POVERTY AND MICROFINANCE : TOWARDS A CONTROVERSIAL APPROACH IN THE CASE OF MADAGASCAR

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ABSTRACT

The main point here is to understand how microfinance institution evolved. Did they abandoned the most disadvantaged people to reach their goal ? As the article goes on, shows that the most sustainable institutions practice individual loans (loans mainly for the less poor). Other than that, the article gives an overview of theories on microfinance : the basics of microfinance, the regional (or African) theories of microfinance and the visionary theories developed by microfinance (individual loans, collective loans and savings service). Those theories shows how microfinance institution evolved strategically speaking. As for the case of Madagascar, the evolution begins in the early 1990s even if mutualist microfinance existed long before. And nowadays, the evolution of MFIs in the country is still on the go with the mobile banking system.

Keywords : *microfinance institution, loans, borrower, credit, savings, Madagascar*

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1. INTRODUCTION

It is important to note that, in general, microfinance is often considered as a financial institution specifically dedicated to disadvantaged people, enabling them to access traditional financial services. It has been regarded as one of the tools to combat poverty and improve the living standards of its users. Currently, microfinance has evolved over time, particularly in terms of its offerings and services. Numerous services have gradually developed in Madagascar's case. Among these are micro-insurance, financial digitalization, and leasing. These services have emerged among the offerings of microfinance institutions operating in Madagascar. They are striving to adapt to the evolving microfinance market to surpass, among other things, their direct and indirect competitors.

In Madagascar, the services offered by microfinance institutions are standardized at both the local and even national levels. Malagasy people can benefit from the same financial products and services provided by microfinance institutions in all Regions of the island. This is the case in all Districts too, etc. Over the past ten years, several financial institutions have closed due to bankruptcy. However, some microfinance institutions have successfully evolved thanks to new development policies focused on expanding their areas of operations and changing their status to primary banks. In this article, we aim to understand why microfinance has continually evolved. We ask the following question : Has microfinance abandoned the most disadvantaged people, contrary to its founding theories ? To help address this issue, we conducted documentary research and surveys among microfinance service beneficiaries. This method is essential for better understanding how microfinance operates culturally and adapts to the users of its services. The results of our research are divided into three main parts. In the first part, we will attempt to present reflections on the theory of microfinance. In the second part, we will try to present the development of microfinance worldwide before focusing on the case of Madagascar for the third part.

2. THEORIES ON MICROFINANCE

Theories on microfinance remain vast. It is helpful to attempt to classify them without delay. In principle, through our research, we concluded that the foundational principles of microfinance are based on assisting disadvantaged people, aiming to improve their living standards. The key elements of the foundation of microfinance are as follows :

- The poor need a range of financial services, not just loans ;
- Microfinance is a powerful tool to fight poverty ;
- Microfinance is a means of making financial systems accessible to vulnerable people ;
- It is necessary to ensure the financial sustainability of operations to cover a large number of target groups. In short, financial viability involves reducing transaction costs, offering the best products and services that meet the needs of potential clients, and adopting new ways to serve target people who do not have access to banking services ;
- Microfinance involves the establishment of permanent local financial institutions ;
- Capping interest rates harms vulnerable people's access to financial services ;
- Public authorities should facilitate the provision of financial services as much as possible ;
- The lack of institutional and human capacities is the main obstacle to the surge in microfinance ;
- The importance of transparency in financial activities and information services is required to better attract target clients. In reality, the regulatory and supervisory bodies of banks, donors, investors, and especially vulnerable people are the clients of microfinance services. They must have access to this information to properly assess the risks and benefits of their operations.

2.1. Regional Theories on Microfinance

Several forms of savings are identified, both in the national and regional contexts -referring to Africa- among which the most significant are "individual savings" and "tontine savings." First, individual savings often take the form of internal transfers between activities, a phenomenon identified as an important mode of financing in the absence of a credit market. Individual savings can also take a non-monetary form, providing support to relatives and maintaining solidarity among friends and close connections. The use of tontine savings, a form of cooperative credit, is, however, limited by several obstacles, which we will discuss in later sections.

To illustrate this, it is important to note that most family farm managers generally resort to savings, tontines, or local networks -relatives, friends, neighbours- to finance their activities. There is a very low reliance on formal sources of funding for various rational or irrational reasons. Indeed, unlike interest rates, which do not seem to be a major barrier, it is the lack of a discreet, confidential, and secure savings mechanism that appears to influence the demand for credit in all respects.

