperatives in Cameroon's 10 regions. Since 2016, it has been faced with a security crisis in the far north, where Boko Haram is rampant, and a socio-political crisis in the north-west and south-west of Cameroon, where terrorism over the past six years has led to a drastic fall in economic activity and a significant deterioration in the strong productive capacities that these regions were once renowned for, particularly in the agricultural and service sectors. Having turned into an armed conflict since 2018, the crisis is characterised by violence of all kinds, including dead towns, sabotage of infrastructure and works, road closures, ambushes, kidnappings, the burning of public and private buildings, and the paralysis of public services (schools, hospitals).

The CamCCUL network, with 2/3 of its points of service in the risk zone, is undoubtedly the financial institution most affected in human, social, functional, material and financial terms. The members of the cooperatives, in good faith, were no longer able to repay their loans when the goods they used as collateral lost all their value. 50 cooperatives closed their doors in insecure areas and had to relocate their services to the nearest secure towns.

On the social front, the CamCCUL network is paying a heavy price for this crisis. Countless attacks have been recorded against its affiliated institutions and their staff, resulting in the loss of dozens of human lives, the closure of counters, the destruction of buildings and other equipment, and financial losses of several billion CFA francs, not forgetting the logical corollaries, which are the cessation of productive activities, the loss of direct and indirect jobs and the mass exodus of people to localities and regions where they feel a little safer."

At the request of the banking commission, CamCCUL has set up a business continuity plan to demonstrate its ability to cope with risks and, above all, to ensure that displaced members have access to their savings, as well as the security of staff, equipment and cash. The implementation of these measures, however, is not easy, mainly because of the insecurity and the constant disruption of the activity. The affected areas, considered by the State of Cameroon as disaster areas, benefit from tax exemptions and a school construction plan. The government has also asked the Banking Commission to relax certain prudential rules and to suspend financial penalties.

Outlook

According to the participants, the following approaches still need to be developed:

- Develop partnerships with the State to access specific financing or guarantees, tailored to the challenges of the areas affected
- Participate in nexus approaches involving a multiplicity of partners to revitalise or maintain activity in affected areas
- Prepare to return as soon as possible to areas affected in the past but where the level of risk is once again manageable

It also became clear from these discussions that there is a desire to move towards the concerted creation of instruments to secure the portfolios of microfinance institutions. The challenge will be to establish a constructive dialogue in which everyone's interests are taken into account in order to build tools that are adapted to local issues. Access to financial services is a right that sometimes has to be fought for, and one that stakeholders want to promote, including in areas affected by the deteriorating security situation.



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