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Executive Summary
This report is the product of a collaborative effort between the Action Research program of the World Bank Group and some leading micro finance institutions in Africa. In fact, under its Action Research Program on Sustainable Rural and Micro-finance Institutions in Africa, the World Bank Group has assisted national institutions to form networks as a means of strengthening their capacity to deliver financial services to the poor in a cost effective manner. These networks are owned by members of the community either as residents or by origination.

The foundation of networks rests on communication and consensus building upon which their structures are built. The importance of the formation of networks is based on the premise that joint efforts and collaboration by service institutions which share the same goal could enable them to deliver their services in a cost effective manner. This is likely to facilitate the attainment of their common goals and, ultimately, make them self-sustaining. For institutions that provide services to the poor at high transaction costs, as is the case in much of Africa, networking presents yet another tool toward providing such services in a sustainable manner.

Networking constitutes a process that has potential replication in development projects in several areas that are associated with sustaining rural institutions, including environmental preservation and natural resource management. Lessons are drawn from this process to provide a general framework for network building among service providing institutions.

The benefits of networking include interactive learning from each other; facilitated acquisition and dissemination of information; expanded pool of technical, human, and financial resources; facilitated problem-solving through, among others, enhancement of innovation; enhanced formation of operating linkages; and effective advocacy with regard to both government and donors. Associated with networks are costs of joint operations, such as training and the cost of running the network secretariat; expenditures on meetings and workshops, costs of travel by members, cost of communications and publications; and the opportunity costs of staff time while they are participating in network activities.

Education is a necessary factor that can reinforce the benefits of networking to members. Generally, short-run costs are easily felt and measured in terms of financial and temporal resources, whereas long-term benefits are sometimes not so obvious to the manager of an institution. Yet in the long run, these long-term benefits are likely to exceed the short-term sacrifices or investments. This presents a dilemma as members of networks may lag in participation due to not realizing the immediate benefits, especially if they are striving to meet the short-run financial and labor costs.

Some of the steps in the development of networks are: identification and acceptance of the need to form a network by a group of practitioners; preparation of the network membership criteria; and types of operations and facilities. They also include the determination of the organizational arrangements for administration, accounting, control and auditing; consolidation of operating standards; and internal regulation and establishment of communications and linkages.

Operationalizing networks involves decisions about the working operational framework, decision-making processes, leadership, modes of information dissemination, arrangements for
training of staff and management, accounting and auditing, the legal status of the network, and modalities of interaction with government and of mobilizing external support. Generally, decision-making must be democratically structured. This means, in other words, that decisions involving the use of network member’s resources, time, and space must have a broad consensus.

Potential network activities include joint training for staff and management; information exchange through newsletters; mutual visits and participation in workshops; reporting on status of the network; technical and financial issues. Also among potential network activities are developing operational modules, and producing and publishing training manuals, articles for the industry, news briefs and industry directories.

Initially, networks may face challenges especially in the following areas: forming a common vision out of diverse individual interests; priority and a sense of competitiveness; translating decisions into action in a timely manner. They also rise in the areas of building trust among members; meeting members’ needs; resolving situations of asymmetry in the distribution of inputs and outputs; competition among members for the limited expertise and funding; and free-rider problems.

Some solutions to these difficulties are derived from the limited literature in this new and emerging area. The framework for a participatory approach adopted by the Action Research program also reveals some of the most significant ones, such as defining a common vision with long-term benefits to the industry and members of a network; involving top management in leadership roles to mold and implement the vision; inculcating a sense of ownership in members through their active participation and consultation; and attracting effective and dedicated leadership.

Operational requirements for the success of a network include the adoption of strict standards of transparent accounting by institutions; development of suitable data management, information and communication systems; and joint determination of cost components and recovery mechanisms. Some of the ingredients for institutional building are: continued member education on principles of best practice in the industry; promoting equitable distribution of the benefits of networks to all members; and fostering long-term relationships rather than focusing on short-term gains.

Networks may also become a source of conflict due to mistrust and lack of reciprocity. Methods for managing potential conflict areas include frequent and open communication; quick resolution of conflicts; upholding member sovereignty; respect for differences of opinion; development of effective and enjoyable working relationships; and developing roles for members, both critical and supportive.

Networks need support from donors, governments, and from their respective members, especially in their early stages of development. Potential members are reluctant to join because they are not always sure of the long-term benefits. With time, however, networks could strive toward becoming self-sustaining through collection of membership fees and charging for services.
It is currently difficult to determine the cost of running a network annually. One of the reasons is that most of the networks that are operational in Africa are quite new and they are still striving to create all their operational components, including viable and effective secretariats, which could become epicenters for putting those types of data together and disseminate them for users’ perusal. Another reason is that the annual running cost of networks depends on the needs of each network.

Nevertheless, the following operational cost components can provide an estimate of the annual cost of running a network. These components include the cost of running the network secretariat; expenditures on meetings and workshops (including travel), costs of communication among members and for network activities; costs of publications and dissemination of information; cost of joint operations, such as training of management and other personnel, and loan officers; and the opportunity cost to institutions of staff time, while they are participating in network activities. Such an estimate of the annual cost of running a network can be drawn from a network proposal and/or a financial request.

Overall, an analysis of a questionnaire from the field indicates that networks are a mechanism that entails an approach which provides services to the poor and needy in a cost-effective way. Their benefits are sustainable and they outweigh the apparently high short-run costs. Networks provide a means of producing a bigger pie for the whole industry from which each member institution could gain a larger share, rather than one whereby a single institution carves a large share of an existing small pie.

Introduction

Under the Action Research program conducted by the Africa Region of the World Bank Group, networks have been formed as a means of strengthening local rural and micro financial
institutions (RMFIs). This document explains the process of network building, its methodology, benefits, and challenges.

Specific examples are provided from the experiences of network building for the delivery of financial services to the poor in Kenya, Ghana, Zambia, Cameroon, Ethiopia, and Mozambique, where the Action Research program has been undertaken since 1994. In addition to this, a questionnaire was administered to the six networks directly supported by Action Research program and other institutions, and it drew lessons from their responses. The first draft was shared by networks at subsequent workshops in and outside Africa and their inputs have enriched this document.

Institutions that provide financial and other services to the poor face high risks and attain low profitability due to their high transaction costs. Networks present yet another tool to improve their operational efficiency so that they may move closer to becoming financially self-sustaining. Networks facilitate sharing of experiences and best practices, undertaking joint ventures, such as training and advocacy work for financial resources and an enabling policy and regulatory environment.

The development of networks of microfinance institutions (MFI) has been accepted by the Africa Region of the World Bank as part of a strategic vision in rural and microfinance development for poverty reduction in Africa. It is expected that networking would be found useful in other areas of the Bank’s operations, such as environmental preservation, natural resource management, and agricultural technology development and transfer.

What a Network IS

A network is defined here as a voluntary association of institutions which pursue a common goal. One of its specific objectives is to improve the operational efficiency of member institutions. Institutions are used to represent a formal or informal unit that provide some services to a community. Service networks are associations of institutions that also provide services to a community.

Networks have proved useful in diverse economic, political, and socio-cultural environments. They have been effective in war-torn countries as well as in relatively stable ones. Similarly, networks have worked in countries with high inflation and low economic growth, as well as in those with no inflation and five per cent growth.

Networks have been called various names, including: “alliances,” “coalitions,” “partnerships,” “hubs,” and “solar systems.” Generally, they provide a forum for institutions to work together as a mechanism for strengthening themselves to meet their common and shared goals. They operate under the premise that it is better to increase the size of a pie than to compete for the biggest piece of the existing one. A major objective of network members, therefore, has been to strengthen themselves into capable and sustainable institutions with a larger market coverage.
In spite of their advantages, networks face several challenges, especially in their early stages. These challenges include: sustaining the identified common vision in light of other emerging interests and shifting challenges; inadequate communication tools, given the geographical dispersion of members in most African countries; and an insufficient financial resource base. Given these challenges, there is a need to work on maintaining and improving the cohesiveness of networks, as depicted by the following four quotations in Box 1.

Box 1: Network Building Wise Sayings

"If we fly together, we fly better."

KEMFI, 1996

“A Broom is more difficult to break than a broomstick”
The first quotation is an old African adage drawn from the Kenya Microfinance Network (KEMFI) that is currently registered as Association of Micro Finance Institutions of Kenya. This quotation, like the second one, refers to the synergism of joint efforts, as in network operations. The third quotation is about the need for commitment and continuous efforts to keep the network together. The fourth quotation reflects the need for networks to have a framework that would develop mutual trust among their members.

Types of Networks

Two broad types of networks have been identified in the literature. They are Lateral Learning Networks (LLNs) and Operating Alliances (OAs) (SEEP, 1997). The most common form of networks are Lateral Learning networks. These are membership organizations, usually comprising institutions, which operate independently of one another but come together because of the common interest in improving their operational efficiency and capacity. The common services that LLNs provide include information exchange, development of best practice materials, technical training, industry promotion, and policy development.

Operating alliances are formal affiliations of local or international organizations, such as non-governmental organizations (NGOs), which share a common vision. Their members are essentially affiliates (branches) of a mother/apex institution thus they share a common vision, strategy or theme. They serve a commonly defined clientele.

Basically the operating procedures of all the affiliates (branches) are the same. Like Lateral Learning networks, Operating Alliances support members by engaging in technical training, development of best practice materials, and in policy advocacy.
Based on these two classifications, the networks formed and supported by the Action Research Program of the World Bank Group can be defined as lateral learning. Examples of existing LLNs and OAs are presented in Box 2.

**Box 2: Examples of LLNs and OAs**

**Existing Lateral Learning Networks**


- The Small Enterprise Education and Promotion Network (SEEP) is a network of a North American NGO that support micro and small enterprise programs in developing countries. It was established in 1985 and currently has 40 members in Asia, Africa, and Latin America.
• Alliance of Micro Enterprise Practitioners. Formed by MFIs in South Africa to coordinate their activities and disseminate information, this network has a secretariat with full-time staff. It is a main contact for governmental policy makers in the country.

**Existing Operating Alliances**

• Women’s World Banking (WWB, an International NGO) With headquarters in New York and affiliates in several countries in Africa, including Kenya, Zambia, Uganda and Ghana, this network has been very active in defining best practices and performance standards in the provision of financial services to the poor, especially women.

• Catholic Relief Services (CRS, an International NGO) CRS is the overseas relief and development agency of the United States Catholic Conference. It has branches in several African countries, including Burkina Faso, Ethiopia, Ghana, Rwanda, Liberia, Zambia, and Zimbabwe. Among the services provided are financial services in remote rural areas.

There are distinct advantages from each of these two types of networks. An advantage of OAs is that the mother / apex institution would be more committed to and better placed for donor marketing and resource mobilization for its members (affiliates).

