FIRST NATIONAL CONSULTATIVE FORUM ON MICROFINANCE

Microfinance Best Practices in Conflict-affected Countries

- Challenges and Opportunities for Sudan -

12 to 14 November 2007 in Khartoum, Sudan

FORUM-REPORT

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Additional Documentation on the Forum: http://groups.google.com/group/microfinance-sudan?hl=en

Executive Summary

More than 140 Sudanese and international experts developed together recommendations for the promotion of a sustainable Microfinance industry in Sudan at the First National Consultative Forum on Microfinance from 12 to 14 of November in Khartoum, which has been organized by the Central Bank of Sudan with the support of UNDP, World Bank, IFAD and Zain.

Background

Microfinance in Sudan is still in its fledgling stage: only 1% to 3% of potential microfinance clients are served by the formal financial sector. The Government of National Unity (GoNU) and the Government of Southern Sudan (GoSS) have both endorsed microfinance as a central component of their poverty reduction strategies as outlined in the Comprehensive Peace Agreement (CPA). As a key player, the Central Bank of Sudan (CBOS) identified microfinance as a viable financial instrument for enhancing access to financial services for the poor, alleviating poverty, promoting economic development, and empowering women.

After formulating a National Vision for microfinance (in 2006) and after establishing a Microfinance Unit at CBOS (in 2007), this unit invited representatives of many different regions in Northern and Southern Sudan – potential microfinance service providers, NGOs, private sector and other regulatory government decision-makers – as well as international microfinance experts, UN and World Bank, donors and investors to discuss recommendations for the development of the Microfinance industry.

About the Forum

The event was hosted by the Microfinance Unit of the Central Bank of Sudan with the financial and technical support of UNDP as main sponsor, World Bank and IFAD as multilateral sponsors and the telecommunications company Zain as corporate sponsor.

International experts from India, Sri Lanka, Ethiopia, Afghanistan, Zimbabwe, USA, Mozambique, Germany, Lebanon, United Arab Emirates, Egypt, Uganda, Great Britain, Saudi Arabia, Senegal, Kenya, and as far as Bangladesh and Bolivia joined the forum to give their international best practice to the national participants.

Senior experts from the most renowned international microfinance institutions, such as AED, BRAC, Chemonics, CGAP, DED, Frankfurt School of Finance and Management, Grameen - Jameel Pan Arab Microfinance Ltd., IFAD, IPM, Islamic Development Bank, PlaNet Finance, Oxfam America, Planet Rating, UNCDF, UNDP, World Bank, World Council of Credit Unions, Quality Finance International and Stromme Foundation came to Khartoum to provide their input.

The Sudanese non-governmental sector was represented by the Sudanese Microfinance Networks Southern Sudan Microfinance Forum and the Microfinance Organization Network, the Sudanese Microfinance Providers SUMI, Finance Sudan, PASED, ACORD, JASCO Juba, Ru'ya and SCOPE, ,the Association of Sudanese Business Women, The Sudanese Federation of Businessmen and Employers, Ahfad University, University of Khartoum, Sudan Academy for Administrative Sciences, Sudanese Academy for Banking Sciences, Graduate Fund, Social Development Fund, Savings and Social Development Bank, Agricultural Bank of Sudan, Farmer's Bank, Family Bank, the Sudanese expert consultancies UNICONS and PACT, as well as other Private Sector and Civil Society Representatives interested in engaging in Microfinance in Sudan.

The strong commitment of the Governor of the Central Bank and his staff to supporting the microfinance industry has been evident throughout the Forum. The presence of the Minister of Finance and National Economy as well as the State Minister of Social Welfare, Women and Child care and representatives of other ministries and important government authorities indicated the high priority that government attach to the issue as well.

The presence of representatives of the Bank of Southern Sudan, the Ministry of Trade and Commerce of Southern Sudan and the main Microfinance providers in Southern Sudan marked the unifying character of the Forum and its success in creating a joint national Microfinance network.

The purpose of this forum was to develop key strategies for a comprehensive model for microfinance provision that forms part of the poverty alleviation strategy for the country.

The Main Recommendations outlined by the Forum

1. The role of the government in Northern and Southern Sudan should include the creation of a conducive environment while avoiding to be a share holder and direct service provider. The government should mobilize necessary resources and distribute them equitably and transparently.
2. In its regulatory and supervisory role the CBOS should provide flexibility, ease of procedures, transparency, and inclusiveness. Flexible regulations on collateral should be adopted and alternative solutions recognized by CBOS.
3. The government should expand outreach through pro-active policies, by encouraging financial service providers to move to the least developed areas, by giving incentives to all Microfinance Institutions, e.g. tax exemptions, training and encouraging partnerships between banks and international organizations.
4. The government should adopt a capacity building strategy that clearly articulates the needs of the targeted groups at all levels (banks, non-banks and clients) by providing resources for research and development, training and the promotion of financial services through public awareness campaigns, marketing and media coverage in its various forms.
5. In order to expand the sector, Microfinance institutions need to adopt international best practices.
6. The legislative framework should accommodate the expansion of Microfinance services by specialized informal actors through the reformation of the relevant laws.
7. The government should encourage banks to support Microfinance activities, especially for Small and Medium-sized businesses and women.

What was missing during the past uncoordinated microfinance projects, was that all key stakeholders should work together to create a self-sustaining, vibrant microfinance industry in Sudan which will make significant poverty reduction and the reaching of the MDGs a reality.

The organizers hope, that the links that have been created between these stakeholders during the forum will translate into a long-term national and international dialogue, network and common actions in the future. Thus, the development of a vibrant Microfinance industry could become an integral part of PRSPs and development strategic plans and policies for the country.

Immediate Results of the Forum

The forum has received broad national media coverage of 16 national English and Arabic newspaper articles, reports by National TV, Khartoum State TV and Blue Nile TV as well as an international Al Jazeera TV report on the 17th of November 2007. You will find the Video stream at:
http://www.aljazeera.net/NR/exeres/5A5F188D-DD20-48DD-8A26-4C9578A4912B.htm
In terms of advocacy impact, this forum has set a standard: not only did the Vice President of Sudan acknowledge the recommendations which had been developed by the Forum participants, but also the General Assembly of the Sudanese parliament on the 28th of November 2007.

To ensure the implementation of the Forum recommendations, the Microfinance Unit has formed a follow-up committee and is preparing further steps.

Further action since November 2007 until May 2008:

- The Government of Sudan announced the year of **2008** as the **Year of Microfinance in Sudan**.
- One of the first outcomes of the work of this committee is the **amendment** of the legislation that governs the Non-Governmental Organizations and Voluntary Organizations on the 18/03/2008, Article (4) "**Regulation for Humanitarian and Voluntarily Works Law in Sudan": local as well as international NGOs are officially allowed to provide commercial based activities i.e. Microfinance.** The new law has been presented and discussed with interested NGOs on Tuesday, 29th of April 2008 in Khartoum.
- The Central Bank and Sheikan, one of the main insurance companies in Sudan, finalize the **Policy on Microinsurance** which will provide suitable collaterals to Commercial Banks reluctant to providing Microfinance services.
- A **Microfinance Unit** has been established at **The Bank of Southern Suda**n (BOSS) to develop the Microfinance sector in the South.
- The Central Bank and the World Bank have finalized the tender for the **Sudan Microfinance Development Facility**, which will be set up by the Frankfurt School of Management shortly. The World Bank will work with the Ministry of Finance on **Financial Sector Reform**.
- The Central Bank of Sudan has matched the **fund of the SMDF in Southern Sudan** hereby reflecting the attention of CBOS to the post-conflict areas.
- Following the recommendations of the Forum the current **Capacity Building** programs CBOS is conducting are including now staff **both from Southern and Northern Sudan** benefiting from the programs.
- IFAD is further scaling up its **Savings and Credit Association Program** and will provide **capacity building for the Agricultural Bank of Sudan and the Savings and Social Development Bank to downscale**.
- UNDP is preparing **Microfinance and Business Development Services Programs** to further develop the Microfinance sector upon the request and under the supervision of the Central Bank of Sudan, thereby complementing the activities of the other major actors such as World Bank, Sudan Microfinance Development Facility, IFAD and others.
- One first preparatory activity is a cooperation on a **Payphone Pilot** with the Central Bank of Sudan, UNDP and Zain thereby in a first step assessing the poverty impact of such a service on poor client groups by the renowned Feinstein International Center of Tufts University, USA. NGOs and banks interested in participating in this pilot can receive more information from maja.bott@undp.org
- Within the same framework UNDP is intending to support the Microfinance Industry in Sudan by assisting with the formation of a **Microfinance Provider Network for Northern Sudan**. UNDP also set up a virtual communication platform on Microfinance in Sudan at http://groups.google.com/group/microfinance-sudan?hl=en to complement the already existing Southern Sudan Microfinance Forum at: http://groups.google.com/group/southern-sudan-microfinance-forum-?hl=en
- The Central Bank of Sudan and UNDP also submitted a part of a joint UN-Government proposal in April to initiate **Business Idea Competitions and Savings Groups for Youth** in 3 Northern and 3 Southern States of Sudan.
- The Central Bank of Sudan is inviting all major actors on Microfinance in Sudan to gather on **Thursday the 22th of May, 10 am to 13 pm** in Khartoum for a first discussion on jointly developing a **Strategic Framework and common indicators for Microfinance in Sudan** in order to create the basis for coordination and data aggregation across the country. If you wish to participate, please register via email at: maja.bott@undp.org.

- You will find more planned activities in the current draft of the **Implementation Matrix** in the Annex. If you noticed that we missed an activity for 2008, please let us know, so that we can add it. Please be notified, that the Central Bank of Sudan is the supervisory institution for all Microfinance activities in Sudan. Therefore CBOS can only coordinate and support Microfinance Programs and Projects it has knowledge of. Initiators of Microfinance Programs and Projects for 2008 in Sudan should **add their input to the implementation matrix until 19st of May** to maja.bott@undp.org who is supporting CBOS with the data collection.

Microfinance as Part of a Comprehensive National Poverty Alleviation Strategy

For Microfinance to be a potent tool in the fight against poverty, the Vision for the development and expansion of the Microfinance sector in Sudan and its strategic framework need to be adopted nationally as part of a comprehensive strategy for the reduction of poverty within the whole country.

Abda Yahia El-Mahdi, Managing Director of UNICONS and Facilitator of the Forum further emphasized, that such a strategy would necessarily be formulated in a **participative** manner to address the disparities in income and development among the different states in a peaceful Sudan, encompassing **pro-poor macro economic policies** that are specifically aimed at the social sector and labour-intensive economy – be it agriculture, industry or services. Such a strategy would also necessarily focus on the **informal sector** where the majority of the small and micro-entrepreneurs are to be found and would create the supportive environment for them to thrive in. But first and foremost such a poverty reduction strategy must be sustained by good governance, transparency and political will adequately translated in **public budgetary allocations**.

Microfinance is more than Microcredit

Discussing Microfinance in Sudan, most people primarily address the demand for business investment credit. However, the demand for financial services must be taken in the wider sense of the word – encompassing not only business credit, but also **savings**, **deposits**, **insurance**, **money transfers**, **remittances, leasing**, **credit for housing**, **consumption** as well as **Islamic** and other **equity investment** means of finance.

