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Microfinance for Rural Mali

There is an old Chinese proverb that says, “Give a man a fish and you feed him for a day. Teach a man to fish and you feed him for a lifetime,” (Moncur). This idea is one that is essential for sustainable development, because for development to be successful and provide for future generations, it needs to be internal rather than fostering dependence on external players - specifically in application to eradicating poverty in rural Africa. Microfinance has been a popular method in supplying sustainable aid, but there are three main types being implemented in Western Africa, but none of them properly addresses women in extreme poverty who do not have the independence or resources to join lending groups. Microfinance directs its aid specifically to women, but in rural Mali, lending groups called tontines end up being more efficient because it is more direct and encourages independence and investment in the economy within the community (Siwicki). However, if the system of microfinance is used in conjunction with the native system of tontines to give more structure to the lending process, women can greatly benefit and have the means to independently provide for their family and make their own income.

Before attacking the issue of poverty, it is important to look at the problem from multiple angles, define it, and see why it exists in rural Africa. The different facets of poverty are related to the following: economic and financial means for production, an adequate and sustainable environment for production, property rights, equal political and social rights, and finally, access to services such as health, education, and clean water (Innovations). These are the issues that women in rural Mali face on a daily basis – they do not have equal rights to men politically or socially, do not have the right to own land or take out a bank loan on their own, and lack access to basic services largely due to the remoteness of the area, but also because of financial strain (Innovations). As far as the environment goes, production is not sustainable, because the climate is dry and resources are scarce. This makes malnutrition common, and specifically in Mali the protein deficiency Kwashiorkor is a widespread disease effecting young children (PubMed). Providing a proper diet for her family is already a difficult task – let alone the ability to produce excess produce for potential sale. All angles of poverty play a role to women's position Malian society, and while dealing with all the adversities, women are expected to maintain the household and sustain the family unit by providing food and services for her husband and children. It is clear that these issues need to be addressed in order for sustainable development to take place – and it needs to happen by giving women, the central unit to the family and the village, financial independence.

One method that has been successful, specifically in Southeast Asia is through a classic model microfinance developed by Muhammad Yunus in 1976 (Brandt). However, Southeast Asia has a higher population density, uniform and stable finance systems, and more savings than Africa. Southeast Asia had 23%-25% savings and was able to successfully implement microfinance into their existing system while Africa has 8% savings and has been constantly remaking their financial and political systems (Shereif). Also, implementing microfinance systems in rural Africa is difficult, and with the absence voluntary encouragement from a donor, remote and deprived regions in Africa may continue to be shunned by the majority of microfinance operators. The costs and risks of going to the rural regions are high, because it lacks basic infrastructure, there is a small population, and the people who take out the loans operate in an informal market that lacks stability (Shereif). While sub-Saharan Africa is most affected by these ailments, this does not mean that microfinance cannot be successful there - it just needs to be redefined in order to work culturally and sustainably within the specific and unique structure of the region.

Currently, there are three major types of lending systems in West Africa; the first type being credit unions or “Systèmes Mutualistes”. These systems have been set-up since the 1960’s by European and North American influence but usually require membership conditions and an obligation for people to save prior to accessing credit (Shereif). This is ineffective because the pre-condition of savings to access credit excludes low-income clients, and because a membership is required, credit unions only tend to be useful to well off clients who live in urban areas. Loans are also difficult to get for people who are working within the non-formal sector, which are predominantly women. These systems are still working out issues with institutionalization, and once these governance issues are worked though, credit unions do have the potential to become a long-term sustainable option in the future for urban areas (Shereif). Overall, this system is not directed at rural areas, women who struggle to obtain credit, or people in extreme poverty, and is therefore not a viable option for the target population of villages in rural Mali.