On the other hand, a major advantage of LLNs, in situations where the network is composed of national institutions, lies in the usefulness of information on best practices shared among institutions which operate in the same country, under the same regulatory and socio-cultural environment. Lateral Learning Networks are also better placed to be more effective in advocacy to influence government policies that commonly affect them. By virtue of their structure, international pressure could be also mobilized where necessary.
Network Development, Benefits, and Costs

This chapter will successively present the following points: Steps in Network Development, Network Membership and Size, Potential Network Activities, Operational Cost Components of Networks, Transaction Costs, Operationalizing Networks, Benefits from Networks, Challenges Faced by Networks, and Resolving Network Challenges.

Steps in Network Development

There are two major steps in which networks have been initiated:
• where practitioners themselves see the need for a network and come together to articulate that need and identify a common vision; and

• where an external agent sees the need for the creation of a network and motivates practitioners towards meeting this need. In this case, the risks could be higher unless a sense of ownership by the practitioners is inculcated from the initial stages.

Since membership of networks is voluntary, it takes a number of willing and committed institutions with a common vision, and an aptitude for sharing, to set up networks. Generally, the initial period of network building is costly and difficult as potential members often take a “wait and see if it will succeed” attitude, before they actually contribute their time and financial resources. In these early stages, an initial infusion of funds from donors could accelerate this process.

The steps for initiating networks include:

(a) Identification of a need to form a network by a group of practitioners in the industry or donors: this could be in response to problems or areas common to several institutions where progress can be made by joint efforts, or to constraints that can be easily tackled through joint, instead of individual, efforts;

(b) Identification of a core group or lead agencies: this important step consists of finding the right people and lead institutions that can facilitate and support the formation of a network;

(c) Preparing for a network: this step involves the identification of participants, their needs and expectations, and their planning of principles, operational activities, and acquisition of facilities for running the network. The preparation stage must be participatory and all-inclusive.

(d) Implementation of the network: the implementation of the network is about making organizational arrangements, administration and accounting, control and auditing etc. Accounting for network funds and auditing must be transparent to build trust among network members.

(e) Consolidation: this step includes financial planning; training for management and staff of member institutions; information dissemination to members, government officials and donors; planning of meetings; and keeping abreast with current issues that may affect the member institutions in their operations and timely interventions.

**Network Membership and Size**

There is no definite size for a network. A national network can involve all institutions from the targeted industry or area of work. Ninety-four per cent of the respondents in the aforementioned survey favored an all-inclusive network. It was felt that each institution could bring something to the industry. Thus, even apparent weak institutions might contribute to the development of the industry, such as their experiences, type and origin of the challenges faced.
However, the problem with a large network is its administration. Therefore, it may be advisable to set up regional branches if the network appears to be too large to be administered from the center or if the distances too vast and populations sparse. The guiding principle in this matter is that a network must be of such a size that it can be effectively run within its vision to meet its objectives. Beyond certain limits, a network may either be administratively too difficult and/or too costly to run, and thus may not be able to carry out its mandate.

In the case of Action Research, its initial target was rural and micro finance institutions acting in the field of savings and credit, plus representatives from Government, banks, agencies, universities and donors involved in micro finance. Eventually, membership of most networks became restricted to direct practitioners, while the others came to be considered as affiliates.

**Potential Network Activities**

Potential network activities include:

- Information Exchange: the network’s information exchange is done through:
  - Publications, including newsletters;
  - Visits from and to other institutions within the country and abroad;
  - Participation in regional workshops;
  - Electronic media (has potential in future);
  - Proceedings of national workshops; and
  - Training manuals.

- Reporting: this involves the production and distribution of the following:
  - Progress reports on the standing and successes of a network;
  - Technical reports highlighting the state-of-the-art in various issues of mutual interest;
  - Financial reports providing updates of financial status and use of funds.

- Resource Sharing and Training: resources can be shared and joint-training sessions organized for management and staff.

- Development of Modules: the network can develop specific operational modules as members identify the need.
Advocacy: networks are better placed to advocate for funds from donors and also push for a better regulatory and policy environment for members’ operations.

Industry Promotion: articles for promoting the industry may be through extension bulletins, news briefs, fliers or local newspapers.

Operating Cost Components of Networks

Identification of network’s cost components is useful in assessing the progress made by that network toward cost effectiveness and sustainability. The typical operational expenses of networks include:

- Cost of running the network secretariat;
- Expenditures on meetings and workshops (including travel);
- Costs of communication between members and for network activities;
- Costs of publications and dissemination of information;
- Cost of joint operations such as training of management staff and other personnel, including loan officers; and
- The opportunity cost to institutions of staff time while participating in network activities.

Transaction Costs (of Individual Members)

Apart from direct operating cost items for the whole network, transaction costs incurred by individual members, typically range between 10-40 % of total network costs. It is necessary to reduce these transaction costs so that their impact on the financial statements of the networks’ members can not erode the less obvious and less immediate benefits of involvement in networks.

This reduction can be accomplished by:

- Careful choice of sites for meetings to reduce members’ transportation and subsistence costs;
- Use of cost effective modes of communication such as e-mail, although presently the provision of such service in Africa remains limited;
- Use of qualified local staff to undertake network assignments where available, and local services for publications and dissemination of information; and
- Effective utilization and management of time.
A persisting challenge is how to get managers to participate in an activity that may not be part of their current terms of reference, and whose immediate objectives are unclear, while costs may not be part of their current budgets. It is, therefore, important for individual managers and secretariat managers to share the vision of the network.

Operationalizing Networks

The following are key elements of organizational arrangements and operating procedures that are typical of effective networks and may be adapted to suit the type of service being provided and the conditions in a given country. These elements include:

- Leadership can be provided by a hired individual (manager of the secretariat), or by a core team. It must show initiative and must be effective. The role of the leader is to integrate the functions and operations of network members, making sure that their needs are met;

- Decision-making must be through a democratic structure and with broad consensus, since its realization involves the use of members’ human resources, time and space;

- Operational framework must be adaptive in the areas of research and development, production, marketing, servicing, and financing;

- Information dissemination systems must be interactive and undergo continuous improvement and redesign;

- Training of management and staff must be process driven and market oriented;

- Accounting and auditing: accounting and auditing must be transparent and team-based;

- Legal status would be required in order to enable networks to engage in certain transactions with other institutions, benefit from certain government programs, receive some forms of donor support, and also to ensure an atmosphere of security and sustainability for clients;

- Role of Government: the most important role a government can play is to create an enabling environment through appropriate legislation, policy and institutional reforms. These areas must be conducive to effective operation of the industry represented by the network;

- Government can provide incentives for growth of the industry, technical assistance and, where necessary, some seed funds. The incentives that can be provided include tax exemption. In order to perform this role, government must have dialogue with networks members in order to discuss how various policy scenarios would affect them, so that appropriate forms of policies might emerge; and
• Other External (Donor) Support: Capacity building is important and could take the form of initial funding support. Research, network-member education, staff training and development of network management information systems (MIS) are some of the areas where such support may be needed.

Benefits from Networks

Typical benefits from forming networks of service providing institutions include:

• Integration and Coordination of Activities: network meetings present a forum for both developing a common strategy and synchronizing individual efforts to avoid duplication;

• Enhancement of Horizontal and Vertical Linkages: a strong network enhances the possibility of linking-up with other industries, sectors and networks such as cross-border (regional) collaboration and international linkages;

• A network has the ability to bargain for better terms in transactions with other related industries. Linkages with the formal financial sector and other industries in the vertical production chain are also made possible through this strength and enhanced bargaining power;

• As a Contact Point for Donors: networks can serve as a forum for donors wishing to reach institutions performing certain functions or serving a particular clientele. This can lead to effective coordination of donor support, optimizing its effectiveness and facilitating capacity building for members of a network;

• Cost Effectiveness in Operations: networks offer opportunities for cost effectiveness in the use of services such as research and training of both managerial and field staff, for example, loan officers.

This helps avoid duplication of efforts within the industry and enables the utilization of scale economies in operations in the areas of:

-- acquisition of funds (from the formal financial sector);

-- adoption of technology; and

-- utilization of technical assistance (training).

• Acquisition and Dissemination of Information on Best Practice: networks facilitate the acquisition and dissemination of information on industry best practices. In a recent survey, 71 percent of members pointed out sharing experiences as their main reason for joining networks. Members learn from each other’s mistakes and strategies, and they may adopt or adapt them to suit their particular circumstances or scale of operation;
• This could enable clients to graduate from a small-sized loan to a larger one or graduate from doing business with the micro-finance sector to working with commercial banks. The survey, however, indicated some hesitation (59 percent of responses) to divulge the names of defaulting clients;

• Development of Operating Standards and Performance Indicators: members can determine industry standards governing operations and performance benchmarks. This will ensure consistency in the delivery of services to clients. Performance indicators are useful in the standardization of size, scale, and achievements of operations and classification of members of the network and are useful for the government and donors. In Zambia, for example, the association has developed financial performance indicators for its members;

• Problem Solving and Conflict Management: members are able to identify problems that are common to the industry and to deliberate and collectively find solutions to these problems. Members are also able to jointly resolve conflicting situations among some members;

• Enhancement of Innovation: members of a network could jointly develop products for their use, such as a mix of savings and credit instruments and other marketable financial products. For example, the Ghana Association of Micro Finance Institutions, formerly Microfinance Institutional Action Research Network, has developed a module for linking the informal and formal institutions. In Zambia, the network registered as the Association of Micro Finance Institutions of Zambia (AMIZ) is developing a common monitoring and evaluation system which RMFIs hopes to share within their community and with donors;

• Sharing of Information on Clients: for financial institutions, credit scoring, and information on clients attitudes towards credit could be compiled and shared in a manner that would reduce overall transaction costs. Default risks could be reduced if clients are cross-referenced between network member institutions and also with commercial banks;

• Expanded Resources (Increased Allocative Efficiency): members contribute their individual institutional resources to a pool to provide the general membership with services such as entrepreneurial and technical skills and arrangements for training. This leads to optimal allocation of resources and cost-effective training. Donors are beginning to prefer to respond to requests for training from networks as opposed to individual members; and

• Influencing Government Policy: the network provides a forum for launching policy dialogue with government to create an enabling environment for the operations of its members. Plans can also be made to adjust operations in response to the policy environment in order to avert the effect of drastic government policy changes. Where
there are no official regulations, this can lead to self-regulation, which in most cases improves the credibility of the industry to consumers, government, and donors.

In general, if well managed, the benefits from networks are clear and likely to exceed the costs. Benefits are even more obvious in situations where local structural and regulatory constraints increase transaction costs for these institutions. On the other hand, a challenge to governments and to society can be found at the extreme end of the continuum of industry-strengthening through networks, a familiar problem in the regime of industrial organization.

This entails how to avert the possibility of monopolistic tendencies by very strong networks, such as collusion between institutions, leading to higher prices in the provision of services to the population at large. This is an area that may need to be addressed, probably by governments.

**Challenges Faced by Networks**

- **Forming a Common Vision:** this is necessary to help orient members toward their collective missions, goals, and strategies’s work and also to help define the scope of the network. The survey pointed out that:
  - Without a common vision, networks may fail because members are likely to pursue their individual interests and priorities;
  - The more homogeneous the group is in terms of type and scale of operations, the easier it is to develop a common vision; and
  - Visions must be dynamic and thus require constant review by members and may undergo subsequent changes as the needs of members shift.