The Challenges ahead

For these various demands to be met, the challenges for establishing viable Microfinance institutions with expanded **rural outreach** still have to be mastered. Institutional viability must be considered in the light of a well entrenched Sudanese **culture of grants and subsidies**. Rural outreach needs to be expanded by **fostering linkages** between large capital in upstream operations and local knowledge of downstream set-ups. Not only the realities and constraints of the poor need to be understood, but also their **ability** to save, borrow and invest profitably.

Dr. Sabir Mohamed Hassan, the Governor of the Central Bank of Sudan, added the following challenges:

i) Developing means of **investments**;

ii) Investigating **Islamic** ways of Microfinance;

iii) **Capacity building** for Microfinance regulators, providers and clients;

iv) Integrating the Microfinance sector into the **banking system**: the banking sector should be aware that Microfinance is profitable if it is done according to the rules. The main challenge for commercial banks is about how to deal with the loan seekers. They need to learn from national and international NGOs in this regard.

Jerzy Skuratowicz, Country Director of UNDP expressed his gladness at the presence of both **Northern and Southern Sudan government** representatives underlining the importance they are attaching to the joint development of Microfinance in the country as foreseen in the Comprehensive Peace Agreement.

The representatives of UNDP, the World Bank and IFAD expressed their commitment to support the growth of the Microfinance industry in Sudan.

The Role of the Central Bank of Sudan

by Ishraq Dirar, Director of the Microfinance Unit of the Central Bank of Sudan

Central banks usually limit their activities to monetary policy, prudential regulation and supervision of licensed financial institutions, and do not engage in promotional activities encouraging the development of financial services like Microfinance.

However, the Central Bank of Sudan (CBOS) sees itself as an instrument for achieving the national government's objective of poverty alleviation. Since Microfinance is a vital tool to achieve this, CBOS is leading the **promotion** of Microfinance and **coordinating** Microfinance activities and programs among all involved actors in the country.

Through its **directed credit policy** commercial banks are requested to allocate 12% of their total annual lending portfolios to Microfinance. CBOS believes that the focus should be given to **disadvantaged groups** of the society, especially women, and to small and marginalized farmers, rural artisans, and agricultural labourers.

30 commercial banks are currently operating in Sudan, 18 of which are providing Microfinance services. The average percentage of Microfinance is 3.2% of their total lending portfolio. In order to increase this share, CBOS has extended funds of 33 Million SDG to 7 banks in 2007 and started Microfinance **capacity building programs** for 130 bank staff members including top management.

The Microfinance Market in Sudan: Urban and Rural Supply and Demand

Market Supply

By Dr. Abu Bakr Hussein, Assistant Professor, University of Khartoum

There is a large potential for Microfinance in Sudan with only an estimated **3 to 5 % of current market coverage**. So far, several trials in micro-lending have been conducted during the past few decades. However, there has been a **lack of conformity in approaches** among the providers. Therefore, Microfinance, as known and practiced worldwide, offering various financial services and adopting acknowledged performance measurement indicators, does not really exist in Sudan. Most institutions and agencies involved in this field operate mainly with a minimalist credit approach. Most micro lending to date has been handled by NGOs. In Northern Sudan, since 1994 approximately 5 percent of total bank loans were allocated to financing the social sector, and this percentage has gradually increased to reach 12 percent in the Bank of Sudan's credit policy for 2007.

20 Sudanese banks are currently providing micro lending services targeting craftsmen, professionals and small producers including productive families. Despite the differences among the banks in volume of lending, number of businesses financed and portfolio at risk, the ratio of the value of micro lending in each bank to its total value of lending portfolio is very low. In northern Sudan, finance is offered through unevenly distributed Islamic formulae: *murabaha, musharaka*, *mudaraba and salam.*

According to CBOS statistical records, the volume of micro lending has increased by more than 30 percent, from SDG 30 million to more than SDG 40 million between 2003 and 2004. But despite this considerable increase, to date micro lending has not exceeded 1 percent of the total volume of finance of most banks in the North, with the exception of the Savings and Social Development Bank, the Exports Promotion Bank, the Nilein Bank and the Agricultural Bank of Sudan.

Bank-based experience shows that there is lack of exposure and training in Microfinance facilitation and management, the procedures are conventional, not tailored to the conditions of the poor (e.g. the client has to open and activate a bank account before receiving a loan, clients are required to issue post-dated cheques for installments, they have to provide adequate and conventional collateral, lengthy procedures, etc). Efforts depended entirely on individual bank initiatives, not within a national policy. No unified definition of the target group or a set of unified eligibility criteria across banks or even across branches exist.

The experiences of NGOs show that most Microfinance projects are community-based, tend to have simpler and more flexible procedures than banks, some have created successful linkages with the banking system and have different Microfinance activities and approaches. One of the main problems they are facing is for example the shifting from charity to credit after a period of relief work. Social funds projects are largely or entirely grant or charity based.

Crucial points: Skills are crucial and needed in credit and investment. Good coordination with government counterparts.

Constraints: Best practices are not followed by most banks, application of Microfinance unorganized, poor coordination between Microfinance projects.

Success factors: Commitment, Staff training & incentives, Knowledge of Microfinance best practices, Adapted systems and procedures, Products specially adapted to markets, Infrastructure close to clients.

Urban Demand: The Example of Greater Khartoum Area

by Sawsen Ayari, Program Coordinator, Planet Finance, Egypt

840 micro-entrepreneurs participated in PlaNet Finance's survey on Microfinance demand in Khartoum State. The majority of micro entrepreneurs sell their products and services in remote markets. **Trade** is the most important activity in Khartoum State. Around **63% of entrepreneurs** finance their activities themselves **without any external source of finance**.The average monthly profit in Khartoum State is around 56,200 SDD (281 USD), with significant differences concerning the level of wealth and gender.

70% of the respondents were interested **in savings products** and safety was the most important issue for them, together with prompt access to their savings.

61% of micro entrepreneurs expressed their interest in applying for **credit**, under certain conditions relative to loan size, procedures, and type of credit. The **median loan size** that a micro-entrepreneur was willing to borrow, was 200,000 SDD (1,000 USD), with significant differences related to their registration status, gender and location. Credit needs are **seasonally** higher when the commercial activity level is high (November-March). The average **interest rate** a micro entrepreneur was willing to pay is **16%**.

The main reason why micro entrepreneurs did not apply for credit is **lack of information**.

Rural Models: Bank lending to rural Sanduqs – IFADs experience in Northern Kordofan

by Swandip Sinha, Microfinance Consultant, IFAD

IFAD's North Kordofan Rural Development Project (NKRDP) has been using the mechanism of sanduq at the village level, whereby the Agricultural Bank of Sudan lends to good quality sanduqs. Over the last three years, ABS has disbursed USD 3.8 million to sanduqs. Currently, it has a portfolio of about USD 0.7 million USD with the sanduqs. The project comprises about 160 sanduqs in North Kordofan State, which have a total of **20,000 members** covering 11,000 households. The yields from the cumulative internal lending portfolio of the sanduqs have ranged between 25%-30%

from 2003-2006 and the **capital has increased from the project donated equity of USD 1.1 million to USD 1.8 million** through profits from internal lending. Sanduqs start by mobilizing savings from the members. However, the amount of savings is insufficient for meeting the demand of the members.

The Sanduq is managed by a 4-5 members committee, which lends to members after organizing them into small groups. The usual loan size for a family with 5 – 7 members is around **300 USD for livestock rearing and animal fattening and around 150 – 500 USD for petty trading and handicrafts** etc.

Current Constraints:

As long as **bank loans under 5,000 USD are classified as Microcredit**, banks have no real incentive to actually lower loan sizes down to 300 USD, which would actually correspond to the needs of a poor household. In addition to that,

- banks do not specifically **target** the rural poor;
- **outreach** of savings and remittance services is limited, and
- the performance and outreach of Micro-loans are not **monitored** separately.
- Many poor people balk at taking a bank loan fearing to be brought to **jail** in the case of default, which is a common practice in Sudan. Only about 1% of the Sudanese population is using the banking system.[1]

Recommendations:

- Encourage formal banks to **downscale**
- Support Microfinance programs through **sound business plans** which clearly outline their strategy and the operations plan for expanding outreach to rural areas in a sustainable manner
- Encourage **portfolio diversification** of rural finance institutions
- Encourage **market linkages** for rural products
- The National Microfinance Policy should make it **lucrative** for banks and Microfinance institutions to address the rural Microfinance market.

Conclusion: There is a significant demand for microfinance, which can be met by using the mechanism of sanduqs, enabling banks to establish a profitable business with an average 100-200 USD loan size in rural areas.

The Microfinance-Market in Southern Sudan

by Irene Karimi, Chief of Party USAID Sudan AEFP, Chemonics

According to a recent survey there are 45,000 businesses in Southern Sudan, of which only 11,000 businesses receive financial services.

Before 2002, there was **no Microfinance** institution in South Sudan. In 2002, the USAID-funded AEFP project supported the set up and development of SUMI, the first Microfinance institution in South Sudan. AEFP also supported the second Microfinance institute – Finance Sudan as it equally set up operations in Juba, Wau and Malakal in 2006. BRAC established their South Sudan operations in 2007.

[1] Remark by a Forum participant

BRAC started in South Sudan in 2007 and now has 6 branches in Juba area. BRACs five year strategy is to arrive at more than 100 branches. BRAC is now focusing on the support of its strategy in agriculture, health and external sectors. Currently, BRAC has 5500 members, 3500 of which are borrowers. In Southern Sudan BRACs main limitation is lack of donor funding.

In 2006, AEFP facilitated the formation of the **South Sudan Microfinance Forum**, which brings together practitioners, donors, The Bank of Southern Sudan, relevant Government of South Sudan ministries and any institution interested in Microfinance. Now the forum meets monthly with the objective of growing into a member-based association.

Lessons learned:

- There is a need to break the dependence cycle
- Capacity building is critical. Microfinance has to be developed based on best practices. AEFP invested a lot in training managers.
- Coordination is needed. Also links with relief actors are necessary in order to be able to work broadly across sectors.

Necessary Actions for Southern Sudan:

- Maintain and strengthen the Forum while bringing all Microfinance stakeholders in the South on board.
- Collaboration and Leveraging of Resources between stakeholders
- Develop "Best Practices" for South Sudan
- Develop microfinance programs and products that reach deeper into rural areas, in order to reach the target groups, especially women
- Transition from relief to development

Microfinance in Conflict and Post-Conflict Countries

by John Tucker, Deputy Director, Inclusive Finance Practice Area, UNCDF, Samuel Munzele Maimbo, Senior Financial Sector Specialist, World Bank and Dr. Imram Matin, Director R&E, BRAC Africa Programme

There are some traps for post-conflict recovery: peace agreements often create expectations of rapid improvements of the underlying inequities and injustices that led to conflicts in the first place, which then cannot be met and pursuance of poor economic policies make post-conflict societies extremely vulnerable to reversion to conflict. The typical developing country that has been at peace for a long period has a **risk of descending into large-scale violence** of around 9% over the period of a decade. By contrast, this risk facing the typical **post-conflict society** during its first decade of peace is **40%**.[2]

Microfinance in post conflict settings is only one part of the required financial development of the country. The people generally lack resources to expand their businesses and financial services are rarely available. Microfinance is one among other tools to favor the economical development in post conflict settings. Microfinance cannot end a conflict or lead to peace building alone.