2.2. The visionary Theory of Microfinance

Let us begin with a significant observation : according to the 2007 report of the « State of the Microcredit Summit Campaign », in 2006, 133 million people took out microloans from 3,316 MFIs. Among the poorest clients, who made up 70% of the total, 85% were women. Microfinance has introduced innovative practices in terms of banking credit, challenging traditional economic theories of credit. These trends, based on the principle of cooperative credit, have proven that it is possible to lend to populations considered too risky by traditional banks as lacking the necessary solvency guarantees. This system operates on a solidarity guarantee.

Explicitly, a group of borrowers -ranging from 3 to 20 people- serves as a collective guarantor of the loan in question. The group as a whole is held responsible for the repayment of loans granted to any of its members. Social relationships, in this context, help bridge the information asymmetry between the lender and the borrower. This principle represents, in fact, the major innovation brought by microfinance to the finance world.

Increasingly, loans from institutions are also provided in the form of individual credit. A loan is granted to a single person linked to an institution, backed by either a material guarantee or the surety of another person, who acts as the guarantor and is held responsible for the loan just as the borrower is. These institutions generally attract wealthier clients. Larger amounts are granted, similar to cooperative loans. Some banks, such as Grameen, practice both individual and cooperative loans. According to Cull et al. (2007), individual loans are, in fact, more profitable because they are granted to the less poor, with larger amounts allowing for economies of scale on costs. However, the current trend is alarming. Financial institutions practicing this method risk shifting their focus towards non-poor clients in search of profits rather than targeting vulnerable populations. Nevertheless, according to the same authors, the most sustainable institutions are still those that practice individual loans.

The village bank or credit union system is one of the methods of providing loans in rural areas. A village bank is considered a savings-credit system managed by its members with the support of an NGO or a microfinance institution (MFI). The group benefits from training and funding provided by the reference institution. This system is, without a doubt, the most expensive and, as such, the most subsidized by public authorities. It is also worth noting that microloans, which carry very high interest rates and are small in amount, are generally used to finance short-term working capital or small investments to start micro-enterprises. The loan-granting techniques, particularly group loans, achieve repayment rates exceeding 90%.

According to Banerjee and Duflo in 2007, these loans have proven successful among the poor : they are, in any case, a form of forced savings. Indeed, the poor need to save, yet they find it difficult to do so for various reasons, including the insecurity of domestic savings and their vulnerability to spending temptations. MFIs are increasingly convinced of this argument, as evidenced by the expansion of their offerings to include savings services.

3. THE EVOLUTION OF MICROFINANCE

Microfinance experienced growth in 2022 compared to statistics from 2021. In terms of portfolio management, microfinance handled a gross loan portfolio market of $182.7 billion (according to the 2023 Impact Finance Barometer, 3rd edition). The total number of borrowers reached 173 million in 2022, with an average increase of 5%. This growth can be summarized as follows :

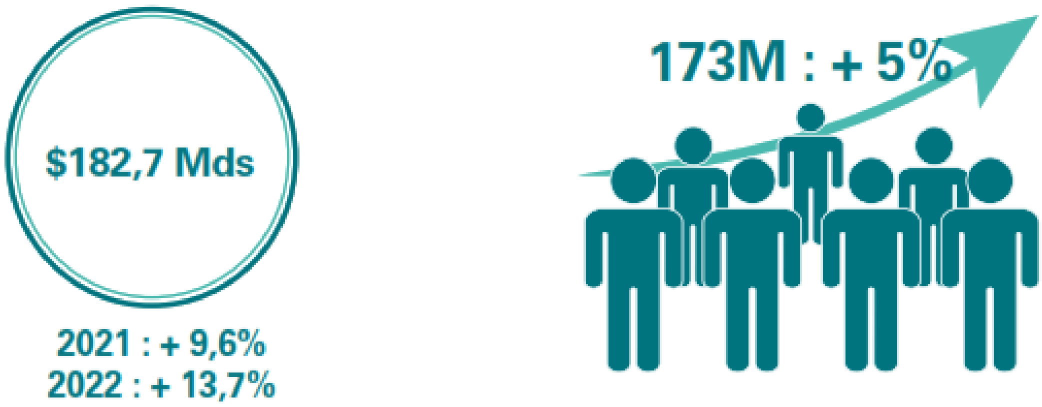

Figure -1 : Growth of gross loan portfolio and the borrowers in 2022 (monde)

A 1.8% increase in the number of female borrowers was observed, representing 56.9% compared to 55.1% in 2021. And it is important to note that solvency levels remained relatively stable in 2022.