- **From Vision to Action:** the translation of the vision into concrete action requires a concerted effort from all members of the network, especially the core group/steering committee.

- **Building Trust among Members:** trust is a key ingredient in the successful operation of a network. However, it takes time to build it, and members may have to exercise patience.

- **Meeting Member Needs:** member participation may begin to wane when networks do not provide the services that members expect.

  Lack of a clear vision of the network could lead to members making unnecessary demands on the network, and turning away when these demands are not met.

- **Asymmetry in the Distribution of Inputs and Outputs:** when network products favor some partners more than others, or where there is a one-way low of expertise or best practices, as
where one is perceived to only enjoy the benefits without contributing a fair share (free-rider problem), friction might arise within the network. This could threaten its survival.

Larger members may be able to contribute more to the network, but they also are likely to expect to benefit more. In some cases, though, the benefits may be enjoyed by all members.

- Problems of Communication: the problems of communication may be due to the dispersion of the population, insufficient communication equipment, high levels of illiteracy, prevalence of many languages in a given country, and the prevalence of dual economies.

- Competition among Members: sharing of best practices, information and technology by networks can produce competition among members. In particular, where information is perceived as being withheld from other members, this has created an aura of unhealthy competition among members. However, it is expected that this short-run phenomenon will not be allowed to overshadow the long-term benefits of a stronger and expanded industry.

**Resolving Network Challenges**

Challenges can be resolved through the following procedures:

- Define a common vision with long-term benefits to the industry and members of the network;

- Involve top management in network leadership roles to mold and implement the vision;

- Uphold the sovereignty of each member. Each member has an existence outside the network, with its own goals and objectives. But together, these could contribute to a strong vision;

- Develop roles for members and clearly specify their contributions;

- Adopt strict standards of accounting with transparency to member institutions;

- Develop suitable data management, information, and communication systems;

- Jointly determine cost components and recovery mechanisms;

- Engage in continued member education on principles of best practice in the industry;

- Focus on equitable and fair sharing of total benefits of networks to all members;

- Focus on long-term relationships and benefits rather than short-term gains; and

- Manage the potential conflict issues such as trust and reciprocity.
Action Research Experience in Building Networks

This chapter focuses on the Action Research experience in network building and it falls within three sections: action research on rural micro finance in Africa; framework for participatory approach to Network Building, and six case studies.

Action Research on Rural Micro Finance in Africa

The World Bank program on Action Research on Sustainable Rural and Micro Finance Institutions in Africa adopted networks as a mechanism for strengthening rural and micro-finance institutions. It applies a participatory approach in the development of networks in order to instills to the local institutions a sense of ownership of the process.

Networking has been proved to be a most effective way of improving the operating efficiency of these local institutions through shared lessons, joint product development, and
collective bargaining. Action Research program strengthened networks where they already existed and encouraged their formation where they did not exist.

Box 3 gives a succinct summary of the Action Research program.

**Box 3: Summary of the Action Research Program**

The objectives of the Action Research Program are to:

- improve the ability of local rural and micro finance institutions to deliver financial services to the poor on a sustainable basis;
- document experience and performance of effective financial service providers, mainly in rural areas;
- assess the effectiveness of innovative techniques; and
- enable the World Bank staff, as well as other donors, to integrate innovative techniques and approaches in the operations they support.

The activities under the Action Research Program include:

- conducting field-based diagnostic case studies of rural and microfinance institutions that would have developed innovative methods for delivering financial services to the poor;
- facilitating the building of national networks in order to provide opportunities for ongoing learning and product improvement;
- organizing local workshops to share experiences and bring together the lessons emerging from the field-based case studies; and
organizing regional workshops at which networks interacted with other micro-finance institutions within Africa.

The Action Research program was carried out in Cameroon, Ghana, Kenya, Ethiopia, Mozambique, and Zambia, with financial support from the Swiss Development Cooperation and DANIDA. It also supported institutions in Uganda. The experiences that have emerged from this program are also being shared with RMFIs in other countries, for example, Malawi, Nigeria, Benin, Togo, Senegal, and Zimbabwe. These countries have expressed interest in applying the principles of the Action Research program and are willing to solicit alternative sources of funding for this process.

Leading RMFIs, including non governmental organizations (NGOs), were selected by national institutions to form a core group called Steering Committee or Champion. This committee is to oversee the network building and management process and play a catalytic role in the day to day running, strengthening, and direction setting of the network.

One of the members of this core group was selected as the coordinating/facilitating organization to provide the facilities and logistical support for running the network. In the initial stage, the program provided financial support to the network in order to facilitate the champion’s activities.

The Action Research program has operated in two phases. In Phase 1 of the program, a one-day workshop was organized to provide a forum for strategizing for network building. This workshop offered an opportunity for institutions to collectively identify problems facing their industry.

It was at this workshop that a steering committee and facilitating organization were selected. The workshop also selected two or three institutions perceived by the industry as the most viable and from which lessons could be learnt. The guidelines for identifying innovative techniques in institutions and the process of selecting institutions for study are presented in subsequent sections.

The case studies of best practice institutions involved a critical professional assessment of the selected institutions, identifying innovative techniques they would have adopted and which have the potential of the institutions to sustainability. Consultants prepared the studies under the guidance of the steering committee. Generally the consultants included development economist or financial economist and a social scientist. Details of the study process are presented in Annex I.

Completed, case studies were discussed at a national workshop to which many institutions in the industry would have been invited. National workshops offered a forum for sharing the emerging findings from the studies and for discussing how to improve current
practices and policies in providing financial services to the poor. Workshops offered an opportunity for membership drive and typically led to the expansion of the network. The process for organizing the national workshop is presented in Annex II.

During Phase 2, the network opted for more in-depth studies of member institutions, or focused on one issue for delivery mechanism in the area of rural and micro finance drawn from other institutions. These studies were discussed at a second national workshop. During this phase, networking was also intensified and some networks have since initiated module development to improve their delivery of services. Sub-regional workshops, involving countries in a geographical region, were organized to enhance networking and information sharing across national boundaries. Gradually, networks have been broadening their financial base through increased internal generation of funds and also by identifying other sources of funds.

The program supported production of newsletters, as a means of information sharing, reaching a wider audience within the country. The steering committee and/or coordinating agency published two or three newsletters per year with information on activities of the network or their members, topical rural and micro finance issues, information on international best practices and upcoming events.

The program has encouraged wide participation of national institutions and periodic meetings of the network. Typically, a steering committee met three to four times a year to exchange information and experiences and formulate the program of the network. Other network members were also invited to exchange experiences and plan activities of the network. The typical activities have included: development of operational guidelines, defining needs and priorities of the members of the network (including training), identifying areas requiring joint innovation development, building contacts between local providers and donors, and initiating policy dialogue with government and central banks.

As members found themselves with challenges to the industry beyond their own family, i.e. RMFIs, and as the need for service development for members grew, some saw it fit to regulate their existence into registered associations. Thus, five of the networks that emerged out of the program are now registered entities.

Framework for a Participatory Approach to Network Building

The Action Research program was designed to use a participatory approach at both the levels of collaboration and partnership in the execution of the program in order to ensure ownership by, and empowerment of, stakeholders. The participatory approach involves the following steps, some of which can be concurrently run:

(a) Building trusts among all the actors: a one-day workshop was held with local institutions interested in rural and micro finance issues to share information on the concept and process of Action Research, and to promote interaction between Bank staff and the local
institutions. It was only with full information and understanding of the program that stakeholders could decide to participate or not;

(b) Steering Committee (or Champion\footnote{Changed to Steering Committee in subsequent sections.}) identification: participants at the initial workshop selected a steering committee from and among themselves. That enabled them to build the foundation of ownership and accountability. Members set their own criteria. The following factors seemed to guide their choice:

(i) thorough knowledge of the industry;
(ii) demonstrated capacity for innovation and effective delivery of Services
(iii) ability to speak on behalf of the industry; and
(iv) willingness to collaborate with others;

(c) Facilitating Organizations or Individuals: organizations attending the one-day workshop chose an institution from among the steering committee members to provide logistical support and facilitate the work of the committee and network in implementing the program;

(d) Documenting local RMFIs: based on mutual consultation at the one-day workshop, participants selected two or three institutions for diagnostic studies. The steering committee hired local consultants to carry out the studies of practices and performance of institutions based on secondary information, visits to local branch offices of the institution, and interviews with management, staff and clients of the institutions.

The steering committee facilitated the research and also made inputs before the initial draft reached the World Bank. The results of this activity were presented at the first national workshop;

(e) National Workshops: the initial documentation of institutions was used to launch the process of sharing information and experiences among the institutions engaged in providing services to disadvantaged sections of the population. This took place at the first national workshop where the penultimate draft was also presented.

In addition, other issues not raised by the studies were identified and further steps, for example, those leading to the registration of the network as an association, were taken to strengthening the network. That and subsequent workshops helped disseminate information about the network. They also enabled members to talk to each other and to identify and share innovative techniques developed both locally and internationally;

(f) Network activities: the steering committee and other members of the network met three to four times a year to exchange information on their respective experiences, to define the needs and the priorities of the institutions, to build contacts with other local practitioners and policy makers, and to discuss the evolution of the Action Research program.
The main results of the issues discussed were disseminated to individuals, groups, and institutions interested in rural and micro-finance. A newsletter facilitated the dissemination of information on rural and micro finance issues;

(g) Action: at this stage, a collective will of networks was that members who had attended the first and subsequent workshops would adopt some of the innovative techniques that were presented. The hope was for such techniques to lead to enhanced and sustainable delivery of services. Other areas that required strengthening were also identified and ways of addressing them were developed;

(h) Further Strengthening of RMFIs: the local consultants, with the support of the steering committee, documented new experiences. They also followed up on the activities of various institutions, and they advised them on how to develop effective strategies; and

(i) Sub-regional Workshops: sub-regional workshops were organized to promote regional exchanges. They launched interregional networking and broadened the perspectives of the micro finance industry.
Action Research-Assisted Networks in Africa

The World Bank’s Action Research program has facilitated the creation of many networks in Africa. This chapter of the report will present five of them: the Kenya Association of Micro-finance Institutions (KEMFI), the Ghana Association of Micro-finance Institutions, the Association of Micro-finance Institutions in Zambia, the Cameroon Association of Micro-finance Institutions (CARMIF), and the Ethiopia Network of Micro-finance Institutions.

The Kenya Association of Micro-finance Institutions (KEMFI)

Background

The network of micro-finance institutions in Kenya (KEMFI) was founded in February 1996 by participants at an Action Research-sponsored workshop held in Nairobi in order to empower the poor. It was founded under the auspices of the non governmental organizations (NGOs) Council and it is the first and leading network of rural and micro-finance institutions in Kenya.

Initially, its membership stood at 15 non governmental organizations and 2 development practitioners. Now the network has evolved into a registered association known as the Association of Micro-finance Institutions of Kenya (AMFIK).