How soon should Microfinance activities be initiated after a conflict? If donors wait too long for introducing Microfinance, bad practice can take place – hence **donors need to take some risks**.

A **shared vision** could speed up the development of the Microfinance industry: CBOS is already leading this process.

[2] based on an analysis of 66 post-conflict experiences by Collier, Hoeffler and Soderbom

There have been three **successful Microfinance industries** launched in Bosnia, Afghanistan and Sierra Leone, and there are plenty of documents concerning lessons learned.

The UNCDF-Publication "Building Inclusive Financial Sectors for Development", released in 2006, has shown that the **issues are the same** in every region.

The Microfinance industry in Sudan must become **part of the ordinary financial sector**.

What is the most effective **strategy for jump-starting retail services**? Encourage strong international providers to enter the market, or build local, indigenous institutions? Experience has shown that both local and international Financial Service Providers are needed for creating a competitive industry. By jump-starting the industry using international actors, local actors can improve their skills and products.

When trying to establish Microfinance in post conflict settings, it is necessary to work side by side with the relief community. The relief community should try to phase out the use of grants but there is always a risk that some **relief organization gives out credit even though they do not have the capacity** for this, which is not good for the beneficiaries.

The role of the government should be limited: it plays a role in the beginning, by setting up institutions, structures, policies, and legal framework, but leaves the activities to the private sector, which should go well on its own, once profitability and sustainability are reached. The main aim is making it easy for everyone to access financial providers.

The expansion of the Microfinance industry can be maximized by **sharing knowledge and ideas**.

Basic principles:

1. Focus on the **Private** sector.

2. Maximize **broad-based** development.

3. **Competition** in private sector engaging in Microfinance.

4. **Strong institutions** able to implement programs and provide training services.

5. **Partnership is KEY** to the above principles.

Challenges:

- Challenge to achieve national **coverage** including **vast, underserved markets** (rural, IDPs, urban informal sector, pastoralists).
- **Capacity** limitations at the level of clients, Microfinance providers, service providers to the sector; apex institution not yet in place. In order to reach less educated people with Microfinance programs, there is a big need for training.
- The SMDF apex institution must insist on performance-based funding, avoid disbursement pressure and retain independence.
- The SMDF project is small relative to the magnitude of the problem and similar efforts elsewhere.
- In addition there is a real challenge to overcome the gap between informal and formal sectors. Informality and real economy issues must be addressed for Microfinance to thrive.

Open Question on Microfinance and Climate Change: What are the future trends in Microfinance? Is there a trend towards ecological development? Is there any hope that Microfinance will incorporate the goals of climate change?

Microfinance in Sudan: 4 million loans by 2017 and the Importance of Human Resources

by Pancho Otero, Director IPM - Micro Enterprise Policy Institute,

Founder of BancoSol, Bolivia

In ten years from now, there will be **four million active Microfinance clients in Sudan** being served by an **industry of 100 000 professionals**, among them 20 000 loan officers, working for 500 - 600 Microfinance institutions, of whom at least a couple will have over 1 million clients and an overall portfolio of 4 to 5 billion Euro.

In order to reach this stage, **the system has to cover its costs**; loans have to be paid back! It is easy to give loans that you do not collect. This is what makes it difficult: the need to make it sustainable. All the industry needs to be paid for its operations, transportation, computers, ink, and pens. We could achieve this in Latin America in a short time.

Concerning human resources, about 3 000 branch managers and 20 000 field workers will identify and finance clients. I am sure if you talk to young Sudanese people asking them to work with the poor, the answer would be: No! We have to **make it very prestigious to work with the poor**. Change the attitude. You have to hire the smartest people and give them reasonable salaries, because they are going to be managers and they have to understand that it is going to be a fantastic career.

International Experience

Credit Unions in Africa

by Jamie Raile, Business Development Manager, World Council of Credit Unions Inc.

Characteristics of Credit Unions (CU):

- Open, voluntary & diverse membership (low & high incomes - Kenya case study).
- The Members are the owners, not outside shareholders.
- Not-for-profit cooperative: excess earnings are returned to members/owners in form of increased income on savings, decreased rates on loans, and other services.
- CU have a volunteer board of directors, elected at an annual general meeting.
- There is often a common bond between the members, for example profession and geographic area.
- Education among members.
- Building sustainable economic and social responsibility (first fulfil your business aims and then social tasks as a member).

Every credit union is a part of an international system encompassing 97 countries, with a total of 46,377 credit unions with 172 million members.

CUs are relying on donors to mobilizing savings and loans. Good financial information is needed to make people feel their money is safe. CUs need sound supervision and regulation.

In Sudan, CUs operated before the war, but disappeared because of mismanagement. In the early 1990s better practices emerged.

For CUs to become operative in Sudan, cooperative laws should be revised.

International Experience

Saving for Change – Community-Based Financial Services in Western Africa

by Mamadou Biteye, Regional Director West Africa, Oxfam America

If you look at the income levels of the population, commercial banks are focusing on the top income levels, Credit Unions the next lower level and the Microfinance industry are trying to reach the poor and part of the real poor. The ones who cannot save are not a target group for Microfinance.

Oxfam's method is based on member's savings. The model has been introduced in Mali where the situation is as follows: poverty ranking - 175 of 177 countries; poverty incidence 64%, rampant malaria, prone to drought, 90% members illiterate and only 50% having enough to eat.

How does it work? Oxfam provides training and funds to local partners.

A typical group consists of 15-25 members who save on weekly bases – these savings can then be given as loans to other members who pay back the loans plus interest rate. Group members set a common course - some of them are community-development oriented.

Loans are used for business, but also consumption, clothing, and schooling. Surveys also show changes of behaviour e.g. 59 % of members sleep under a bed net plus share training with others.

For **illiterate groups** an oral record system has been introduced. The group is also used as a platform for training, e.g. on Malaria or sorghum cultivation. The group runs the operations which helps to lower the costs. It though requires close monitoring and constant training.

In Madras, group members were able to increase their savings up to 40 %. In Mali about 99, 8 % of loans are being repaid.

Success factors: common goals, incentive to save, flexibility and possibility to receive credit.

The members feel secure, because the money is under their own control: TRUST is very important! It has been said about the method: **"Borrow when you have to, pay when you can. Save all the time."**

Growth: replication is possible via simple training manuals. There is also a natural replication not controlled by NGOs.

Working Group 1: Commercial Banks and MFIs

Facilitation: Mansour Kelada Antoum, Chief Executive Officer of QFI – Quality Finance International

The working group started with a presentation on the measurement of successful Microfinance operations, various bank-related microfinance models, conditions and government restrictions.

Kick-off Presentation:

Measuring the Performance of MF-Providers

by Nadine Chehade, Middle East & North Africa Director, Planet Rating

What are the **benefits** of Microfinance Ratings?

- For **external** parties: investors, stakeholders to enable them to access funds or technical assistance through: i) reporting to existing lenders/donors, ii) attracting new sources of funding and iii) better design/tailor technical assistance
- For **internal** purposes: management, board to enable them to make informed decisions through: i) building up self-evaluation capacity and ii) comparing performance to best practices & other MFIs.

- For the Microfinance **sector** as a whole: to enhance industry performance and international exposure through: i) Promoting communication, ii) improving transparency in the sector

Rating Domains	Weight	
Governance	20%	*Qualitative domains*
Information	12%	
Risk management	12%	
Activities	25%	*Quantitative domains*
Funding and liquidity	7%	
Efficiency and profitability	24%	
Social performance		

Source: Institutional, Financial and Social performance in Microfinance. Presented by: Nadine Chehade, Planet Rating

Banks lack the knowledge of how to enter the Microfinance industry. Why do banks still plan to engage in it? Via Microfinance they can i) enter a new market, ii) increase profit, iii) improve their corporate image.

Banks feel that with the current regulations it is very difficult to successfully engage in Microfinance. Although banks are required to put 12% into Microfinance, that rarely happens. A special law is needed that would not distort the current banking system.

Some of the problems that banks are facing:

- **Structure** of the bank: banks are not well equipped to deal with Microfinance clients.
- The need to establishing a **Microfinance Unit** in each bank.
- **Outreach**: Banks do not have enough branches.

Establishing mature and commercially viable institutions is the problem and **not lack of funding**.

1. Developmental objectives must be driven through commercial approaches.

Commercial and development objectives are not contradictory, as proven by projects worldwide. Rather, development objectives can work together with the private sector and the commercial approach.

2. Banks wishing to get involved in the Microfinance industry via Downscaling **should establish dedicated Microfinance Units**, fully-owned or as a dedicated subsidiary, or open to caps from other sources, private or government. A bank like ABS should establish a subsidiary, because this would keep it a profitable, commercially-based and market-driven unit. The advantage of having a subsidiary unit at an established bank is that these units would have their own methods, other than those of the bank. The mentality of the staff would also be very different, with different incentives compared to the rest of the bank. It may also be more flexible vis-à-vis banking regulations. A unit like this may not have to comply with all the stringent regulations - such as interest rate caps.

In order to establish such an institution outside the banking system, there is a need for certain standards and regulatory framework, but this system has to be flexible enough so banks can determine their own involvement. This could be done through existing MFIs, just by letting these institutes use their own facilities. We also agreed that this framework should allow NGOs to operate in parallel. NGOs should continue to be involved in the industry – we do not expect banks will be able to service everyone overnight, not even in five years.

3. Role of the Government:

- The government should play the role of regulator and policymaker, not a player in the industry – focus on policies. The government should create incentives, but not impose the involvement of banks and private sector into Microfinance.
- Set standards, establish strong safeguards and update them as progress is made. Providers of Microfinance should be regulated, so that private sector should not exploit Microfinance users. Objectives and standards should be clearly set out, including Microfinance limits, target groups, and so forth.
- Promote awareness with borrowers & investors and encourage micro-business.
- Provide capacity building and infrastructure – specifically information dissemination and business development services.
- Do not provide free seed capital. Government's funding should go towards establishing rewards for achievers as well as research and development.
- The policy should also set specific objectives and priorities, such as target groups like women entrepreneurs and under-developed regions locations and clarify which groups Microfinance institutions are going to serve. The system should be all-inclusive.
- Create an Apex institution for refinancing with a mixed public-private governance structure.
- Establish guarantee funds to reduce risk.
- Invest in infrastructure (land reform and registration / Personal ID registry).

4. A regulatory framework must be established:

- to encourage investments in microfinance;
- be flexible enough to allow banks to choose the form of intervention, and
- to allow NGOs to operate in parallel.