Table -1 : The Regional breakdown of loan portfolio data and the number of borrowers is as follows (in %)
(Source : ATLAS DATA)

Region	Share of microfinance market	Share of borrowers
South and Southeast Asia	37,00%	70,60%
Latin America and the Caribbean	33,00%	18,60%
Sub-Saharan Africa	10%	6,40%
Europe and Central Asia	14,50%	2,50%
Middle East and North Africa	5,50%	1,90%

The microfinance market is dominated by South and Southeast Asia. Bangladesh, the second-highest country in terms of borrowers, had 25.6 million borrowers in 2017, compared to 25.2 million in 2016. India leads with 50.9 million borrowers. Muhammad Yunus left a significant mark on the history of microfinance, demonstrating its effectiveness in helping the impoverished and combating persistent poverty. In fact, 2005, with India's success in microcredit, was declared the « Year of Microcredit ». Since then, microfinance continues to impress the world. The following table shows the ranking of the top 10 countries by average individual loan size :

Table -2 : Ranking of the top 10 countries by their average individual loan and number of borrowers

Rank (by number of borrowers)	Countries	Number of borrowers	Total loan portfolio	Average loan	Rank (average loan)
1	India	50 900 000,00	17 100 000 000,00	335,95	7
2	Bangladesh	25 600 000,00	7 800 000 000,00	304,69	9
3	Vietnam	7 400 000,00	7 900 000 000,00	1 067,57	4
4	Mexico	6 800 000,00	4 400 000 000,00	647,06	6
5	Philippines	5 800 000,00	1 300 000 000,00	224,14	10
6	Pakistan	5 700 000,00	1 800 000 000,00	315,79	8
7	Peru	5 100 000,00	12 600 000 000,00	2 470,59	2
8	Brazil	3 500 000,00	2 600 000 000,00	742,86	5
9	Colombia	2 800 000,00	6 300 000 000,00	2 250,00	3
10	Cambodia	2 400 000,00	8 100 000 000,00	3 375,00	1

(Source : 2018 Microfinance Barometer – Personal Interpretation)

- Cambodia ranks first with an average loan size of $3,375 per year, though it is ranked 10th in terms of the number of borrowers.
- Peru ranks second with an average annual loan of $2,470.59 per borrower.
- Notably, the two countries leading in terms of borrower numbers, India and Bangladesh, are ranked 7th and 9th, respectively, in terms of average loan size.

Recently, microfinance institutions have also been utilizing mobile money to transfer loans directly to beneficiaries, who can repay using the same service. The figure below shows the proportion of MFIs using mobile money services.

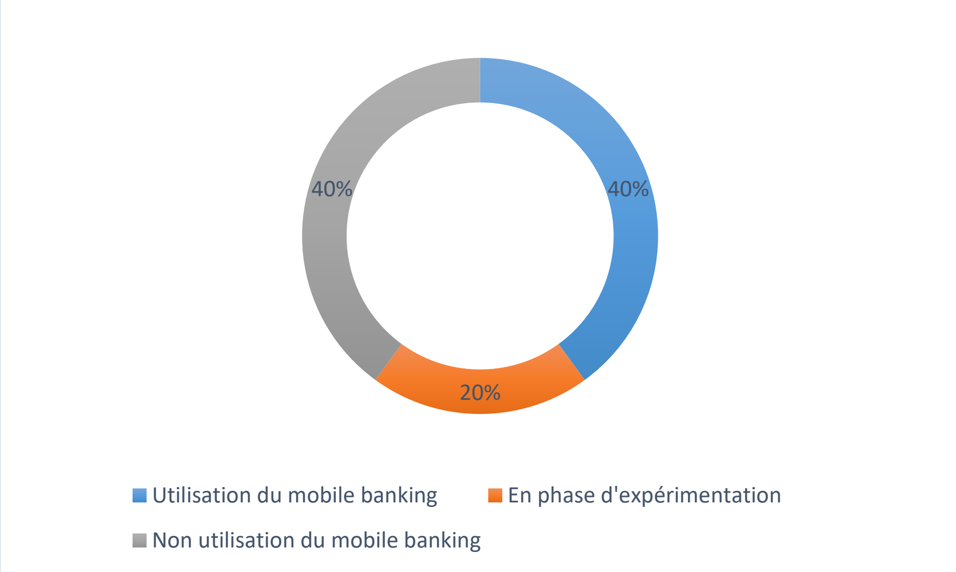

Chart -1 : Use of Mobile Money by MFIs Worldwide

(Source : 2018 Microfinance Barometer – Personal Presentation)

Based on this figure, the adoption of mobile money is still relatively low. Only 40% of MFIs use it, while 20% are experimenting with it. The remaining 40% have not yet introduced mobile money into their systems. This service is in demand by rural populations to reduce credit costs, as administrative fees and travel expenses are additional costs paid by the borrower.