The network of micro finance institutions in Kenya has very limited data on its annual running cost. This is mostly due to the fact it is still striving to create its secretariat, the role of which will include, among other activities, the collection of financial information about the annual running cost of the network.
Objectives

The initial objective of the Kenya Association of Microfinance Institutions was to enable their respective members to share experiences, innovations, technical assistance, learn from each other’s successes and failures, and to address the common concerns that members of the network were facing. These concerns included:

- Effective monitoring and evaluation system to measure the impact of their interventions on individual entrepreneurs;
- Financial Performance Indicators;
- Legal framework and policy issues likely to frustrate the development and the growth of micro-finance in the country; and
- Development of Management Information Systems.

To address these issues and better tap the resources and potentials of its members, the KEMFI adopted and applied an indigenous adage which teaches that "if we fly together, we fly better."

KEMFI’s specific objectives were to:

- Share experiences and draw lessons from successes and failures, culminating in joint development and sharing of innovations;
- Share information on clients, as well as on loan defaulters who tended to move from one lender to another in order to escape repayment of previous loans;
- Jointly advocate for a legal, policy, and macro financial environment conducive to the growth of the industry. Up until now, RMFIs have not been allowed to take deposits; yet this is an important instrument for the growth and the sustainability of lending institutions;
- The network saw the need for the modification of the Banking Act in order to create a more favorable environment for the operations of RMFIs. The network has organized discussions with representatives of the formal sector over the issue; and
- KEMFI was preoccupied with the issue of joint efforts for resource mobilization such as bridging finance to help other institutions which may not, temporarily, have funds to on-lend to clients.

The issues that KEMFI addressed in order to meet its mission and objectives were:
• Delinking credit from other NGO activities;
• Favorable legal and regulatory environments;
• Development of socio-economic indicators for monitoring and evaluation;
• Development of Management Information Systems; and
• Managing defaults by sharing information on clients with other institutions.

Governance

A Steering committee of seven institutions, all NGOs, was elected to run KEMFI. That committee included K-REP, KWFT, Faulu, Care Kenya, Plan International, Pride and Tototo. K-REP has been the facilitating organization.

Studies of Institutions

Kenya Rural Enterprise Program (K-REP) and Kenya Women Finance Trust (KWFT) are the two institutions that were identified and studied. They both depend on donor funding for on-lending and institutional support. They provide financial services to urban and rural communities, and they also strengthen the capacity of their clients to sustainably manage businesses and finances. Over time, both institutions have developed innovative, operational, and outreach techniques.

Kenya Women’s Finance Trust targets women. But women constitute also the majority of the K-REP’s clients. Moreover, K-REP lends credit to clients who, under normal circumstances, would find it difficult to access them from commercial banks. Today’s evidence suggest that K-REP is 50 % self-sufficient and it opened a bank in 1999 not only for its clients, but also for other people.

A notable feature of Kenya Rural Enterprise Program (K-REP) scheme is that it involves the beneficiary groups in making major decisions, such as loan approvals and improvement to the schemes. By accessing commercial banks, the clients have been introduced to the banking system, and have integrated into the formal financial systems. Some of them have expanded their businesses and they have also increased the number of their respective employees.

Yet, the annual running costs of each of these two schemes are missing in these studies (Glenn D. Pederson and Washington K. Kiiru: December, 1997), from which this report has drawn its data. But, it has been indicated that between 1991 and 1995, Kenya Rural Enterprise Program (K-REP), for example, received Kenya Shillings (Ksh) 352 million in the form of donor
grants. During the same period, its total assets increased from approximately Ksh 66 million in 1991 to Ksh 377 million in 1995.

**Initial Challenges Faced by the Action Research Pilot Network in Kenya**

The challenges that the Action Research Pilot Network in Kenya encountered included:

- Defining a common vision out of the diversity of individual objectives and strengths: heads of institutions forming the Steering Committee addressed this issue, over a period of time. The vision that has emerged is reflected in AMFK’s mission, objectives and eligibility.

- Improving member participation: only seven, out of the original seventeen members of the initial years who belonged to the steering committee, were active. As the vision became clearer, nine emerged as the most committed and active members. Most of them are from the original seven steering committee members.

- Defining membership: the debate was about whether or not the network should be all-inclusive or only consist of institutions that met certain criteria, such as the size or the performance of the network. In the end, the vision, mission, and objectives of the networks determined memberships.

- Capacity building of member institutions: this would be facilitated by the presence of a strong secretariat, or at least one full time person involved in managing the day to day activities of the network. For a long time, the facilitating institution, K-REP, carried out the task of secretariat through an agreement with the World Bank. The association is now looking for ways to support its secretariat.

**The Ghana Association of Micro Finance Institutions**

**Background**


The Ghana Association of Micro Finance Institutions has a long history (Report on the West African Regional Micro-finance Institution Network Conference: February, 1999). In fact, credit services have been available in the country from time immemorial. Family members, friends and commercial moneylenders have been the sources of finance for micro-finance.

However, formal bank credit service started in the country after 1896, when the Bank of British West Africa opened its office in Accra. It was followed in 1917 by the Barclays Bank and they both provided loans against security.

African micro-entrepreneurs were excluded from access to credits, although these banks accepted their savings. Nevertheless, they obtained trade credits from big traders who were financed by these banks. It was not until the establishment of the Co-operative Bank and the Bank of Gold Coast that the interest of the African micro-entrepreneur was catered for by the banking sector.

After the establishment of the Bank of Ghana in 1957, banks were subjected to local and external regulations by a supervisory authority. The operations of those banks were geared towards urban traders and the extractive industry. The micro-enterprises were then sourcing loan finance from the unregulated informal sector, the most prominent player being the moneylender. That situation changed in 1976, when the Bank of Ghana introduced the rural banking system.

It was on the basis of such a history that in 1995, the Ghana Micro Finance network initially took place and it has, since then, aimed at sharing members’ diverse methodologies, information, and data in a cost-effective manner by providing services to poor clients. Recently, it changed its name to the Ghana Association of Microfinance Institutions. That network acknowledges that some endeavors in society, such as interacting with the government, lending institutions, and resolving issues among the Rural Micro-finance Institutions (RMFIs) themselves, require a concerted effort.

There are three different laws that regulate RMFIs in Ghana: rural banks operate under the Banking Law; credit unions operate under the Cooperative Law, and non-bank financial institutions operate under the Non-Bank Financial Institutions Law. This presents different requirements for institutions which serve similar clientele. It was hoped that by working together, the group could influence this legal environment. Currently, the network is helping build the capacity of Susu collectors through a World Bank-brokered DANIDA-funded initiative.

Specific Objectives

The specific objectives of the network of RMFIs in Ghana were to:

- Share experiences in rural and micro-finance intermediation and disseminate best practices;
- Share information on issues affecting micro-finance;
• Provide a forum for discussing issues relating to rural and micro-finance, including the regulatory environment in Ghana;

• Provide a forum for preparing the RMFIs for discussions with the formal sector; and

• Strengthen the smaller and weaker members in the industry through contact and exposure, and provide support to the informal financial institutions by improving their lending capacity.

Membership

The association’s current membership stands at twenty-three. National and international NGOs as well as rural banks make up the membership. In addition, the network has allowed for affiliate membership, drawn from the private and academic sectors and the Government (Ministry of Finance).

There are five such members. Formal linkages with these sectors have proved most useful to the RMFIs in Ghana. Association members have been able to make inputs into the evolving national financial system and the network provided them with a platform to both prepare their position and learn more about official thinking through the affiliated members. The forum provides with RMFIs an opportunity to start influencing the policy- and decision-making.

From an Informal Network to a Registered Association

It became clear to the few initiating members that the network provided a mechanism for strengthening the industry, through innovation-sharing and joint efforts, and a forum for articulating their concerns in debates over micro finance with representatives of the macro institutions (policy and finance). The question of registration was addressed at most of the network meetings, and received the support of affiliate members.

This goal was accomplished when the network was authorized to register as a corporation limited by guarantee, with most of the original Champion Team members serving in the interim Steering Committee, under a Chairman chosen from Freedom From Hunger. TechnoServe Ghana, the original facilitating organization under an agreement with the World Bank, continued to support the new body on a daily basis, until when the Board appointed a secretary for the network on a full-time basis.

The association has continued to be managed by a secretary and some support staff members. It is currently turning its attention to member services.

Studies of Institutions
Three institutions that were identified and studied in order to draw “best practices” are: Nsoatreman Rural Bank, TechnoServe Ghana, and Women’s’ World Banking.

Nsoatreman Rural Bank has been implementing a scheme whereby the bank lends financial and non-financial services at a concessionary rate to selected Susu collectors, who constitute a subsidiary organization created for this purpose. These Susu collectors, in turn, on-lend them to their clients who are mostly rural populations generally engaged in agricultural activities, and also in commerce, trade, as well as in cottage and other industries. The Susu collectors receive a fee from the service.

Financial services include lending, savings and other banking services, such as check clearing for cocoa farmers. Non-financial services include supply of agricultural inputs to farmers and farm extension services through a Susu. The Nsoatreman has developed collaborative arrangements with NGOs to help improve its capacity to monitor loans.

The NGOs help identify, mobilize, and educate rural groups about how to access the services of rural banks. The NRB and NGO staff visit borrowers regularly to avert the diversion of loan funds and to provide credit education on efficient fund utilization and the mechanics of loan repayments. The NGOs earn a modest commission on such loans. TechnoServe Ghana targets rural producers and processors, while Women’s’ World Banking has women as its major clients.

**Initial Challenges Faced by the Network**

- Although the network reached a consensus that indicated that a secretariat would be useful, thus it should be created, the TechnoServe, as well as other steering committee members, came under additional pressure and they backstopped most of the network activities;

- Securing sufficient financial support to run the secretariat, while at the same time retaining a sense of ownership of network programs and activities;

- Linking with other networks to form sub-regional and international networks. This has not been sufficiently addressed and may soon become an important challenge, especially in the light of the prominence of micro-finance in Africa. It can be achieved through interaction at the regional and sub-regional levels.

Overall, there is an improved appreciation and attitude towards the activities of the network of Rural Micro-finance Institutions in Ghana. Members are excited about the professionalization that has been emphasized and the services delivered.

There are very limited data available for the annual running costs of each of the three Rural Micro-finance Institutions herein presented. However, GHAMFIN, gives an estimated
annual running costs of $121,798.31. These estimated annual costs include the following components: Consulting estimate = $10,000.00; total workshop and meetings estimates = 14, 485,92, and training expenses = 57,450.00. This clearly shows that the network aimed to strengthen the capacity of its members.

**Association of Micro Finance Institutions of Zambia**

**Background**

Zambia offers an interesting structural model in networking. In fact, this country used to have a formal sector employment that offered a lot of opportunities to its population in general and to the urban people in particular. However, these opportunities have been shrinking in recent years because of economic crisis and streamlining within the civil service and the privatization of parastatal organizations.

Incomes have been declining and productive assets dwindling. Rural people in particular have not been covered by the formal banking institutions and they do not have access to credit for productive investment. As a result, large sections of the population have been entering the informal sector.