Specific aspects of the regulatory framework:

- Setting a legal framework: put goals that are close to the market.
- Restructure the current laws and create bills and laws appropriate to the industry.
- Ease government procedures in land registration and Personal IDs.
- There should be no interest rate caps or fees, but there should be latitude for the Microfinance institution to price products according to market needs, operational costs and best practices.
- Fiscal and tax incentives: The most important threat for banks in their Microfinance effort is taxes. Regardless whether the initiative is bank-owned or not bank-owned - both should enjoy the same tax incentives to kick start Microfinance
- Microfinance is cash-based and character-based, **not collateral-based** lending. If banks want to get involved, collateral requirements must not be too burdensome.
- The regulatory framework should allow for **alternative financing**. Islamic instruments for example are adequate and needed in terms of borrowers in Sudan. Alternative financing can also include leasing, trade finance, and agricultural input financing, since the agricultural sector is a major sector in Sudan.
- **Allow joint ventures and partnerships with other players from outside the banking community**. The regulatory framework should also support partnerships between lending companies or NGOs and banks. If banks would like to get involved in the industry through another institution, the regulatory framework should accept that form as a Microfinance institution.
- Regulate eligibility of recipients.

- Facilitate the opening of new branches: Banks should be able to open branches easily. At the moment, this can be a cumbersome procedure, because of the geographical spread of residents.
- The regulatory framework should allow the financing of the informal sector, and should not exclude it.
- It should be part of a national policy.
- A visit could be paid to Arabic countries like Morocco, Jordon, Yemen, Syria, many of which created a decree establishing national Microfinance banks to learn lessons that might applicable to a legal framework for Microfinance in Sudan.

5. Encourage private investments and banks active participation:

- Most importantly, the government should create a **conducive environment** and positive **incentives**. The government should ensure that through the regulatory framework and policies, potential investors are encouraged. Investor could be private banks or publicly-owned commercial banks.
- Address private sector risk averseness (for example create a **credit bureau**)
- Establish a **refinancing facility or a guarantee scheme**
- Private investment needs to be encouraged and a refinancing facility to banks should be extended that then refinance portfolios. This should not just be a push approach, but a pull approach as well. The regulation of the Central Bank that 12% of banks income should be directed to Microfinance have not been an effective instrument – the system should be about how to attract people and not impose on them.
- The most appropriate microfinance players in this industry are small private banks rather than large state-owned banks.

6. In terms of **capacity-building**, a very critical role is expected from the government; there is a need to develop infrastructure around the industry, mainly in:

- The dissemination of information - there must be a repository of data that players can rely on to create their business plans,
- Business development services are a very critical area of development.

Should the government put money as capital into Microfinance institutions? The answer is yes, however, this should not be free money, there should be some sort of return - the money should be reimbursed to the government. This is a catalyst for competition, but it should not be free. The question of regulation comes in here. How can we select good players and who should receive the loans?

Governments' funding should go towards capacity building, research and development, establishing rewards and concessions that are in-line with strategic policies (ex. focusing on women, focusing on rural areas). If objectives are achieved, the institution should be rewarded additional concessions.

Apex institutions should have at least a mixed-government structure - owned by the private and the public sector, and represent various interested parties.

Gender: Women are the natural best clients of microfinance institutions. The majority of Microfinance users are women, therefore special attention must be given to women especially those whose educational level tends to be low. The challenges: In Sudan, women are often homebound, land ownership is frequently in the name of the husband, and there are large regional discrepancies. The Government should address those issues through providing business development services directly to this target group.

Working Group 2: NGO- and Donor-driven Microfinance Models

Facilitation: Pancho Otero, Director IPM - Micro Enterprise Policy Institute,
Founder of BancoSol, Bolivia

Kick-off Presentation:

What NGO-Microfinance Programs need to become sustainable

By Salah Ali El-Awad, Executive Director, PASED

PASEDs main products are business loans - for small business development or start-up, and home improvement loans. PASED is now giving loans to more than 4000 borrowers and has a portfolio of $1,200,000 dollars. PASEDs loan delivery mechanisms covers both individual loans (about 90 %) as well as group lending (about 10%) using Islamic modes of finance.

Common features for a successful NGO-Microfinance program:

At the policy level NGOs need to: i) adapt financial system approaches that are aimed for institutional financial self-sufficiency, ii) entirely separate the operational costs of non-financial services from the micro-financial services, iii) implement credit policies that are client responsive, iv) have a strongly committed board and good governance in place, and v) have active participation in national and regional micro-finance networks.

At the operational level NGOs need to: i) locate branch offices at the poor residential areas, ii) have simple procedures and a simple appearance that removes psychological barriers between the poor and the program, iii) select well-trained staff that are committed to work in rural/ remote areas, iv) keep management information systems for loan tracking and financial analysis, and v) rely on intensive field work and close monitoring.

General challenges: Relatively high operation costs of micro-finance operations - cost per client and cost per pound. Clients' individual lending preference, rather than the group base model, which can't satisfy the loans guarantee requirements. PASED operates according to Islamic Banking principles. As there are no penalties for late repayment, the borrower (and eventually the guarantor) only has no personal motivation to repay on time (arrears problems). So far micro-lending activities are basically limited to urban areas. Savings mobilization constitutes half of the equation for a Microfinance institution to be successful and sustainable. However, NGOs do not (and cannot) legally mobilize savings from the public - this definitely limits growth of its funds, and hence, lending capacity and outreach.

The supply of Microfinance can be increased through two approaches: i) Scaling up, and ii) Start-ups. How do we create an environment to increase the supply even further?

The heart of Microfinance in Sudan so far has been provided by NGOs. NGOs outreach is big, but the issue is the quality. How can NGOs services be improved?

The Difficulties of starting a Microfinance Program in Sudan:

- There is **no common definition** of Microfinance. People are confused between charity and Microfinance programs, creating problems for sustainability.
- Microfinance **outreach** is still very limited in Sudan.
- No permission for **international NGOs** to work in Microfinance.
- **Lack of Infrastructure**.
- Not enough **funding** for poverty alleviation and to ensure sustainability of programs.

- Not enough **training** of the poor, not enough training programs as a means of translating the process to the community, no **awareness** and **information** of business opportunities (problem of impact).
- **Research** – the government should take charge of that because it is very expensive. Microfinance is new in Sudan – all providers need to share their experience in order to come up with the best results.
- **Regulations** need to be formulated that will help promote Microfinance and include the whole process in the curriculum so that people are familiar with it.
- Need to improve the **dialogue between stakeholders**. To solve this, additional fora should be held.

Situation in Sudan:

The **Microfinance Provider Network MON** is trying to upgrade the network to the national level; also making contacts with Microfinance institutions in the South. The main problem: lack of resources.

The South Sudanese MFI SUMI has five branches in South Sudan, about 500 clients and 55 employees.

Current challenges:

i) SUMI is so small that it is hard to reach bigger industries. Now there are 3 players in the South: Finance Sudan, Sumi and BRAC.

ii) SUMI is also struggling with the start up – interventions from donors or government are needed.

iii) The post-conflict environment and the "dependency syndrome".

iv) Staffing - it is hard to find talented people.

For BRAC, located in Wau, Southern Sudan, with six branches in Juba, 3500 loan-takers and a portfolio of $ USD 649 000, the major challenge are the donors.

Voucher-Market-Model for Business Skills Training

How do you train small business people? The system that works best is establishing a market for trainings based on a voucher system, whereby the government gives a voucher of about 20-30 dollar to the person that wants training e.g. in accounting or production. Then the customers turn to the people that have that kind of training – the customers have to add some money by themselves as well. They can choose their trainers themselves, the trainers work hard to get a good reputation. The system does not need to be a real school. The whole door industry in a town in Bolivia started like this. This system can be a good addition to financial services.

Successful Government Policies in Bolivia

- The policy in Bolivia was to allow everyone to get involved in Microfinance. Because there were so many people entering the market, it was competitive. In the 1990s the interest rate was 5% but now it is 2%. The best way to deal with interest rates is to let institutions compete with each other.
- What about government involvement? People usually do not pay back the money to the government.
  This is the reason why the government should not take part in the lending process. The private sector will always ask for their money, create data collection systems and identify causes of arrears e.g. in Bolivia it was noticed that it was not effective to have members of the same family in the same group. Loans were issued on the day after the holidays and not before.

The key success factors:

1. The government did not get involved in lending, but only in monitoring and supervising.
2. The Central Bank of Bolivia: When Microfinance was first introduced the Central Bank was mentally prepared to learn about Microfinance. The Central Bank's staff worked in a village, learned about the mentality and conditions in rural areas and hence created a suitable strategy.
3. The Central Bank did not set a limit on interest or charges.

In Mali and Senegal, because of legal inflexibility, sometimes people were taken to prison for not paying back their credit, which created a set-back for the program.

Necessary policy support:

- Little government intervention.
- Avoid conflict between charity and Microfinance.
- Attract international capital and know how from international NGOs and investors.
- Technical support conducting research in Islamic methods of Microfinance.
- In coordination with the Humanitarian Aid Commission the Central Bank should give Microfinance licences to NGOs.
- Networking between NGOs and banks: branches of the banks should support NGOs to engage in Microfinance.
- Enabling **savings and loans groups** to have a broader vision of where they belong in the national strategy.

Recommendations on Strategic Issues:

It is important to understand the concepts and the terminology of Microfinance, and how different concepts are related - if one person says something, and the other person thinks that it means something else, then, there is clearly a miscommunication problem. Until terminologies are clearly developed, progress will be very difficult. Advisors are needed on strategic and conceptual issues, to sit down with the institutions and explain to them things like provisioning.

Recommendations on Technical Issues:

Client-Density: BRAC only targets clients residing up to four kilometres around each of their branches. This is a key secret to success - to limit the area around the branch in which you are going to work. If somebody comes the first day from 20 kilometres in one direction, and then someone else from 17 kilometres in a different direction, you can never condense. If you do not condense, then you cannot become sustainable. The whole industry in Sudan needs access to technical service providers to solve such operational problems.

Recommendations on Funding:

Another issue frequently stated is the lack of funds. Some participants mentioned that there is a lot of money available at the moment for Microfinance, $25 million, but at the same time, many institutions do not have access to it.

Recommendations on Awareness Raising:

The last issue is the need of disseminating strategies: CBOS has excellent objectives and strategies for MFIs in Sudan, but there is a problem of summarising, and disseminating these objectives and strategies. The CBOS needs to: i) summarise these strategies – write them down in very clear language and ii) disseminate the information to the parties concerned. These strategies should include South Sudan.

Working Group 3: Mobile Phone-based Microfinance for Rural Outreach

Facilitation: John Tucker, Deputy Director, Inclusive Finance Practice Area, UNCDF

Why do people get so excited about mobile Microfinance? The problem in Microfinance is that MFIs have to charge a lot of money to cover their costs which can be strongly reduced by mobile technologies. Additionally, cell phone penetration is high: in Sudan 8.4 million people have mobile phone accounts – and this is predicted to almost double next year. There is 64% coverage in Sudan in terms of footprint, but only 15% are being served right now (the business model says that this will change dramatically over the next five years). By 2011, we are looking at 22 million active users of cell phones. In terms of market distribution, the market leader will have more than 43% share, the next two will have 20%. But the playing field is not levelled. There is favouritism and delays for everybody else.

On the other hand, most commercial banks are not actively downscaling and do not have a lot of connection with Microfinance. Will therefore telecoms lead banks downmarket towards Microfinance? That is an open question.

Technology could be useful to expand outreach, but for this to be successful, strong institutions have to be in place. MFIs need to have excellent management systems. They need to be able to closely monitor how much money the client received, if she paid back on time or not etc.

Currently MFIs are very low-tech in Sudan. The question is: will outreach move into rural areas?