The development of financial inclusion in the case of Madagascar is summed up as follow, from 2011 to 2018

Table -3 : Financial inclusion in Madagascar (in %)

Elements to be considered	2011	2014	2018
Adults with financial account (15+)	5,5	8,6	17,9
Adults with an account at a financial institution (15+)	5,5	5,7	9,6
Adults with a mobile money account (15+)		4,4	12,1
Women with a financial account (15+)			16,3
Adults in rural areas with a financial account (15+)			13,7
Use of digital payments			15

(Source : Personal Summary)

From 2011 to 2018, financial inclusion in Madagascar significantly increased, with financial account ownership rising from 5.6% to 17.9%, and mobile money accounts from 4.4% to 12.1%. This broad trend demonstrates the positive impact of financial education, particularly among women, who have increasingly turned to microfinance. Furthermore, the use of digital payments, though a relatively new concept, is becoming more widespread, reflecting global trends.

4. EVOLUTION OF MICROFINANCE IN MADAGASCAR

Microfinance began to spread in Madagascar in the early 1990s. However, some mutualist microfinance institutions (MFIs) were established even before that. Their primary goal was to meet the needs of their members, typically groups of around 10 people, with membership based on trust among founders and capital providers. The members knew each other personally, so the scope of operations was narrow. Today, the network has expanded across the country, 20 years later, and non-mutualist MFIs have been established, which no longer require membership. Microfinance resurfaced in Madagascar due to failures in the banking system. It offered financial services in rural areas where impoverished people lived. The creation of microfinance institutions (MFIs) in Madagascar can be traced back over 20 years, and its history can be categorized into four distinct phases.

4.1. Informal Microfinance and Moneylenders (before 1990)

During this period, informal MFIs not recognized by the State and moneylenders offering loans at exorbitant rates existed. These initiatives were primarily based on the perception of exclusion from the financial system. Farmer organizations began forming their own « mutualist microfinance institutions » by contributing their respective capital. In the Vakinankaratra Region, farmer groups came together, supported by NGOs like FERT and AVEAMM. At that time, loans were only offered for agricultural production and equipment, and only members could benefit from mutualist microfinance.

Meanwhile, moneylenders provided credit to impoverished individuals, charging interest rates that often exceeded 100%. For example, before the TIAVO network arrived in Vohipeno in 2008, tangible loans (non-financial), such as rice loans, were common. A borrower could receive 4 kapokas of rice and would be required to repay 10 kapokas after two weeks. Financial loans were also offered, with 50,000 Ar loans requiring repayment of at least 100,000 Ar by the end of the month. It is easy to imagine that access to financing for vulnerable individuals was both scarce and extremely costly.

On the other hand, a national bank, the "BTM," had been offering microfinance services since 1976, but its activities were limited to granting credit to farmers. Its scope was restricted to a small portion of the rural population. Acting as a traditional bank, the BTM was hesitant to take on the additional risks of targeting a broader group in rural areas.

4.2. Emergence of MFIs (1990–1996)

Modern microfinance in Madagascar emerged due to the failures of banks and the exploitation of impoverished people by moneylenders. During this phase, three main actors came together to establish microfinance :

- International donors : such as the World Bank, European Union, and AFD, provided financial support.
- Development and technical operators : such as DID (Développement International Desjardins), FERT (Formation pour l'Epanouissement et le Renouveau de la Terre), and IRAM (Institut de Recherches et d'Applications Méthodes de développement), offered technical assistance and guidance to the newly established MFIs.

The Malagasy government : supported the sector by implementing favourable financial policies with funding assistance from the World Bank. Notable projects include :

- The PATFR/ADMMEC Project until 1997
- The Microfinance Project (PMF) from 1998 to 1999
- AGEPMF : A program for managing the microfinance sector, planned for 15 years, which officially began in June 1999.