The Ministry of Community Development and Social Services, which has been appointed the focal point for poverty reduction in Zambia, identified micro-enterprise and informal sector development as one of the tools to be used for the country’s grassroots development. The challenge required interventions that would focus on rural families, and mainly through women in those families.

The aims of that is new business formation and capacity building at the individual or community level to alleviate poverty. This prompted eight non-governmental organizations and one non-banking financial institution to get together and they received assistance from the European Union (EU).

Although all eight NGOs were not financial institutions, they nevertheless were concerned with the fate of the poor and other most vulnerable social categories whom/which they were serving. They saw economic empowerment of those poor as an important factor for
poverty alleviation. An EU/Government of Zambia (GoZ) research into poverty and ways to cushion its effects on the most vulnerable groups in Zambia identified delivery of financial services as an important tool for empowering the poor.

Those nine institutions thus decided to form a Micro Bankers Trust (MBT), a process that the EU supported. When MBT was legally established and became a viable source of funds for on-lending by the RMFIs, the network was seen as playing the role of identifying and preparing potential MBT members (Monde Sifuniso and Matondo M. Yeta, December 1-3, 1998).

In 1996, as a result of this overall effort, the World Bank was invited to facilitate the formation of Action Research on Sustainable Rural and Micro-finance Institutions (RMFIs) in Zambia or as it is commonly referred to, the Action Research Champion (program) in Zambia. This program engages itself in fundamental research on issues of sustainability of micro-finance programs. More importantly, it facilitates the development of a structural model of networking and advocacy in the country by working with the above eight non-governmental organizations and one non-banking financial institution.

The World Bank was also invited to contribute to this work by facilitating the adoption and dissemination of “best practices” in rural and micro finance, and “best practices” in networking as a tool for learning. It was felt that the Action Research methodology could strengthen their efforts quantitatively by attracting RMFIs and, qualitatively, by providing a platform and forum for articulation of the concerns of the industry and undertaking of joint ventures.

The network that emerged focused on RMFIs and it drew those already in the MBT process to play the lead roles in the evolution of the network. The micro-finance community in Zambia attempts to scale up to meet its goals of reaching 1,000,000 families by the year 2005.

Objectives

The objectives of the Association of Micro-finance Institutions of Zambia are:

- Joint mobilization of resources to improve the performance of RMFIs by facilitating their access to training and loans;
- Enhancing the capacity of RMFIs through learning from others within the industry;
- Sharpening the delivery tools in order to reach both the poor (urban) and the core poor (rural); and
- Collectively come up with a strategy for addressing the regulatory framework and the macro-economic situation.
From Network to Association

Several factors contributed to the move of the Zambia’s MFI towards a legally recognized network. Its origins and the apparent presence of two parallel structures, i.e., Micro Bankers Trust (MBT) and Rural and Micro-finance Institutions (RMFI) network, pushed members into wishing to clarify the relationship in a legally backed manner. The apparent active role played by Government, through the Ministry for Community Development and Social Services, as well as other ministries, in economic empowerment of the poor and all managing small-scale loan programs, prompted RMFIs to seek legal recognition in order to speak with Government from a position of strength.

The Banking and Financial Services Act of 1994 raised some concerns within the rural and micro-finance industry. Some of those concerns were the relation between this Act and five others which impact on rural and micro-finance in the country, and some requirements by the Act which could frustrate the growth of their industry.

Thus at the first national workshop held in 1997, network members and others who were present voted for the creation of an association, which adopted the network’s objectives. Great emphasis, however, was placed on regulatory framework and on capacity building for the members.

The network’s Steering Committee occupied itself primarily with this issue in subsequent months and the Association of Micro finance Institutions of Zambia (AMIZ) was registered in February 1998. It has focused on building a viable secretariat. The association has sought support from the World Bank and other donors, and membership to accomplish this program which aims at developing services for members.

Membership

The Association of Micro-finance Institutions of Zambia has twenty five members, of which ten national and eight international. These eighteen NGOs are engaged in rural and micro-finance intermediation or are outright micro financial institutions, five private companies, one is a trust (MBT) and one a cooperative.

Micro Bankers Trust brings with it ten members, some RMFIs being independent members of the association. Membership of MBT is particularly useful in that the association is made fully aware of institutional requirements for eligibility to borrow money from it, and it helps prepare its members accordingly. By the same token, its membership would facilitate others gain access to financial support at its disposal. Its own training programs have been re-oriented to complement what the association might accomplish.

Currently, the association is developing a DANIDA-funded module in evaluation and monitoring, and it has recently completed work on Financial Performance Indicators. These would benefit MBT tremendously as it prepares its non-financial NGOs for the micro financial intermediation roles they wish to take on.
Diagnostic Studies

Two studies were undertaken on CARE/PULSE (NGO) and Credit Management Services.

CARE/PULSE caters for the urban poor in Lusaka by providing them with short-term loans through mutually reliable groups, called *chilimba* or *gulu*. These loans range from ZK250,000 for the first-time borrowers to ZK500,000, for the second-time borrowers, and they are used to finance working capital by participants who are mainly involved in street vending, small-scale manufacturing, and food processing.

The loans are payable in twenty-five weeks for the first loans and fifty weeks for the second loans. The targeted participants are women who are the sole income earners in their households; but men who are poor also participate in the project. The major sources of funds for CARE PULSE are grants from CARE Canada (52 percent) and DFID (Department for International Development: 30 percent). Internally generated funds (interest income and fees) contribute less than 10 percent.

Loans have had an impact in terms of generating employment and they have also strengthened businesses. Female participants have become less dependent on their spouses and they have been given a bigger role in their homes.

The program is, of course, reaching the poor, but not the core poor. This is due to the fact that one of the criteria used to receive the assistance from CARE PULSE is that prior to the application for membership, the candidate should have been operating a business for more than six months on a full time basis. This condition bars the very poor from participation because they lack capital to start a business.

Credit Management Services (private company), on the other hand, targets the core poor in two rural provinces in Zambia. A discussion of the lessons learned from the two institutions led to focus on understanding the nature and characteristics of poverty in the country so that RMFIs could more effectively target their interventions.

Michael Mbulo, Chairman of the AMIZ, estimates the annual running cost of the association to stand approximately at $206,580. The breakdown of this amount of money is as follows: Personnel = $43,800; Office Operations = 63,780; Research and Consulting = $17,500; and Assets = $81,500. In addition, the association has received support from donors (HVOS, SIDA, USAID, and the World Bank); memberships fees; and fund raising activities, such as monthly open fora.

He acknowledges that the association members has experienced tangible benefits, for instance, the increase in the size of loan and the quantity disbursed by members as a result of capacity enhancement (training) gained through network membership.
Initial Challenges

The network had the following four initial challenges:

- One of them was how to bring MBT and Action Research-supported network into one whole what could easily have created two parallel processes. Coupled with this was the fact that some MBT members were non-financial institutions;

- The presence of some of the most advanced RMFIs in MBT, but which also spearheaded the growth of the network helped overcome this, as did the clearly-stated objectives of the association. These underlined the complementarity of the two structures;

- Involvement of three governmental ministries in credit delivery could have resulted in some unhealthy competition. But the creation of a recognized association provided a voice to RMFIs that could deal with governmental institutions from a position of strength; and

- Early involvement of the private sector, which was seen as having different goals from NGOs, was another challenge. The network and, later the association, has helped turn this into strength, as NGOs are able to learn some management skills from the private companies.

Cameroon Association of Microfinance Institutions (CARMI)

Background

In 1997, four micro and rural finance networks came together and formed the network named Cameroon Association of Micro-finance Institutions (CARMI). Encouraged by the Kenya and Ghana experiences, that national network was conceived as a mechanism to help RMFIs meet and address the following three pertinent issues:

- Participation in the elaboration of the law to govern micro finance institutions in the country;

- Sharing experiences and innovations across the board between the better established institutions and those which were just entering the field; and

- Sharing costs of training.

Membership
A number of members drawn into the network were themselves networks; that made CARMi to become predominantly a network of networks. It had a membership of seven, five of which were networks, and they brought with them a total of 452 affiliated institutions. In reality, CARMi has a membership of 454 institutions. Membership is an interesting mix, which is drawn from the private and formal banking sectors and from NGOs dominated by cooperatives. That mix is presented below:

<table>
<thead>
<tr>
<th>No</th>
<th>Member of CARMi</th>
<th>Category</th>
<th>No. of related RMFIs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>CAMCUL</td>
<td>Private Company</td>
<td>315</td>
</tr>
<tr>
<td>2</td>
<td>CCEI Bank</td>
<td>Private Bank</td>
<td>22</td>
</tr>
<tr>
<td>3</td>
<td>PPCRD</td>
<td>NGO</td>
<td>73</td>
</tr>
<tr>
<td>4</td>
<td>FOCAOB</td>
<td>Union of Cooperatives</td>
<td>40</td>
</tr>
<tr>
<td>5</td>
<td>SOS Women</td>
<td>Cooperative</td>
<td>2</td>
</tr>
<tr>
<td>6</td>
<td>MUFFA</td>
<td>Cooperative</td>
<td>1</td>
</tr>
<tr>
<td>7</td>
<td>Credit du Sale</td>
<td>Cooperative</td>
<td>1</td>
</tr>
</tbody>
</table>


Studies

Three institutions were selected for focused study under the World Bank Action Research program. These institutions are the Cameroon Cooperative Credit Union League (CAMCUL), the Micro Project Productif en Faveur des Femmes (MPPF-CAM), and the Société de Développement du Coton (SODECOTON). The Cameroon Cooperative Credit Union League (CAMCUL) is based in Bamenda, and it mainly meets the needs of farmers. This institution manages a highly decentralized financial system.

The Micro Projet Productif en Faveur des Femmes (MPPF-CAM), as the name suggests, targets women entrepreneurs and is developing mechanisms (modules) for reaching urban poor women more effectively. The Société de Développement du Coton (SODECOTON) focuses on one narrowly defined activity and target. It has a high public and private inputs and in recent times it has shifted more toward the latter.

These three represent different histories and patterns of growth. The research was deliberately designed this way in order to provide a wider array of experiences that others can draw upon, as well as highlight those circumstances which are likely to facilitate or undermine the growth of an RMFI.
**Current Preoccupation**

In the early days of its existence, the network concerned itself primarily with its participation in the debates which surrounded the law governing micro-finance. CCEI Bank has facilitated the activities of the network. The Bank has been well positioned to mobilize the participation of micro-finance institutions since it supports many community banks.

Now, the network focus is on:

- Assisting member institutions to understand and comply with the law governing micro-finance;
- Capacity building for its members. Last year the network organized a training workshop for its members; and
- Moving from an informal national network to a registered association.

This last one has become a clear priority because of the nature of membership and it has prompted independent networks to come together in order to form a more broadly based network. Initially, it was thought to be important for the network to develop and agree upon rules of behavior and devise ways to hold the network together, through a constitution.

Moreover, the presence of a law to govern micro-finance has necessitated RMFIs themselves to have a legally recognized entity to represent the industry and to work with the macro institutions. The legal entity works towards mobilizing funds and undertaking some other activities on behalf of the network. The network has been working toward being registered, and it has anticipated a stand-alone secretariat during this 2000 year.