CGAP has a huge technology development program. The Gates Foundation has provided funds of $20m dollars for technology and Microfinance. So there is much focus on using technology to build Microfinance solutions.

Mobile Banking Models

Business models can be either bank-led or not bank-led. An example of a **bank-led model** is Brazil, where the bank works through agents around the country - in retail, gasoline and so forth. These agents will distribute the service, but the bank account belongs to the bank-client. All responsibility remains with the bank. In Brazil, we see heavy use of the bank-led model. Both illiterate and literate people are aware of e-banking. Out of the 90% sample that used it, 99% used it to make payments - for electricity bills, to buy phone credit and so forth. This is not the same as making loan payments or depositing money. People are very much in love with the model. But only 6% of the clients are using it for savings.

The **non-bank model** is where there is no bank and no bank account. This is where mobile phone companies come into play. The client does not have to enter a bank branch. His/her money is stored on a virtual account managed by a mobile system like M-PESA - no bank is involved. Thus a son in Kampala can send money to his mother in the village straight from his phone. This money can either be used by her to call her son all the time, or else she can go to a phone agent who will then give her cash. Fees on this can be high, and they can be regulated or unregulated. In the Philippines, it is actually possible to mix both the bank and non-bank model. You can bring money to the agent. You can put this money in your individual account. You can send the money via SMS to your cousin on another island. You can deposit the money in a bank.

International Experience

Innovations in Mobile-Banking: The Case of M-PESA

Olga Morawczynski, University of Edinburgh, is currently undertaking a case study on M-PESA, a non-bank-led model in Kenya.

The non-bank model M-PESA was introduced in Kenya in March 2007 by a private-public partnership consisting of Vodafone UK, the local provider Safari.com, several banks including Citibank and the Central Bank of Kenya. M-PESA was meant to target the non-banked population of Kenya. Logic suggests that access to financial services facilitates entrepreneurship and creates wealth. Using mobile phone technology can increase activity. But how M-PESA was conceived and what it became, are two very different things.

In the first month after the launch, 20,000 Kenyans signed up. Currently, there are 700,000 users across the country. The average registration rate is 40,000 clients per week, according to Safari.com. However, this does not mean that everyone is using it. M-PESA can be used to check the balance of your bank account, as a bank account, to top up your phone and to send money. Safari.com is working with Citibank on a trial for remittances.

In this non-bank model a customer will register with an agent (based on a driving licence or ID card), deposit the cash and activate the account. The cash given to the agent becomes electronic money. An SMS is sent by return confirming that the deposit has taken place - and then the customer is free to do all the transactions that were mentioned before. This other man has to buy electronic money from Safari.com. He goes to a trust that has been set up and physically deposits the cash. This is a non-bank-led model because there is no direct relationship between the customer and the bank. The account remains with the telecom provider. The reason that you have this trust in the first place is because the Central Bank says that you must have electronic money backed by real money. Otherwise you are creating new money and this causes a problem economically. Payments go through the M-PESA system. They have money on their account. The system is supposed to make it easier for customers to repay loans.

However, **you cannot repay loans to MFIs**, although this was one of the main objectives of the project. Safari.com discovered that the selected MFI was not able to replicate their paper-based system electronically in order to communicate with the M-PESA-system. The group repayment structure needed a group accountant - but the question was: who would take ownership of this? The MFI did not.

Some **lessons learned**:

1. A regulatory framework needs to be developed that facilitates the growth of the service whilst protecting the integrity of the financial system and its customers.
2. The system must be designed and marketed in a way that it fits into institutionalised habits. The focus should be on quality and design.
3. The process of the system needs to be made compatible with MFIs. Perhaps it would be possible at an early stage to create an interface between the two systems.
4. Building and maintaining trust in that system is important. The customer needs to be made familiar with the electronic system. A strong brand name is needed and customer trust needs to be built.
5. It needs to be easy for agents to deal with customer problems. If any problem takes a long time to solve, the customer is likely to become angry.
6. Maintaining diverse relationships with diverse partners is important.

The situation in Sudan

There are many similarities to Kenya: Sudan also has an extremely large informal sector. Banks are structured to serve those within the formal sector, which means that there are a large number of people unrepresented by the banking system, particularly in the rural areas. Urban migration means remittances. People sending remittances through informal channels can be quite expensive. Many poor people do own or at least have access to a mobile phone.

One can make the argument that mobile phones can facilitate delivery. It is possible to export innovations beyond credit - savings, remittances, and so forth - but this must all be made explicit.

In Sudan, commercial banks do not seem to really going downmarket. There are no classic MFIs in the system yet. MFIs should build systems linking them to mobile operators, if they want to be in this business. The perfect model could be a partnership. Commercial banks could invest in new Microfinance institutions. Credit Unions and cooperatives could benefit from Microfinance institutions. Telecom operators could support this development by providing networks and services. They could even be shareholders. The government needs to make innovation possible through adapting relevant regulations.

Set up a model, present it as a success story, so that others can repeat it and grow. This is the fastest way to reach the market. There is an excellent study on early adopters in South Africa.

The Example of Zain in Sudan

By Faisal Ijaz Khan, Chief Marketing Officer, Zain

Remittances are important for Zain - the transfer of funds across borders, and between families and friends. However, Zain needs to do some research before it launches this kind of projects. Who are the clients of Microfinance? They are poor and low-income people. If done properly, Microfinance can graduate people out of poverty. Here, the most important thing is to educate these people to repay loans. The more they repay, the more they have the chance of getting a better job. If they repay, we can use the same funds for other people, therefore, benefit everybody. One study shows that such investments are leading to gains of 117-800%, which is a really high return. We have to know that it is not the $100-loan that matters, but rather, starting a sustained process.

The **role of mobile operators**

Goal 1: Outreach, Goal 2: Affordability, Goal 3: a Brand name

The **tea lady model:** Tea ladies can be given mobile phones, other than just selling tea, to earn some additional money by charging people for phone calls.

Ensuring Repayment: If customers do not pay their instalments, then it is possible to lock their phone. Payment can be deducted on the first of each month.

In terms of support for Microfinance, the **payphone model** is the best model. A solar panel can be used to power a charging station for mobile phones. Mobile phone users are charged one pound for every ten minutes that they want to charge their mobile for. People will sit and talk in the evening because they have electricity. The maximum amount paid out is $220. The minimum return on investment is 25%.

Virtual Means of Payment: To use mobile credit, people can go to a shop and transfer credit between phones. At the end of the day, the shop owner goes to the bank and asks to transfer money to an account or give him cash.

The increase in mobile phone coverage provides a tremendous business opportunity in terms of offering services to those who cannot go to the main cities and towns.

Key Discussion Points:

Islamic banking: any Microfinance model can be supported by Mobile technology, including Islamic models.

Female Entrepreneurs: Women have a better rate of paying loans back. But only 30% of mobile phone registered users are women. The clients are mainly men, in terms of penetration rate. A lot of women have access to phones, but this does not mean they have access to money. In Microfinance usually the percentage of female clients is much higher.

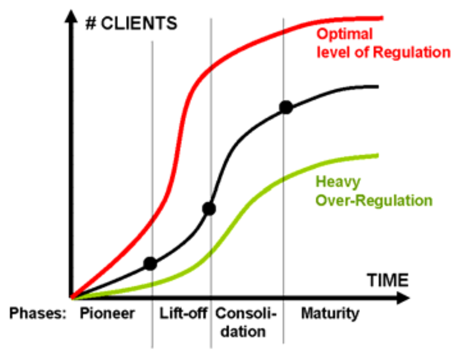
Post conflict issues: The footprint of the current coverage is following the major road routes and not really getting into remoter rural areas. But the ability to transfer money electronically can really help reduce banditry (which is often a problem in post-conflict areas from ex-combatants). When electronic payment was introduced into Cambodia, banditry clearly went down.

Targeting Microfinance clients: Every time the price has been reduced, telecom providers have seen their volume increase more than necessary to compensate for the reduced cost. But they are not Microfinance providers. They only go as far as it makes sense for their business to profit.

Government interventions: Currently the government is both provider and regulator of Microfinance which creates a conflict of interest. Some providers feel that government providers are getting most of the benefits.

Regulatory Framework: Africa is one of the fastest growing mobile phone markets in the world. In terms of regulation, a proportional regional policy needs to be formulated. There needs to be space for innovation and space to grow. Too much regulation will inhibit the progress of technology-based microfinance. Too little regulation could create problems at a later, more mature stage of the market.

Market Development: Regulation decides the Future



The black line in the middle charts things from pioneer lift-off to maturity, in terms of normal development. The pioneer phase is where we are now. It is young. The lower green line shows the effect of heavy regulation. It pulls everything down. The upper red line represents the market development in a more supportive environment, introducing regulation appropriate to the risks that are out there.

Regulation should be a iterative learning process. It is not possible to design regulation now correctly. Everything is new and so there are not all the answers in the marketplace.

Openness needs to be balanced with innovation.

- Customers need to be protected: their money needs to be safe when they hand it over to telecom providers.
- We should avoid focussing on just one market. We need to analyse different markets, with both heavy and light regulation. There is a big need for more research.

The government is acting both as a regulator and as a provider, which is a potential problem for the future of the industry. It is very difficult to wear these two hats, also in terms of existing legacy issues.

There are **six regulatory issues** from a CGAP study on seven pioneering countries.

1. Regulation relating to the **agents** of mobile phone operations.
2. **Anti-Money Laundering & Combating the Financing of Terrorism** (AML-CFT): How to implement the "know your customer rule" in a way that is both appropriate and proportionate? How much money should be transferable at a time?
3. **E-money** and **stored value:** There are low caps on the amount of stored value that you can keep on e-money - $200 or $400 - so there is not a huge amount of risk in losing large sums of money. In Kenya, all e-money matched dollar-for-dollar with real money held in a trust, while in the Philippines, all e-money shows up as "accounts payable".
4. **Consumer protection:**
   - What happens if the client loses money? Who is responsible: The Telecom, the agent, the bank?
   - **Transparent pricing** is paramount in terms of consumer protection. Should there be regulation? What about financial literacy? If people don't understand the pricing, what can they do? There is a difference between **customer service** and **grievance redress**. While customer service cannot be regulated, grievance redress can be regulated, e.g. by an ombudsman or a specific grievance redress mechanism. Operators are required to explain issues related to customer complaints - in terms of quality, charges, etc. Every operator should also publish a telephone number to be contacted for grievance redress.
   - Data **privacy** is another major issue. Telecom companies have whole databases about consumer behaviour and credit risk. There are a lot of people who think that telecom companies will be the **credit referencing agencies** of the future. This is issue number one to flag for the future. How do you handle privacy here?

5. **Inclusive payments & Interoperability:** Can a Zain-account be used to send e-money to Sudani or to MTN? Would it be sent through a central system? Even if telecom operators do not co-operate on this, a middle company could emerge with a smart card that allows operators to do transfers between different networks.
6. **Competition:** Is there fair competition in Sudan? What are the licensing agreements in m-banking? Taxes could also be part of competition and cost issues.
7. **Additional issue for Sudan:** question of **Customs &Tax!**

Additional Recommendations:

- **Identification of clients:**
  As a prerequisite for Microfinance, the government should relax restrictions on IDs. The government should **wipe out all the fees on IDs** and in the Microfinance industry all agents should play a role in developing an "**ID culture**".
- **Customer Protection:**
  There must be a good customer support. The government must put an effort towards protecting the customer.
- **Need for Investment**: There should be opportunities to invest in **private-public partnerships or seed investments** for a small pilot project on Mobile Microfinance to create a Best Practice.