During this period, both mutualized and non-mutualized MFIs were created :

- 1993 : Caisse d'Epargne et de Crédit Agricole Mutuel (CECAM) in the Vakinankaratra Region, supported by FERT.
- 1993 : Ombona Tahiry Ifampisamborana Vola (OTIV) in the Toamasina Region, supported by DID.
- 1994 : OTIV in the Lac Alaotra Region, supported by DID.
- 1995 : ADéFi in Antsirabe.
- 1996 : Tahiry Ifamonjena aminn'ny Vola (TIAVO), initially established by WOCCU, and later supported by IRAM starting in 1999.
- The OTIV and CECAM networks became the two largest networks in this category in terms of activity volume and geographical coverage. In the category of non-mutualized microfinance institutions created during this period were :
- 1987 : The Association for the Promotion of Entrepreneurship in Madagascar (APEM/PAIQ), operating through partnerships in Antananarivo and Toliara.
- 1990 : The Société d'Investissement pour la Promotion des Entreprises à Madagascar (SIPEM), based in Antananarivo.
- 1993 : VOLA MAHASOA, supported by CIDR and established in the southern part of the island.
- 1990 : Entreprendre à Madagascar (EAM), which started as a project and became a legally recognized association in 1996.

The Caisse d'Epargne de Madagascar (CEM) is the oldest financial institution providing savings services to low-income populations.

4.3. Phase of Expansion : 1996 to 2016

During this phase, microfinance institutions (MFIs) in Madagascar expanded their coverage by opening new local branches. Some notable examples include :

- CECAM :

The first network expansion occurred in 1996, extending into the Regions of Amoron'i Mania, Vakinankaratra, and Ivon'Imerina in the Central Highlands. In 1998, further expansion led to the network's establishment in the Mid-West (Bongolava and Itasy), the Northwest (Sofia), the West Coast (Menabe), and in Alaotra Mangoro and Analamanga. Recently, a new regional unit was set up in the Atsimo Atsinanana Region, covering two Regions with different cultures : Vatovavy Fitovinany and Atsimo Atsinanana.

- OTIV :

An expansion occurred with the opening of new branches in the peri-urban area of Antananarivo and in the Northeast (SAVA) in 1996, followed by expansion into the urban area of Antananarivo in 2000.

- ADéFI :

This network extended its reach to Antananarivo, Fianarantsoa, Ambositra, Mahajanga, and Toamasina.

- TIAVO :

After a revival of the network with the arrival of a new operator, IRAM, in 1999, TIAVO expanded into the Southeast, including Manakara and Farafangana. Unfortunately, the network went bankrupt in 2014, leaving a negative impression of MFIs operating in the Vatovavy and Atsimo Atsinanana Regions.

4.4. Phase of Financial Inclusion : 2017 to the present

Initially, MFIs in Madagascar had a single goal : fighting financial exclusion. Their primary target was impoverished populations, especially farmers. At the beginning, their services were limited to offering loans for agricultural purposes. Later, they created loans for traders and transporters, such as the LVM loan. Today, small and medium enterprises (SMEs) that are excluded from the banking system can also access credit through MFIs.

By early 2016, financial inclusion became more apparent through the popularization of CAE credit, which allows beneficiaries to manage their portfolios effectively. Additionally, MFIs introduced group loans, which require no material or financial collateral and are based on trust among group members. However, these strategies have not been sufficient to achieve the ultimate goal of financial inclusion.

In 2017, as part of a visit by a CYFI delegation composed of Wessel van Kampen, CYFI's Director General, and Anne Reynaud, Technical Advisor for Africa, Madagascar prepared to launch the SchoolBank pilot project during the 2017–2018 school year. The project aimed to teach basic financial management to primary school students, supporting MFIs through greater awareness of their offerings, and providing vulnerable people with the knowledge needed to manage finances and access credit suited to their needs. It is important to note that microfinance services are available in all Regions of Madagascar today.

5. CONCLUSION

In Madagascar, some MFIs have failed due to poor governance in mutualist institutions, where the shareholders are the contributing members. These members are responsible for the operational costs of the microfinance institution. In this system, members elect a board of directors. However, it should be noted that the elected members are often impoverished individuals without formal academic or professional training in business management, leading to governance issues over time.

Despite this, some MFIs have evolved and now target individuals with moderate incomes, converting into banks to broaden their range of services without abandoning low-income populations. It is also important to highlight that interest rates are calculated based on risks and expenses. Since low-income individuals present higher risks, they face higher interest rates. As a result, MFIs increasingly target middle-income individuals to balance the interest rates applied to poorer clients. Ultimately, the question arises : Do the poor need microfinance, or is it the other way around ?

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