**Identified Problems**

- Initial diversity in membership was identified among problems which the networks still face;
- But this has been turned into strength because of the network’s focus on drawing on the advantages of varied experiences and positions;
- Inadequate staff to perform network duties, which seem to be on the increase. The internal job portfolio of the CCEI staff member given the facilitation responsibility has been growing; and
- Financial constraints have made people more reluctant to move more aggressively into establishing an independent secretariat.
Ethiopia Network of Microfinance Institutions

Background

The Ethiopia Network of Micro-finance Institutions is an outcome of a long and, sometimes, a difficult financial history. Formal financial institutions in Ethiopia have traditionally confined their services to urban towns, leaving rural areas, where the majority of the population resides, without such facilities.

In the 1980s, aware of that problem, a number of development agencies and NGOs, such as Redd Barna and World Vision, started to provide the rural poor with access to financial services. They supported income generation programs through the establishment of savings and credit schemes. Credit to the rural poor was provided to form grants, and agricultural inputs, with women being the primary target group.

In 1992, the National Bank of Ethiopia established the Savings and Credit Cooperatives Development Office (SACCDO), which registers associations engaged in savings and credit. It also audits their financial performance every year. In 1996, the legal framework for micro-finance institution operations was proclaimed and issued by the National Bank.

Since then, and inspired by networks in other Action Research-related countries, NGOs became motivated to form a network. There are currently two networks in Ethiopia: the Association of Ethiopia Micro-Finance Institutions and the Micro-Credit Development Forum, the aim of which is to enable members to strengthen their operations and share their respective experiences.

The World Bank and the USAID fund through world Vision International’s Office are among major sources of the financial support of the networks in Ethiopia. But the Swiss Development Cooperation and the Irish aid have supported the initiative. The Irish aid, for instance, has contributed to capacity building of micro-finance programs by establishing an institute called Furra Development Studies Center, which has started to conduct training programs on rural banking, saving and credit operations, and areas relating to participatory development.

The annual running cost of a network in Ethiopia, like in other countries, depends mostly on the activities to be undertaken by that network. The average annual cost of running a network in Ethiopia ranged between 250,000 Birr and 500,000 Birr. Information sharing and training have been among the tangible benefits of the network there.
Objectives

The objectives pursued by the Ethiopia Network of Micro finance Institutions are to:

• Provide a forum for NGOs engaged in rural and micro finance to discuss and understand the implications of the just enacted Proclamation on the Licensing and Supervision of Micro Financing Institutions;

• Offer a channel for sharing implications and impacts of the Proclamation on the operations of NGOs and micro financial institutions;

• Provide a mechanism for gathering and storing information on institutions engaged in micro-finance;

• Share information on micro finance intermediation and best practices; and

• Develop strategies for capacity mobilization and building.

Membership

Initially, only NGOs that were engaged in micro finance intermediation dominated the network. But soon micro-finance institutions, registered as private companies, joined. In 1999, forty institutions belonged to this network received information, and they shared concerns and experiences through a newsletter and workshops.

A provisional board of seven institutions has been established, with Redd Banna-Ethiopia acting as the facilitating organization. Some members have received training through the Consultative Group for Assistance to the Poorest (CGAP).

Toward a Formal and Legally Recognized Association

The Ethiopia Network of Micro-finance Institutions was first of all preoccupied with the issue of registration, but for a longtime the issue met with some caution and hesitation. This is because the Board felt that there should first be a more consolidated and annotated inventory of micro credit/finance practitioners in the country. This would help develop criteria for, and expectations of, membership reflective of the situation on the ground.

Second, the network evolved in the aftermath of the Proclamation on Micro-finance Institutions. Members prefer to be clear of exactly how things are moving at the macro level. In
their view, regulation is not quite clear on some points; thus they would rather first see how these would be dealt with.

Third, it was not clear whether under the current regulation a network with membership from both national and international institutions could be registered. During that period, the network secured additional funds to set up a secretariat, to play a critical role at this point in the industry’s evolution. The funding was for six months only.

**Diagnostic Studies**

At the first program-introduction workshop, Redd Barna’s project and another project, which respectively deliver credit to poor urban women and to rural producers, were the ones that were selected for focused study. Both projects reach women through existing savings and credit cooperatives.

After some hesitation, the network decided to diversify by looking at a credit initiative run and managed by Irish-Aid through the Embassy of Ireland. It targeted women’s groups in rural Ethiopia and works closely with the Ministry of Agriculture. The initiative also trained the emerging MFIs.

One of the cooperatives that was looked at has since registered itself as a RMFI. The two studies give an interesting contrast to other credit-delivery initiatives in the Action Research program, and adds to the array of typologies that have emerged.

**Initial Challenges**

Some of the initial challenges that the network faced are:

- Different donors have gone into the country, most advocating the value of networks. The lack of coordination on the part of donors seems to have created initial difficulties for the network, at a time when the industry was too weak to set its own direction;

- The network evolved in the immediate aftermath of governmental Proclamation of micro-finance institutions and it was not quite clear about the implications of some of the pronouncements;

- Scanty knowledge about private and public organizations engaged in micro-finance and the seemingly high involvement of government in micro credit, posing challenges on how to relate to the organs of government thus engaged; and

- Pressure on the facilitating organization and early recognition of need for a secretariat. The challenge is how to sustain such an office.
This enabled the network to take stock of the situation on the ground. Other networks emerged, in some cases, comprising some of its members. In general, the facilitating organization has been playing a lead role in trying to sort out the future of this loose network and of the industry.

Two networks, one of micro-finance institutions and another of NGO financial intermediaries, have emerged out of this situation. One of the roles of the original facilitating organization has been to facilitate the formalization of the arrangements.

**Micro Finance Network of Mozambique**

**Background**

Mozambique is the last of the six countries under the Action Research Program, and it is a good example of an intervention in a post-conflict situation. It represents a challenging case to those institutions engaged in micro-finance intermediation, especially in rural areas.

The spatial dispersion of the population against a backdrop of destroyed physical infrastructures did not stop institutions in remote regions to take part in the network activities. This has led to the setting-up of three regional networks: Maputo, Nampula, and Beira.

The Maputo unit, with CARE Mozambique as the facilitating organization, acts as the national facilitator of the three regional networks. The Nampula unit is now active, recording fifty members at its last workshop, while the Beira unit is gradually becoming active. There is also lack of effective coordination of the three regional networks, and most of their activities are currently at the local level. This is an area that needs improvement.

Another challenge has been the absence of a human and financial foundation for the emergence and growth of micro-finance due to a decade of civil strife and social instability. In 1997, when Action Research program was introduced to the country, it found several local RMFIIs on the ground, generally at the earlier stage of their development. Nevertheless, the primary objective of the Action Research program was to build the capacity for the institutions through joint activities and sharing of experiences and lessons.

**Activities**

Initially, the Government was suspicious, especially about the presence of international NGOs in the fields. To open up channels of communications, a senior government official with some understanding of micro-finance issues and challenges was selected to “champion” the cause of the RMFIIs in developing their network. The presence of a World Bank official at the resident mission with expertise in micro-finance development and much energy proved to be very useful in coordinating the activities of the network.
A jointly-funded list of existing micro-finance institutions has been developed. A bibliography of micro-finance studies has also been developed. A national seminar was organized in February 1998 with the participation of local RMFIs, those from lusophone countries and international best practitioners. It was successful in coming-up with a strategy for micro-finance development in Mozambique.

The network has produced some newsletters in both Portuguese and English. This serves as a mode of information dissemination among RMFIs within the country and beyond. A status report on the industry in the country has been completed to inform internal institutions and external supporters.

The network set up groups to work on the following issues in order to help institutions also develop their own road map:

- A suitable Regulatory Framework for Micro-finance in Mozambique;
- Choice of Management Information Systems;
- Discussions with commercial banks to have them participate in Micro-finance and to establish linkages with RMFIs;
- Best practices in micro-finance and establishing common standards; and
- Coordination of donors’ activities in rural and micro-finance.

**Regulatory Framework for Rural and Micro-finance**

Initially, the Banking Law operating in 1997 was silent on the operations of RMFIs. The nascent network, therefore, concerned itself with the need for some form of regulation on RMFIs. It set up a committee to work on self-regulation by RMFIs. The general consensus was to tread cautiously in order to understand what was really needed in terms of regulation of RMFIs.

Later, the Government formulated a new Banking and Financial Institutions Act, which governs all activities in financial institutions, including rural and micro-finance. It became effective at the end of 1998. Discussions are ongoing within the network and between it and the Government to ensure that in practice, regulation would be conducive to the development of micro-finance.
Training

In 1997, CGAP provided some training to RMFIs. This was considered only partially successful because of the generally low skills in the country in this area. The network’s focus is now on strengthening its regional networks.

Way Forward

Mozambique decided to proceed in a slightly different direction from other countries. The steering committee decided to start off by conducting a Needs Analysis in order to identify specific issues of interest to the group. In turn, these would inform the direction and focus of the studies, training, and module development.

The major priorities identified by the Needs Analyses in order of importance are:

- Definition of appropriate products and/or methodologies;
- Delinquency control;
- Basic rural and micro-finance concepts (Best Practices); and
- Staff Training.

The network has been working diligently on expanding membership and developing best practice modules. Eventually, a permanent secretariat would be needed to carry out the planning and implementation of network activities, especially coordination of activities among the three regions.

The situation described above reflects the pre-floods status. It can be surmised that the social and physical infrastructural destruction precipitated by the floods has re-enforced the more local approach to network building. Once again the focus is likely to be on strengthening local and regional networks that would start working when the infrastructure would have been rehabilitated.
Towards a Successful, Sustainable, and Replicable Network

This chapter has three main sections: Section One will present and describe the characteristics of a successful network of rural micro-finance institutions that can be used to enhance the ones that have been developing in Africa. And Sections Two and Three will respectively present and describe what makes a network sustainable and replicable.

Successful Network

The elements leading to a successful network include:

- Effective and dedicated leadership of the network;
- Inculcation of a sense of ownership in members through their active participation;
- Shared vision uniting the member institutions in spite of their differences;
- Respect for the sovereignty of member institutions;
- Respect for differences in opinion: respect for each other’s opinion is a basic requirement in all alliances. Members should also be flexible to accommodate varying interests and aspirations;
- Maintaining trust among members: maintaining trust among members is the heart of the networks and other strategic alliances;
- Transparency in financial management: this is a cornerstone of trust and cohesion among members. Regular reporting on budgets and disbursements to members and involving them in decisions regarding the use of available resources are crucial;
- Transparent and democratic decision-making process: members must feel that they are a part of major decisions that affect the network. Coupled with transparency, this enhances a feeling of ownership and helps build trust among members;
- Frequent and open communication: strong networks thrive on frequent and open communication. This is necessary in putting forward one’s views and in understanding
the other partners’ perspective. During such discussions, there must be willingness on the part of all parties to understand each other’s problems and points of view;

- Effective working relationships: the working relationship must be such that there is division of labor, integration, coordination of functions, and competence. Activities of the network must be enjoyable to all members, since they are voluntary;

- Effective modes of information dissemination such as newsletters: for the majority of networks, the most effective mode for disseminating of best practices is meetings, workshops, and newsletters. The use of electronic media, such as e-mail could, enhance this;

- Quick resolution of conflicts: a network is usually not devoid of conflicts. It is the speed with which such conflicts are managed and resolved that maintains the cohesiveness of the network; and

- Regular attendance of members to meetings: in the earlier stages of the development of network, participation in meetings by the leaders of member institutions is crucial, as the vision and mission of the network is being shaped.