Working Group 4: Community-based Microfinance & Microinsurance

Facilitator: Jamie Raile, Business Development Manager, World Council of Credit Unions Inc.

Kick-off presentation:

Building Security for the Poor: Potential & Prospects for Microinsurance

by Anuradha K. Rajivan, Regional Programme Coordinator, UNDP Asia & Pacific Regional Centre

Microinsurance is in a similar stage where Microcredit was about ten years ago. The development of the sector needs a longer term perspective that combines responsiveness to client priorities with financial viability, replacing the current preoccupation with immediate profits.

Insurance under Islamic Finance: The common view is that conventional insurance is unlawful due to management uncertainty - Maisir (gambling), Gharar (uncertainty) and Riba (interest). However, Micro-insurance could go perfectly well with Islamic law if designed accordingly.

Some of the key Issues for Catalyzing the Microinsurance Market:

- What is the optimal solution for the product **design**?

- Pricing: how much on average? One days' wage is the maximum people are willing to pay for insurance.

- Distribution and **outreach**: There is a need to use local post offices, local leaders, and technology - mobile phones, among others.

Way forward:

- Build and manage data better
- Support testing of new concepts & products
- Educate potential clients & insurers

- Benchmark: identify desirable features in products
- Learn from second generation issues in microcredit

Best Practice: NGOs implemented insurance in environmentally fragile areas on sheep. The cost of insurance was 5% of the value of the sheep - that was a successful insurance plan.

There is a good link between Microfinance and insurance. Who will finance the basic services and facilities to be provided?

Many people are exposed to different kinds of risks - if we want to make microinsurance affordable, we have to combine all risks that are high - maybe subsidized by the government.

Microcredit or Group Savings & Microinsurance combined: Borrowers who are poor in India, Pakistan, and Bangladesh get a package in most cases. They understand they need to pay the money back. They pay the costs of that credit and pay for insurance as well. Insurance is one instrument: the banking system is another tool. However, the state cannot avoid the responsibility. **Health insurance** is very important for the poor. It can be combined with group savings.

Insurance companies & banks: The experience shows that insurance companies are important to get to work with banks and their portfolios. The banking system can reach the poor the better the insurance linkages and the better portfolio management will be.

1. On the Regulatory Framework:

The regulatory framework has to be transparent and flexible and allow for growth. Not everything should be regulated to the point where no innovation can take place. Informal finance needs to stay under the radar. Small groups do not need to be regulated – self-regulation is sufficient. Only groups that have grown into larger Apex organisations might need regulation. **Credit Unions (CUs)** can grow to up to 1000 members. Their failure could have a huge impact on the financial system. If credit unions do well, they can have their own regulation institutions. Savings associations alone stay very small. A big organization can act as a mediator for finance, but needs to be regulated.

The **Voluntary Law** prevents members of organizations to engage in business activities.

The **Cooperative Law** does not give the members total ownership. Some of the capital will go to the government, in which case the minister will decide where the funds will go. For example, in North Kordofan a special state law is issued; in Kassala a separate law is issued. A recommendation needs to be developed about cooperative law suitable for everyone.

2. Islamic Microfinance Principles:

MFIs and community Microfinance have to be made sustainable also without the use of interest in Northern Sudan. The dominant Islamic microfinance mechanism in Sudan is **Murabaha**, whereby the Microfinance Provider acquires the good for the client and lends it to the client. The client acquires ownership of the good only after repaying the purchasing price plus a service fee. In the rural areas, where people want to buy animals, instead of lending the money to the clients, the microfinance provider buys the livestock for them.

There are two types of Islamic finance: one principle is based on acquiring items and lending them after adding some charges. There is also Profit & loss sharing, but it causes a lot of problems in the informal sector. The second principle is totally built on trust. Islamic financial principles are built on principles, not on policies.

In terms of **consumer protection laws**, there is a lot of confusion in Sudan about what the actual prices of some of these loans are. The cost needs to be transparent to the client. This affects both Islamic and non-Islamic Microfinance.

Recommendations:

- Do Microfinance as long as the cost is transparent to the clients: processing fees etc (comes under pricing), payments etc.
- Provide cash to CBOs (Community-based organizations).

3. Promotion of Female Entrepreneurs

Recommendations:

- All women, even if they are the second or third wife should be able to apply for loans**.**
- Develop a strong integrated capacity development and Microfinance package for women.

4. Conflict & Post-conflict Impact:

Problem: Communities are used to receiving money from relief agencies. The transition from grants to credit might prove a challenge.

Recommendations:

- It is necessary to sensitise communities on the difference between grants and loans to make Microfinance work.
- Microfinance should focus on community based activities – the focus should be on building up the community. NGOs started engaging in Microfinance, but often without lasting success, because the clients could not pay the loans back. A minimum level of development needs to have taken place before moving on to Microcredit interventions. In certain areas grants are still needed.
- Saving by self-help groups like the Saving for Change Project in Mali could be a good starting point.
- People need to understand that Microfinance is a complementary activity along with other necessary interventions like the provision of training for people to build capital from their own small sources.

5. Targeting Microfinance clients: Pros and Cons

Before targeting Microfinance clients, there should be a good knowledge and clear understanding of the conflict-affected areas. Clients should be targeted fairly - without prejudice, and based on community needs assessment and poverty levels. Furthermore, participants emphasized the need of keeping politics out of the targeting process.

6. Condition and Opportunities for Public and Private Investment

Recommendations:

- Areas without financial services should be identified. Interventions should be coordinated on a national level to avoid gaps and overlapping efforts.
- Local communities should be assisted in order to receive private and public investment, including infrastructure, so that these communities are able to run services.
- An effective dialogue between private and public sector needs to be developed and supported.

7. Pros and cons of government interventions:

Recommendations:

- The government should not provide or directly finance Microfinance services. One of the reasons for this recommendation is that when clients think that the government is providing loans, they do not think that they need to pay them back.

- The role of the government is the provision of infrastructure and the establishment of a conducive policy environment.
- Mainstreaming Microfinance into the national poverty reduction policy.
- Setting up Microfinance training facilities, also for awareness raising.
- Provision of business development services.
- Create funding facilities for the refinancing of institutions.
- Foreign investors need assurances from the government in order to start operations in Sudan. Currently, many organizations are encountering political problems. There are investment funds that can provide refinancing of MFIs, but there unsolved legal problems, e.g. how to issue Microfinance licenses. Investors need to know if they will receive licenses to operate. The less attractive, higher-risk, post-conflict areas need special consideration and support by the government.

Recommendations for MF-Providers:

- Develop a grounded understanding of the context where you are working – not only a theoretical knowledge. It is through the work you develop an understanding for the work.
- Do your own surveys of areas and engage the community with identifying potential clients.
- Gain community credibility – a community-based program should not start with Microfinance, but with other activities in order to gain people's trust and knowledge of the needs in the community.
- Hire less educated staff and enhance their knowledge and skills
- Search for small solutions to work through constraints.
- Gain the trust of the community.
- Learn from pilot projects.

Building a Microfinance Industry in Sudan

Facilitator: Abda Yahia El-Mahdi, Managing Director, UNICONS

The Microfinance industry in Afghanistan: lessons for Sudan

by Joyce Lehman, Chief of Party, Academy for Educational Development, Afghanistan

The environment in Afghanistan was very challenging in 2003, after 30 years of war. The infrastructure was decimated, including the banking infrastructure. 80-90% of the population earned income through informal means. Microfinance was marked out as one of the development strategies. The decision was made to essentially start the process from top-down. We are not talking here about commercial banks, because there are not many there. The Central Bank had been set up, and was very supportive of the concept, but essentially stepped aside and said they did not know how to do this. MISFA and international Microfinance experts were brought in to set up. Some of the things they did correctly were, i) an appropriate focus on the end goals and how they wanted to achieve this end result, ii) outreach - goals for the number of people, iii) sustainability - the number of institutions to be operational.

There was also the issue of "Afghanization". The project was to be conducted by MISFA, with pooled funds from bilateral donors channelled through the organisation, with Microfinance experts from other countries. This was the way to start quickly, with people that knew what they were doing and could help us do it right. These were necessarily international people, but ultimately we were determined that the project should be owned, run and managed by Afghans. Clearly, this has taken some time, but it has been successful. There have been a lot of really good results. There have been over half a million loans and a 95% repayment rate. 2-3 institutions are already self-sustaining. The project is on the way to meeting a lot of its established goals.

However, I would like to talk about what could have been done better. For one thing, the connection to the government was too close. MISFA was placed within a government ministry. Early on, this worked very well because the government listened to people and wanted the project to work. But, as things changed, and a new minister came in, MISFA became a little bit of a political football. At one time, being an NGO in the country was a bad thing, especially if doing anything financial, and so we had to register as a company, even though we weren't yet sustainable. So there were all sorts of conflicting realities.

Secondly, goals were set over a five year period. Five years is really too short to reach the sustainability that you need. Capacity building is never-ending.

Another issue: There were two ways MISFA provided support - grant funds and loan capital to MFIs. The government liked the idea of loan capital because they felt that it was an asset of the government, but considered grants to be bad. This increased pressure not to give grants which the institutions needed in order to reach sustainability. They were pushed too hard; a five year period is too short.

Lessons on Upscaling NGOs and Downscaling Banks in Latin America

by Norah Becerra, Project Manager, Frankfurt School of Finance & Management

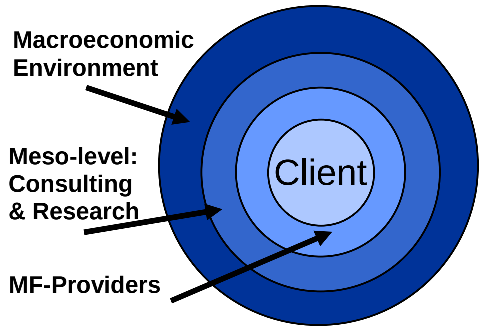
Normally NGOs start with donations from international donors. Not all NGOs will get the chance to grow, mostly because they do not have a visionary management. For those who took the risk, the market is very big and so their funds cannot cover their demands. The visionary NGOs borrowed money from commercial banks, but this was very expensive. Now many NGOs are looking for new ways of accessing better credit conditions. It is difficult for NGOs to fulfil the requirements of being a bank. In Bolivia, Peru, Honduras and other countries, NGOs have special legal status - they do not have the same rights as banks but can offer savings services, which is the source of low cost income for Microfinance institutions. Of course this process was not easy. NGOs knew how to do credit, but not savings. The transition from NGO to regulated institution requires a lot of investing and contracting new personnel with banking knowledge. Another challenge is that when these institutions become regulated, they have to fulfil reporting requirements by the Central Bank and they have to invest a lot in systems to administer this change. The change in the ownership structure is also difficult for many NGOs - regulatory rules on changes must be very clear. Most NGOs, at least in Latin America, are family institutions: it is difficult to bring new private investors into these institutions.