The second type of lending system is a solidarity-group system, (based on the Grameen Bank model based in Bangladesh) which provides small, non-targeted credit with repayments through weekly installments during meetings with the group members (Shereif). While this system is targeted at women in rural communities, (98% of the company's clients are women) Africa lacks an infrastructure to support this system which is designed to capitalize on the vast network of rural and uniform rural banking systems in Southeast Asia (Brandt). This lack of infrastructure is also what makes corruption possible. While there is an overwhelming success on return rate for borrowers from the Grameen Bank model, (which is between 97%- 98%) it lacks to give incentives for investment like community based lending systems foster (Shereif). Solidarity groups set-up programs that do not anticipate the eventual graduation of the borrower group from the lending institution. Participants are considered long-term "clients" of the program (Brandt). Hence, women tend to take out loans, handle their household expenditures, and repeatedly take out loans without saving for capital investment. Solidarity group based microlending has also been criticized as being unresponsive to unexpected disaster – if a child gets sick or a natural disaster affects an area, it can be difficult for the women to pay off loans on their own and may need to drop out of the program (Brandt).

The third type lending institution Western Africa is the "village bank" system. This system combines characteristics of the credit union and solidarity group and is based on social cohesion and solidarity specifically at the village level (Shereif). While this model seems more similar to the solidarity group approach, it is important to keep in mind that the village lending system has a different future relationship between the lending body and the borrower group. Village banking approaches have the primary goal of eventual independence of the borrower group from the lending body. The group providing the loan encourages the development of the internal financial management capacity of the group, so that village group can one day be its own mini bank (Brandt). The structure is constructed and managed by villagers themselves, where a second party offers initial external support (usually an NGO) and the project is financed through a credit facility, which is negotiated with a local bank (Brandt). While these systems have been the most successful in reaching the poorest and most remote areas in Africa, the program can lack management leadership and can fall prone to corruption because the system is based on group peer pressure to make payments (Shereif). And with the system being set-up informally by the villagers, there is sometimes trouble keeping the system of rules in application and lacks potential for growth. The main criticism of the village bank model is that village banks may not be able to meet a development goal because credit demand tends to grow faster than the village banks' ability to mobilize savings (Brandt).

Agriculture and rural activities are important for African development, and it is evident that the proper type of microlending system is implemented into villages (Innovations). Currently in regions where it is challenging to get microfinance institutions (MFI's) to extend loans, village women take saving and lending into their own hands. Tontines, or revolving savings and credit associations in English (ROSCAS), are informal lending groups women form in villages (Innovations). These systems are very local and has a structure where one person goes home each meeting with all of the money donated into the tontine that day. The system is rotating so everyone goes home with the lottery of donations at some point, and the group can be flexible to disaster or social changes (Siwicki). That being said, tontines lack formal structure, can be prone to misuse, and often lack management leadership (Innovations). Also, tontines can be exclusive. It includes certain members in the community who can participate and women who are not able to be a member of the tontine are not eligible to benefit from the loaning system (Siwicki). However, the system is direct, fosters independence, and all the donations goes back into the community.

If MFI's that want to target rural Mali were to adopt a model that adopts some of the cultural ideals of tontines with a village lending system, sustainable development can be achieved (Siwicki). This approach would be more holistic and sustainable because it can extend to include all members of the community. Because the fact of the matter is, even when MFI's do target these rural areas, they are looking to give loans to women who are already members of a tontine and already have a level of financial independence (Siwicki). Using the structure of the village bank microfinance system along with the cultural norm of tontines, independence, investment, and savings can be extended to all women in a community. By making a village bank system where the tontine is in charge of being the internal source needed to extend loans in the community, the system will have the benefits of a tontine without exclusion or poor infrastructure. This would be an effective and efficient microfinance model for rural Mali because it would aim to help women in rural communities who are not already members of tontines – women who need to be given the independence of having their own income (Siwicki). It would also benefit the women in the tontines because it furthers their opportunities to accumulate savings and investment in their community.

While there are many models of microfinance which are all beneficial in their own ways - a hybrid-model of the village lending system and the current social norm of tontines would help women specifically in rural Mali in a sustainable and holistic manor. The village lending system has structure and targets rural women, while the tontine system is the cultural norm and is a direct and immediate financial system that gives back directly to the community. If the two were combined, it would create a holistic and targeted approach that would benefit everyone in the rural community while encouraging saving and more importantly – empower women financially so they can bring themselves, their families, and their community out of poverty.

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