In general, it is necessary to enhance the positive aspects of networks and to effectively manage the negative ones.

**Role of the Leadership**

A clearly defined and effective leadership is crucial at the early stages of the development of a network. From the experience of the Action Research, this leadership was provided collectively by the team of four to six heads of institutions identified by members. These institutions were selected on the basis of their visible contribution to the industry.

Core members of the network are identified to form the steering committee, which can be a group of individuals, an organization or a group of organizations working in the industry. In all the six countries where a group was preferred, a facilitating organization was appointed to support the activities of the steering committee. The main focus of the steering committee was to build and strengthen the network and promote interaction and information sharing among its members.

Specific responsibilities in meeting these goals consist of:
(a) organizing regular meetings with the members of the local network to share experiences and discuss relevant matters linked to rural and micro finance issues;

(b) building contacts with local and regional operators who are interested in the best practices identified through action-research;

(c) participating in the identification of “best practice” institutions for study and selection of the local consultants to document the selected institutions;

(d) adopting a participatory method in carrying out the research and liaise with the consultants as they carry out their work, ensuring that they maintain close contact with the institution being studied;

(e) organizing local workshops within the network’s program;

(f) acting on any decisions taken during the workshop;

(g) providing information about the network and industry to government officials and liaise with them for their better understanding of the industry; and

(h) acting as spokespersons on behalf of the industry to governments and banking systems.

A study team made up of local consultants assists the steering committee in carrying out the documentation of rural and micro-finance institutions; it organizes local workshops and helps strengthens the networks. During field visits, the local consultants are assisted in their research by staff members of the institutions selected for documentation. In all the six countries, steering committees appointed a facilitating organization to coordinate the activities of the network and be the point of contact by the World Bank.

**Role of the Facilitating Organization**

A facilitating organization has been used in the absence of a full time secretariat. The responsibilities of the facilitating organization have included to:

(a) act as the main link between the World Bank and the networks;

(b) monitor the local consultants as they carry out their work and be responsible for quality content of the product;

(c) play lead roles in organizing meetings (at least four per year) with members of the steering committee to:
• discuss the emerging issues during the research process (policy, delivery mechanisms, etc);
• share experiences; and
• map out network programs.

(d) produce minutes of each meeting of the steering committee and communicate them to network members;

(e) produce a newsletter, written with the support of the local consultants, on issues related to rural and micro-finance, at least four newsletters per year;

(f) disseminate minutes, publications and information on MFI issues to the local network and other interested people in the country;

(g) follow-up on any decision made during the steering committee meetings, requiring action; and

(h) ensure that the steering committee’s activities are carried out.

Identification of Best Practice Institutions

The few initial members select two or three institutions for in-depth study. These best practice institutions would have demonstrated innovative techniques towards fulfilling their mission. These “best practice” institutions are those that would have over the years developed innovative techniques of reaching high industry standards.

In subsequent years, further studies may be conducted on other institutions that, through the information exchange, would have been exposed to and adopted some of the innovative techniques identified in the in-depth studies. Further studies may also focus on specific innovative techniques or an inventory of rural and micro-finance experiences in a given country.

In order to have meaningful comparison between institutions and draw lessons from their comparative advantages, it is important to select institutions with enough and effective experiences in the delivery of rural and micro-finance services and implementation of programs.

Profile of Selected Rural and Micro Finance Institutions

• Informal institutions, including unregulated and unregistered financial service arrangements, such as savings and credit associations;
• Semi-formal institutions, including registered but unregulated institutions, such as NGOs, cooperatives, credit unions, village banks, revolving funds; and

• Formal institutions, including registered and regulated institutions, such as rural banks, registered non-bank financial institutions, and specialized government agencies.

Criteria for Selection of Rural and Micro Finance Institutions

• Has operated for at least three years and has an active portfolio of at least 200 loans;

• Shows evidence of progress toward self-sustainability (on-time repayment rate of at least 80 per cent; cost recovery of 25 per cent and showing a rising trend);

• Has potential for outreach to key groups (rural population, the poor, women); and

• Shows willingness to participate in a network and share information.

Sharing of Innovative Techniques

Innovative techniques are defined as specific structures or modes of conduct that have clearly had a positive impact on an institution’s performance according to the standards of an industry.

For financial institutions, including RMFIs, these innovative techniques may include:

(a) Strategy and relations with other institutions: lines of credit, contracts, and alliances with other financial institutions or with technical agencies;

(b) Structure and organization: decentralization, tight control mechanisms;

(c) Mode of operation: appropriate method of bookkeeping, loan supervision, use of mobile banking, mode of cost recovery;

(d) Quality of particular financial services provided: efficient savings collection, high deposit security, location of branches, speed of processing transactions, savings mobilization and loan delivery, repayment incentives and penalties, effective risk management;
Methods of Identifying Innovative Techniques

The issues to explore include:

- The gap(s) that a given technique has filled;
- How the innovative techniques emerged;
- How the techniques have improved performance; and
- The necessary conditions for its development and evolution, and which of them is most important and possibility of some interdependence among them.

Assessment of Transferability

Explore the necessary and desirable preconditions for the transfer of the innovative technique. Evaluate how these practices differ from those used by other institutions. Draw negative, as well as positive, conclusions. This means that one needs to acknowledge that some techniques may NOT be easily isolated and transferred, that preconditions cannot be satisfied or that they are NOT relevant or replicable in different operating conditions, and that there may be good reasons for using different techniques in another context.

The Transfer / Adoption of Innovative Techniques

Where the above analysis suggests that particular innovative techniques or ideas are transferable, members would be encouraged to consider in greater details how this might be effected, including the following:

(a) possible changes and their anticipated effects on agency performance;
(b) detailed steps required to introduce the changes;
(c) resource requirements for these steps;
(d) identification and assessment of risks; and
(e) indicators of achievement and means of measuring them.

Assessing Network Success

The success of a network can be determined by comparing the value of identified socio-economic indicators over time, such as before and after setting up or joining a network. The following indicators, some applying to the individual component institutions and others applying to the network as a whole, may be used. They include:

- Efficiency: it measures and compares the costs and the benefits of member institutions;
- Effectiveness: it measures and compares the results attained with the network to the objectives of the network. For instance, capacity built for training, identifying deficiencies, resource mobilization, addressing challenges and resolving conflicts;
- Minimum of three years of operation of the network can be considered as satisfactory performance;
- Financial viability of a network and associated indicators, such as ability to cover operating costs;
- Growth of the assets or the capital base of the network;
- Outreach: proportion of similar institutions, that are members of the network, compared to those which have joined it, unless the network has set a threshold. Growth in membership over time, may also be used;
- Improved policy environment that can be attributed to network advocacy;
- Member participation: as measured by regularity of the attendance at meetings; and
- Member satisfaction: as measured by a quantitative/qualitative evaluation.

Sustainable Network
Networks are based on the premise that their members will more effectively improve their performance and face the challenges posed by the macro, social, and economic environment if they interacted among themselves and with members of other networks. A network that is able to uphold the interests and participation of its members would be laying a foundation for its sustainability.

To be self-sustainable, a network must be economically justified; that is, the costs of participation must be covered by the short and long-term benefits. Direct quantification of these costs and benefits is difficult. However, members do sub-consciously assess these items. This practice becomes a basis for the amount of time they are willing to devote to network activities.

Few networks can expect to become fully self-sustaining on member contributions and fees alone, even over the long-term. This is due to the fact that many of the benefits, such as providing information and participating in policy dialogue, from networks, cannot be captured directly by individual members because they often are non-profit organizations.

For networks, “sustainability” means providing services to members and the RMFI industry that are sufficiently demanded in order to generate local revenues that cover a substantial share of costs and to attract external co-financing on a sustained basis. This applies in particular to programs that are valued by the donor community and governments, as well as, and most competently, by members.

Since cost-sharing is often used as an indicator of demand for services, it is important for networks to initially focus on providing services for which members are willing to pay, at least a substantial (and increasing) portion. By demonstrating demand-responsiveness, networks are better able to attract external funding to help cover the cost of these activities. An innovative approach to government funding in Ghana, for example, is for the Government to give the network a contract to deliver a specified product or activity, enabling the network to earn revenues and avoid a dependency relationship.

An early orientation towards member-demanded services is also important for a network to be able to sustain the interest and participation of its members. Networks that focus primarily on signing up new institutions may find that members become disillusioned if they do not see direct benefits.

Possible network activities in response to demands from members of networks supported by the Action Research program include staff training programs, credit reference bureaus, and a capacity-building fund. Transparent decision-making and financial accounting are also important to maintain the confidence of members.

Experience under the Action Research program indicates that networks cannot systematically provide valued services that members will pay for without a full-time secretariat or coordinator. Part-time leadership and volunteers from member institutions cannot be expected to sustain the time and effort required to mount regular training courses, for example.
Thus, hiring full-time staff must precede the development of programs needed to move toward sustainability. But without such programs, members cannot be expected to pay dues sufficient to cover the start-up costs. Therefore, it is essential to obtain extra funding for the initial phase of developing programs that will earn substantial and increasing revenue – a process that is likely to take at least three to five years after a full-time coordinator is engaged.

**Replicability of Network in Development Projects**

Basically, the replication refers to the result whenever the partial relationships are essentially the same as the original relationship. The replicability of a network building methodology means repeating it, checking to see if the same results are produced, each time, in the context of development projects.

It strengthens the confidence of those who are running the networks in the validity, reliability, and the generalizability of the findings (Earl Babbie: 1986). The network building methodology can therefore be used in any industry or Bank-related projects, where there are potential gains from joint efforts.

Replication of the networking methodology can be seen in the delivery of the following services:

- Agricultural technology development, transfer, and input supply systems, such as seeds and fertilizer. Such networks exist, but they are mainly run by donors with little participation of the stakeholders;
- Production and marketing of agricultural products (milk, livestock, fruits, vegetables, export crops, etc.) by cooperatives;
- Agro-processing and export industries;
- Provision of extension service;
- Provision of medical services;
- Provision of maternal healthcare;
- Providers of animal health service;
- Environmental protection and natural resource management;
- Data collection services; and
Conclusion

Networking among service-providing institutions, as has been practiced under the Action Research program of the World Bank, is one of the tools that can be used by a broad range of institutions, to effectively deliver their services to a wide clientele at lower costs. This is especially important for institutions with high transaction costs and low profits such as rural and micro-finance institutions. Network formation thus represents a fourth innovation in the area of
micro-finance, the first three being repayment by motivation, streamlined administration, and market-based pricing of products.