On the other side, the evident profitability of well-functioning NGOs or banks doing Microfinance became an incentive for commercial banks to **downscale** into the market, not only because of the profit, but also because of the size of the market. It is far easier to downscale with small banks. At first, downscaling was limited to credit, but the idea was also to give the target group the opportunity to have other kinds of services. There is an opportunity for other services like micro-insurance, remittances and other services. For the banks, it was also not easy to downscale. One of the big changes that banks must make is a change in their culture. From our experience, it is very difficult to downscale in state-owned banks, it is much easier to use **green fielding** (to bring money and to create a new Microfinance bank from scratch) than to do downscaling. This has been done in many countries and now these banks are profitable and working well.

Building an inclusive Microfinance sector

by Evelyn Stark, Microfinance Specialist, CGAP

I would like to look at building an inclusive Microfinance sector. Picture four circles, one inside another, at the centre is the client. The next circle up is retail providers. The outside circle is the macro-level. This allows everything else to work. Donor input is extremely important in supporting micro retailers - **supporting bad microfinance retailers is disastrous for the industry**.



Supporting an NGO with only 85% repayment is undesirable - if all the loan capital is lost, basic costs would not be covered. If I was a donor, I would not fund that project. I would only look for projects doing 95% repayment and more. The third circle is the meso-level - this is about consultants and market research. I do not believe in targeting – **instead of targeting people** I would **rather target the market**. There is such a great benefit to being in both the Middle East and Africa. Look at Uganda and Kenya. There are new laws and well-functioning Microfinance programs. Let's look all around countries to find solutions.

There are regional and **international networks, which seek to set result indicators and goals**. You should not wait for the Central Bank to tell you what your goals are: your networks can do this. Pakistan's network is an excellent network. You cannot stop reporting once you have started. Getting open and transparent operations from the very beginning is essential to building a network. The other essential thing is competition. You need to compete to keep the client: is the client getting the best service? The four circles is a nice way to look at Microfinance.

Subsidised versus self-sustaining Microfinance

by Dirk Hansohm, Senior Economic Advisor, UNDP

There is no contradiction to self-sustaining Microfinance. My first observation is that I am very impressed by the initiative that the Central Bank has taken, but at the same time we must be aware that we do not start at point zero. The problem is not to start things, but why did the initiatives that we had from banks, from NGOs, from CBOS not scale up? What are the inherent constraints? To describe the situation, we have a high demand and a low supply. However, we did not hear enough from the practitioner side: what are the reasons for this?

There is also the problem of changing attitudes and trust-building.

In terms of subsidies versus self-sustaining, everything has been said already. I would just like to reiterate where the argument for subsidies comes from. It comes from the fact that the cost of credit to Microfinance is more expensive than other finance, because of high administration cost. It is not because of higher risk. What we should take home is not to give support to subsidies, but support institutional capacity-building for the Central Bank, to establish a database of the knowledge that we have now. We should give support to a proper evaluation process. As an economist, I would think it would be better to address these systemic constraints of the process. Subsidies will only help create new distortions in the economic system.

One limit of credit markets are the high business costs, as seen in Sudan. On the positive side, the process of reform is going on, led by the Minister of Finance. It would be good for Ishraq Dirar, Director of the Microfinance Unit, CBOS, to engage in the **reform of regulations on the private sector**. Priority areas that have been identified are: **Customs, taxes, land administration, infrastructure, public utilities, licensing, and immigration and visa constraints**.

Consumer protection legislation was already mentioned. Also, **consumer education, financial literacy, transparency and competition** are important issues. There is not enough competition in many markets in Sudan.

Conditions for Economic Growth in South Sudan

by Augustin Kenyi, Deputy Director of Trade, Ministry of Commerce, Trade & Supply, South Sudan

The government of South Sudan encourages cross-border trade with all neighbouring countries. In South Sudan, there are only a few Microfinance institutions located in Juba, banks are also trying to open some branches in the tenth state. By encouraging the private sector, the ministry of commerce, trade and supplies sets a very good institutional framework that allows foreigners to invest in South Sudan - the government is aware that encouraging the private sector will bring economic growth and development.

Around 45,000 businesses exist in South Sudan. The government and the private sector are trying to develop a greater framework by dividing the business community into sectors - a sector for building materials, and a sector for industrial materials. There is a need for capacity building in the area: the infrastructure in South Sudan is still very poor. More than 80% of the population in South Sudan lives on agriculture, which needs to be developed. In general, the area needs capacity building, increase in the number of financial institutions, and increase in the involvement of the private sector, and foreign investors. Over 80% of the population rely on the import of consumer goods from East African countries - if we improve our production, we can definitely improve exports.

Microfinance and the Government

Mekki Abderrahim Alian, Fund Office Manager, Ministry of Finance

When talking about Microfinance, we think of it as one of the very important tools of poverty reduction. Microfinance is better than relief. **If the payback is 50%, it is okay for me**. It does not have to be 85% or 95%. Relief is just free. Microfinance helps to raise production. Here in Sudan, through this First Consultative Forum on Microfinance the issue of Microfinance is being initiated by the Central Bank. The Central Bank is issuing funds of 40 million USD, plus additional 20 million USD for Microfinance. Therefore, from the start, the government is financing the Microfinance system.

Evelyn Stark, CGAP: I think too many people think that Microfinance is charity. **As long as people think that Microfinance is charity, it will never work**. Grant + loan = groan. It is a groan because it does not work. You can be sure that the people not repaying are those people that are pretty well off. In fact, the entire Parliament in Uganda has refused to pay their bank loans back.

Ishraq Dirar, CBOS: It has been like a culture in Sudan that Microfinance is charity. Now we are here to change this culture. **Microfinance has nothing to do with charity**. It is a business people must look at. There have been suggestions that there should be no government intervention. But look at our situation as a special case. The CPA said that Microfinance should be used as a vehicle through which to alleviate poverty. There is a political issue in this, whether we like it or not. We are being pushed to do something. This is why the Central Bank has intervened.

In terms of the creation of **guarantee funds**, one of the main problems of Microfinance is not being able to grow in Sudan. UNICONS commissioned a study on alternative collaterals. The guarantee fund should provide collateral for those that do not have any. Now we are working on developing this. The Central Bank can provide some equity, discussing this with the private sector or commercial banks that can provide the fund.

Abda Yahia El-Mahdi, UNICONS: In terms of the credit guarantee fund, there is a very strong condition that should be put in conjunction with our recommendations. If the government is to have a role, they should provide the money but not provide the service and certainly not interfere. I hope that the government is not going to take our recommendations without also taking our conditions, because without this we will be heading for disaster.

Integration of Workshop Recommendations into the Future Vision for Microfinance in Sudan

Synopsis of day 1 and 2 as well as 3 working groups and plenary discussion of day 3

Facilitation: Abda Yahia El-Mahdi, Managing Director, UNICONS

At the **Macro-level**, Microfinance must be part of the national strategy with all stakeholders buying in. To realise its full potential, the Microfinance strategy must be adopted as a national strategy for the eradication of poverty. It must have a commercial role as well as a development role. It must be considered in a commercial sense in order to be able to expand to people. (Summary)

Key challenges include: a lack of access to capital and human resources, difficulty of attracting qualified staff (especially in rural areas). In order to address these challenges, there is a need to invest in human resources (so that Microfinance can attract the brightest people), focus on capacity building and creating an enabling environment to allow new actors to enter the market – this would lead to an increase in competition therefore, allow for better services. Policies concerning Microfinance should be set with a long term vision so that a sustainable industry can be created, even if it takes longer to agree upon such policies. Microfinance providers need to offer a broader range of products to meet the clients' needs.

On the issue of available funds: Money is allocated with $25 million dedicated for commercial banks and $ USD 10 million to the Sudanese Microfinance Development Facility (NGOs benefit from its financial and technical support). Part of the money goes to training commercial banks and their technical support, part of the money is paid to the family bank that has just been established. From 2008 on, as we hear from the Ministry of Finance, another amount will be allocated. Let us develop a distribution of money based on performance and results.

A. Role of the Government:

The government should **avoid being a stakeholder or investor or service provider** in the industry itself to prevent conflict of interests, but should allow other players to come into the field. It should create a supplementary environment without interfering with service providers, it should **mobilise resources** and distribute them **equitably** and in a **transparent** manner. If politics enter the industry, the market could be distorted completely. The government and the Central Bank should rather focus on **regulation, supervision and strategy** (1. WG1 & 3. WG2).

The government should focus on creating an **enabling macro-economic environment**, incorporating the financial system (namely investment policies). (2. WG1)

The government should **encourage banks** to support Microfinance activities, especially regarding SMEs and women. (5. WG1)

Both the government and donors are encouraged to channel financial resources through the **Apex institution** that establishes transparent criteria for all service providers. (4. WG1 & 4. WG3)

What are the exact roles of the Microfinance Unit in the Central Bank and the Sudan Microfinance Development Facility? (Summary)

B. Regulatory Framework:

The regulatory & legal framework should be **conducive, flexible, minimal, inclusive and transparent**. The Microfinance industry is so young. If we are talking about regulation, we are jumping the gun. It would be best to first of all enable a legal framework, and all other conditions to operate in the market through a consultative procedure with stakeholders. If something comes up, and it is just the Central Bank or the government who is drafting new legislation without consultation, players on the ground may find that the regulations are not applicable in the real world. The principle should be simplicity. We should not use lawyers' language to describe the environment. Consumers should be protected. We are not just looking at MFIs, but should also take into account users. This is very important. If we are going to put conditions in place where a new player coming in cannot implement them, new players will not be able to come in. The industry should grow first. Then we can start collecting savings. And then we talk about introducing a conducive regulatory framework. The regulatory framework should be flexible enough to allow non-banks to provide lending. The relationship between banks and grassroots organisations should be encouraged. (WG2 & WG3 & Summary)

If Microfinance is to expand, **NGOs** must be allowed to operate more, which will need a **reform of the co-operative law.** The legal framework should accommodate the expansion of Microfinance services, specifically by NGOs through the **Law for Voluntary Organisations**. There is also a need for **Small and Micro Enterprise Laws** for informal organisations or institutions or actors. (Plenary)

More resources, including **government resources, should be provided to NGOs**. Resources allocated for the sector must be **based on well-established criteria**. (Summary)

A set of **policies** that encourage **priority targeting and outreach**, especially in **disadvantaged areas**, a **conflict-sensitive approach** and the need for good **infrastructure** and **incentive systems**. (2. WG3)

The recognition of **flexible collateral and guarantee funds:** Flexible, alternative and substitute collateral based on credit history or by viability of the project being financed needs to be adopted. The Central Bank just completed a study on collateral and guarantees. In terms of credit policy the Central Bank should allow banks to have more flexible collateral in the lending department. Concerning guarantee funds the government can provide capital for the fund, but should not be directly involved in providing the guarantee. International credit guarantee organisations should be encouraged into the sector. In Southern Sudan, tribal leaders could issue guarantees as a kind of flexible collateral. (Summary & Plenary)

Independent **self-regulation of MFIs** should be encouraged. (Summary)

C. Private Sector Incentives:

The private sector needs to be encouraged to enter into this sector. What are the conditions for this? (Summary)

The telecoms sector should have active involvement and should benefit from success stories in **mobile banking**. (Summary)

Incentives for banks to downscale: Encouraging commercial banks to expand their services in the Microfinance sector should be in the form of **incentives rather than directives**. They need to be attracted to the sector. There is a need for them to see **success stories** on the ground. The environment of Microfinance should be made competitive for commercial banks to get involved. We discussed about the 12% investment in Microfinance by commercial banks. To make them really downscale, you have to put some incentives in place. In the event of a bank failing to invest 12%, then the chance should be given to those actively investing in the market to implement Microfinance services. (4. WG2)

D. Rural outreach:

There is a need for a **proactive policy to expand outreach** to the least developed areas. Licensing of new MFIs, including but not limited to banks, should encourage geographical coverage of less developed areas. Incentives should be given to all Microfinance providers, also to NGOs, to move into the least developed rural areas. Incentives: **Grants, tax exemptions, providing resources based on performance criteria, free or subsidised training, guidelines for partnerships** between grassroots organisations as a way of expanding outreach. The role of the Central Bank is to support these partnerships by assisting in setting guidelines. (5. WG2)

E. Service Quality:

In order to expand the sector, banks and non-banks need to adopt **best practice**. Look at international best practice and try to adopt this in a Sudanese context. A **change in the culture** of Microfinance within banks is very much needed. There is a strong indication that Microfinance of commercial banks will need to be restructured in order to adopt best practices. The service should be provided at a cost that reflects market needs as well as operational costs, after adopting best practice to ensure sustainability. (Plenary)

The industry needs to **expand beyond lending** to promote savings as well as micro-insurance and other financial services, such as leasing and agricultural finance. **Market surveys** to define the needs of clients should be a prerequisite. (Summary)

F. Capacity-building at all levels:

The government has a strong role to play at all levels, for all Microfinance providers - banks, NGOs, CBOs - and also for the clientele. The Ministry of Finance and the Central Bank should also understand what the industry is talking about. **Research and development, piloting and marketing** are equally needed, as well as **public awareness** through greater media coverage in TV, radio, and newspapers. There is a need for a capacity-building strategy that clearly articulates the needs and interest groups. (2. WG2)

G. Follow-up action and networking for this forum through sharing knowledge, research and best practices. There could be an **Official Microfinance day in Sudan in November.** (3. WG1& 3. WG3)

Address to the Vice-President of Sudan

Summarizing the recommendations that have been developed

by Ishraq Dirar, Director of the Microfinance Unit, Central Bank of Sudan

Microfinance in Sudan is still in its fledgling stage: only 1% to 3% of potential Microfinance clients are served by the formal financial sector. The Government of National Unity (GoNU) and the Government of Southern Sudan (GoSS) have both endorsed Microfinance as a central component of their poverty reduction strategies as outlined in the Comprehensive Peace Agreement (CPA). As a key player, the Central Bank of Sudan (CBoS) identified Microfinance as a viable financial instrument for enhancing access to financial services for the poor, alleviating poverty, promoting economic development, and empowering women. In 2006, the Central Bank of Sudan took the initiative to formulate a National Vision for comprehensively developing and expanding the Microfinance sector in Sudan. Having formulated the vision, a Microfinance Unit was established within the Central Bank to lead the development of the sector in Sudan in March 2007.

Despite the Central Bank's endeavour to formulate the aforementioned strategy, the need to bring together potential service providers of Microfinance facilities as well as regulatory government decision-makers with international technical Microfinance experts became apparent. Accordingly, a national consultative forum is now being held by the Microfinance Unit with the financial and technical support of UNDP as main sponsor, and World Bank and IFAD as multilateral sponsors and Zain as corporate sponsor.

This forum came together during the last three days to discuss recommendations for the development of the Microfinance industry.

It gathered representatives of many different regions in Sudan – Red Sea State, Kassala, South Kordofan, and Southern Sudan, government representatives of Northern and Southern Sudan, local and international MFIs and NGOs, the Private Sector - Entrepreneurs, Associations, Telecommunications Companies and Banks - UN and World Bank, national and international Microfinance networks, donors, investors and experts.

International experts came from India, Sri Lanka, Ethiopia, Afghanistan, Zimbabwe, USA, Mozambique, Germany, Lebanon, United Arab Emirates, Egypt, Uganda, Great Britain, Saudi Arabia, Senegal, Kenya, and as far as Bangladesh and Bolivia to join this forum and give their international best practice to the national participants.

Senior experts from the most renowned international Microfinance institutions, such as AED, BRAC, Chemonics, CGAP, DED, Frankfurt School of Finance and Management, Grameen - Jameel Pan Arab Microfinance Ltd., IFAD, IPM, Islamic Development Bank, PlaNet Finance, Oxfam America, Planet Rating, UNCDF, UNDP, World Bank, World Council of Credit Unions, Quality Finance International and Stromme Foundation gathered in Khartoum to provide their input.

The purpose of this forum is to develop key strategies for a comprehensive model for Microfinance provision that forms part of the poverty alleviation strategy for the country.

The main recommendations outlined by the forum are:

1. The role of the government in Northern and Southern Sudan should include the creation of a conducive environment while avoiding to be a share holder and direct service provider. The government should mobilize necessary resources and distribute them equitably and transparently.
2. In its regulatory and supervisory role the CBOS should provide flexibility, ease of procedures, transparency, and inclusiveness. Flexible regulations on collateral should be adopted and alternative solutions recognized by CBOS.
3. The government should expand outreach through pro-active policies, by encouraging financial service providers to move to the least developed areas, by giving incentives to all Microfinance Institutions, e.g. tax exemptions, training and encouraging partnerships between banks and international organizations.
4. The government should adopt a capacity building strategy that clearly articulates the needs of the targeted groups at all levels (banks, non-banks and clients) by providing resources for research and development, training and the promotion of financial services through public awareness campaigns, marketing and media coverage in its various forms.
5. In order to expand the sector, Microfinance institutions need to adopt international best practices.
6. The legislative framework should accommodate the expansion of Microfinance services by specialized informal actors through the reformation of the relevant laws.
7. The government should encourage banks to support Microfinance activities, especially for Small and Medium-sized businesses and women.

What was missing during the past uncoordinated Microfinance projects, was that all key stakeholders should work together to create a self-sustaining, vibrant Microfinance industry in Sudan which will make significant poverty reduction and the reaching of the MDGs a reality.

That this is possible is already demonstrated by this event which is joining representatives of the government, civil society and entrepreneurs from all of Sudan.

The already visible first success of bringing together these stakeholders and international experts supporting them was made possible through the combined efforts of the Forum planning group, i.e. UNDP, World Bank and IFAD under the leadership of the Microfinance Unit of the Central Bank of Sudan.

We hope that the links that are being created between these stakeholders during the forum will translate into a long-term national and international dialogue, network and common actions in the future.

Thus, the development of a vibrant Microfinance industry could become an integral part of PRSPs and development strategic plans and policies for the country.

The Vice-President's Address to the Forum Participants

By His Excellency the Vice President of Sudan, Mr Ali Osman Mohamed Taha

[The first part was in Arabic with no translation]

The turning point in changing policies and translating them into action was spoken for and entered into the phase of peace. Now we are concentrating on developing the whole effective areas and changing from providing relief to providing sustainable development. I think this initiative of gathering interest with local partners will be a successful one.

We hope that the recommendations you have just heard about, become one of the tools to be used by the state to treat the poorest people in the state and the rural villages. We hope these recommendations will be used to mobilise the sources for the development of this effort. We will give you the attention to implement these recommendations in the areas affected by the war in the South and East Sudan.

We call on the Central Bank of Sudan, and the commercial banks, to provide the tools to make these recommendations a reality. We are looking forward to seeing very soon specific windows in commercial banks that provide such a specialist industry. We are also looking forward to see the family bank operational, particularly in helping and developing the women.

The role of women in the traditional sectors of cultivation and agriculture is quite obvious. What is really needed is to build their capacity and promote women in this sector.

We would like to thank you for your effort and for the recommendations that you have made. I would like to reiterate the role of the government in implementing these recommendations. I assure you that this will be part of the economic plan of the state and part of the budget for the coming year of 2008 and the years after that. I assure you also that the state is a sponsor in this recommendation and would see to it that they are implemented, so that the inclusive and perspective sector will be part of the economic agenda of the country.

Voices of Participants

“Taking the local context into consideration this conference has been a miracle.”

Covered all. Most of the pertinent issues to Microfinance in Sudan. South Sudan should have been discussed more due to its unique vulnerability.”

“Excellent, with huge experience that could be utilized further.”

“This kind of Forum needs to be organized once every year as follow up of the issues discussed.”

"Very good to meet different people from all over the world, high experience, networking, good and useful having the accompanying programs."

"Broader picture of Microfinance in Sudan. Just hope the progress we made is mirrored into the Government of Sudan policy."

"Very useful. I hope the recommendations by the Forum are taken up by the Government and the Central Bank."

"Most of the participants were very appreciative of the arrangements and the diversity of expertise that was brought together at one event. Many thanks for facilitating such a high quality forum!"

Lessons Learned on Organizing the Forum

- If possible, **common premises** for all participants. If this is not possible, at least **common transportation** for all participants between locations, not only for international speakers.
- Do not plan for high-tech video- and audio-systems, even if they seem available. Since they mostly don't work, plan for **low-tech solutions**.
- Plan for a team of at least 4 full-time **staff** during the last preparatory four weeks.
- More participants (providers and government) from **South Sudan** could follow the invitation.
- Coverage of **travel costs for small local providers** should be budgeted (had been possible due to spontaneous support by DED – German Development Service).

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Documentation

The complete documentation and related links including those mentioned below can be found at: http://groups.google.com/group/microfinance-sudan?hl=en

Documents about the Forum on the Web:

- Forum Program
- List of Participants
- Speaker Profiles
- Implementation Matrix
- Microfinance Model Matrix
- Background Paper on Microfinance in Sudan for the Forum, 2007

Other Background Documents on Microfinance in Sudan:

to be found at http://www.mfu-cbos.gov.sd

- Study on Collateral and Guarantees by Unicons for the Central Bank of Sudan, 2007
- Khartoum State Market Demand Survey by Planet Finance for the Central Bank of Sudan, 2007
- Vision for the Development and Expansion of Microfinance in Sudan by Unicons for the Central Bank of Sudan, 2006
- Situational Analysis of the Microfinance Sector in Sudan by Unicons for the Central Bank of Sudan, 2006

International Microfinance Literature Recommended by Speakers:

Building Inclusive Financial Sectors for Development, UNCDF, 2006

Post-Conflict Risks, Analysis of 66 post-conflict experiences by Collier, Hoeffler and Soderbom, 2006, http://www.exlegi.ox.ac.uk/anke%20hoeffler.pdf

Survey on the Microfinance Market in South Sudan 2007

Case Study on the membership structure of Credit Unions in Kenya

Study on Mobile Microfinance Early Adopters in South Africa

"When There Was No Money", Building ACLEDA Bank in Cambodia's Evolving Financial Sector, KfW-Entwicklungsbank, 2006

Microfinance Policy for Sudan by UNDP and UN-Habitat for the Government of Sudan, 2002

Photo-Documentation

You will find photos of the event at http://www.flickr.com/groups/microfinance_sudan

Forum Minutes for Revision published on the 6th of February 2008.

Forum Report published on the 3th of May 2008.