The benefits from network formation include: acquisition and dissemination of information on best practices, joint-pooling of cross industry skills for management and training, sharing of information on clients, integration and coordination of activities, facilitation of problem solving, enhanced innovation, joint efforts at acquisition of funds and adoption of technology, enhanced lateral and vertical linkages and advocacy to influence governmental and other macro policies. Here it is important to emphasize, however, that networks must be service oriented. They must provide services that members need rather than being donor driven.

The costs of operating networks include cost of running the network secretariat, cost of joint operations such as training, expenditures on meetings and workshops, costs of travel, costs of communications, costs of publications and dissemination, and the opportunity costs of the time that members put in participating in networks. The costs of networks represent a short-term challenge, since the cumulative sum of the current and long-term benefits from networks often outweigh the associated costs.

The guiding principle must be added value to enhance members’ operational capacities and resources. However, where the more current costs seem to over-shadow the non-apparent and delayed benefits, member participation may lapse and it can results in the network facing problems. Networks must strive to ensure a balance between costs and benefits.

The challenges faced by networks in Africa include defining a common vision, improving member participation, increasing membership, moving towards financial sustainability, and developing linkages with networks in other countries. The experiences from the network building process indicate that the ingredients of an effective network are a common vision, trust among members, the participation of top-management in network planning and meetings; strict standards of accounting and transparency; joint determination of costs and recovery mechanisms; and clearly defined members’ contributions.

Regarding capacity building, networks could engage in member education on principles of best practice in the industry, and also to develop suitable management, information, and communication systems. To build trust and reciprocity, networks must ensure equitable sharing of total benefits to all members, focus on long-term relationships and not short-term gains and manage the potential conflict issues. Generally, the golden rule is to strive to enhance the positive aspects of the network while diminishing the effect of the negative ones.

Networks can generate operating resources from the following sources: collection of membership fee (internal), government support, and external funding for specific programs, such as training and organizing workshops. External funds are important during the start-up period of networks, when members are usually not willing to contribute much toward the network because they are not sure of the outcome and benefits. Networks are, however, likely to be self-sustaining in the long run as members realize the benefits they derive from the union and are therefore willing to contribute a fair share to meet its costs.
Finally, networks are vital to the development of national, regional, and international collaboration. The benefits of networks far outweigh the costs. The methodology of network formation can be replicated in the provision of a multiplicity of services, in many different developing countries.

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Women’s Empowerment and Micro-finance Programmes: Approaches, Evidence and Ways
Annex i. Studies of Best Practice Institutions

As per the Action Research approach, in-depth studies can be conducted on selected “best practice” institutions, experimenting with innovative techniques. This is done in order to draw lessons from these institutions. The team of consultants includes social scientists, financial economists, and staff of the selected institutions.

During the process, they share the work with the Steering Committee in order to have their inputs and guidance. The final reports are presented and discussed during a local workshop. The components of a typical report are presented below and they are generalized to fit all industries.

Components of the Report

Background

The background of the report presents the evolution of the institution, highlights the periods during which major shifts occurred in the history of that institution. It also explains why and how those shifts were made. In addition, the background presents the environment in which the institution operates and its role in the industry. The following are the elements that constitute the structure of the background of the report:

Initial Objectives and Evolution

This includes information on the establishment of the institution, including the year; initial objectives and mission of the founders of the institutions; perceived needs of the population; influence of outside models on strategy adopted and mode of operation;

Information is also sought on initial staff; role of technical specialists; geographical area; constraints; resources provided from different sources; income generating and capacity building objectives; current and projected services; and initial measures and targets for measuring performance. Any significant changes in orientation should be mentioned.

Social and Macro-Economic Environment
The information on the changing social and economic environment since the establishment of the institution is gathered. It also includes the macro economic policies that have been adopted, GDP per capita, GDP growth, inflation, formal and informal sector interest rates, exchange rate, population and its growth, population density, ethnic groups, sources of income, education and literacy rates, health, and life expectancy. It should be determined if the local situation in the area covered by the institution is healthier or weaker than the national context; and

Social services and other supports

Social services and other supports include health, education, production support, local-institution building, staff training, accounting training, and management training that the industry have provided.

Organizational Structure, Management, and Conduct

This should present the current organizational and management structures of the institution and explain changes that might have occurred.

Organizational Structure

The organizational structure provides the legal status of the institution; location and number of branches (local, regional, rural, urban); and links with clients, groups of clients and other organizations. It also gives a brief overview of the range of services which are provided, including their characteristics and terms under which they are provided.

Management of the Organization

The management of the organization comprises: orientation, supervision, financial discipline, autonomy of the organization from outside influence and government services. It also includes internal organization and management, as well as centralization of decision making, user participation, recruitment and training, number and incentives for staff; management of information system (MIS) in place; and monitoring and evaluation system used in assessing the impact and changes attributed to the institution’s intervention. A current organizational chart is a part of the management of the organization and it generally is useful.

Human Resources
The human resources section includes: number and qualification of the staff members, their distribution within branches and by sex; interaction of staff members of the institutions with clients; ratios of field staff to clients; internal and outside training; outside technical assistance. It also is about the involvement and training of other actors, such as shareholders, users, voluntary leaders, and loan intermediaries; and role of founders, subsequent directors and other key staff of the institution.

**Conduct**

This outlines the activities undertaken by the institution and provides details and examples on the functioning of various services delivered in order to allow the reader to know how things work concretely in the field. If possible, the institution’s mode of operation should be defined for both the headquarters and the branch levels. Details of the types of services delivered, the clients, the capacity; and the reasons for success should also be sought.

**Outreach, Impact, and Other Achievements**

Outreach is a performance criterion for the industry. It gives an idea of the quality of performance and its impact of the institution.

Outreach in main functions

- The goal here is to determine a number of clients served, as the percentage of target population in the catchment area. Orientation toward women and the rural poor is also a part of outreach;
- Other Services: analyze the capacity to deliver other but related services and the corresponding outreach in these areas; and
- Client Perception: client perception pertains to the awareness and understanding by clients of the institution and the services that it provides.

**Performance Indicators**

Performance indicators are characteristics of performance of the industry, for instance, in terms of finance, that measure the progress of the institution to ensure its sustainability. Some performance indicators for a financial institution are:

- Return on average assets (net operating profit, loss/average total assets);
- Return on average equity (net operating profit, loss/average equity);
• Operational self-sufficiency (total operating income/total operating expense);
• Administrative efficiency (total operating expense/average loan portfolio);
• Number of active loan clients per credit officer (year end);
• Volume of arrears;
• Provision for loan losses/loans outstanding;
• Write-offs of loans/loans outstanding; and
• On-time repayment rate.

A financial statement from the institution would provide the necessary information on:

• Financial Status: this provides an assessment of institutional profitability;
• Sources and Uses of Funds: they provide an analysis of changes in sources and uses of funds, external grants, subsidies, guarantees, lines of credit; and in growth of assets, liabilities and equity capital. There are internal and external sources of funds. The sources of funds should be analyzed over time to show shifts to self-sustainability or otherwise; and
• Efficiency Analysis: efficiency analysis assesses the efficiency of operations.

**Strategic Plans**

• Strategic plans, for example, a five-year plan, outline the organization’s goals and expectations for the future;
• They indicate the size of a clientele that the institution want to reach in the long term;
• They show how this goal can be attained;
• They examine the strategies and policies to lower transaction costs, to reduce risk, and to achieve the objectives set;
• Strategic plans also describe expected major changes in organizational structure, services to be offered, operational methodology, and methods of financing; and
• Finally, strategic plans show whether the changes appear reasonable in the light of the institution’s past experience and environment.

Innovations and Lessons Learned

This section highlights the institution’s experience in delivering services and it serves as a guide for other institutions which would like to improve their practices. It must be specific and practical.

The section should also contain the summary of good practices and innovations; changes undertaken to improve the delivery of their services; modification in the institutions structure, human resources and methodology; progress made in managing the administration to lower transaction costs; changes in clients’ perception (participation, awareness, accountability, etc.).

The section also comprises the observed changes in local organization capacities to: handle and manage specific issues, to manage change and solve internal conflicts, control misuse of funds in the organization; level of internal cohesion, leadership, management, negotiation skills; commitment on the part of staff of the institution; and building of local expertise in the delivery of services.

Annex ii. Organizing Workshops
Introductory Workshop

The Introductory workshop is generally a one-day workshop that is organized to introduce the network formation process to the industry. Representatives from eligible institutions attend it. The objectives, approach, and methodology of the program are presented to the participants, who are also invited to contribute constructive comments to the process.

The workshop also aims at generating commitment from participants to enhance its sustainability. Ideally, the introductory workshop should identify a Steering Committee to be responsible for coordinating the implementation of the process in the country.

National Workshop

The national workshop are more elaborate workshops, and they are usually run for three days. However, institutions may extend it if deemed necessary. The national workshops pursue the following objectives:

- sharing of information on the state the industry;
- sharing of emerging lessons from the institutions which were studied and from ongoing Steering Committee meetings;
- devising ways of adopting and adapting the emerging "good practices" and innovations;
- developing strategies to strengthen the network; and
- addressing critical issues facing the institutions.

Number of Participants

Twenty to twenty-five people drawn from the researched institutions and members from existing and potential members of the network are usually invited to the workshop. Organizers may at their discretion invite interested people from other institutions and the donor community as observers.

Organization

The details of the workshop organization are developed by the Steering Committee. However, some specific features, such as the presentation of the results of studies of institutions and analysis of the emerging lessons, can be addressed during the workshop,
The chart below is an organizational and preparation tool for the national workshop. It highlights reasons for the success of the institution in delivering services to the poor. It presents a set of measures, factors, constraints and changes. The changes made by the institution might indicate some innovative techniques developed to address constraints met in the operations of the institution.

### Institutional Issues Identification Chart

<table>
<thead>
<tr>
<th>Indicators of success</th>
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<tbody>
<tr>
<td>Factors for institution success toward</td>
</tr>
<tr>
<td>- self-sustainability</td>
</tr>
<tr>
<td>- internal to institution</td>
</tr>
<tr>
<td>- external to institution</td>
</tr>
<tr>
<td>- outreach</td>
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<tr>
<td>- internal to institution</td>
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<td>- external to institution</td>
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</table>

<table>
<thead>
<tr>
<th>Constraints affecting</th>
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</thead>
<tbody>
<tr>
<td>- Institutional operational performance</td>
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<tr>
<td>- Institutional financial performance</td>
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</table>

<table>
<thead>
<tr>
<th>Changes made to reduce the constraints</th>
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<tbody>
<tr>
<td>- strategic changes</td>
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<tr>
<td>- operational changes</td>
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<tr>
<td>- institutional changes</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Emerging issues confronting the institution</th>
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<tbody>
<tr>
<td>- internal</td>
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<tr>
<td>- external</td>
</tr>
</tbody>
</table>

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**Annex iii. Contact Addresses of Micro Finance Networks**
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