ISSN: 2230-9926

Available online at http://www.journalijdr.com

IJDR

International Journal of
DEVELOPMENT RESEARCH

International Journal of Development Research
Vol. 5, Issue, 04, pp. 4162-4169, April, 2015

*Full Length Research Article*

# MICROFINANCE INSTITUTIONS IN RURAL GAMBIA: CASE STUDY OF THE VILLAGE SAVINGS AND CREDIT ASSOCIATIONS

***Dr. Seeku, A. K. Jaabi and Chandran, V. G. R.**

Department of Development Studies, Faculty of Economics and Administration, University of Malaya

**ARTICLE INFO**

***Article History:***
Received 30th January, 2015
Received in revised form
09th February, 2015
Accepted 18th March, 2015
Published online 29th April, 2015

***Key words:***
VISACAs,
Gambia,
Credit,
Rural economy,
Finance JEL Classification: J016, G2

**ABSTRACT**

Microfinance Institutions was seen as the solution to development problems in earlier days of its inception, however, increasingly recent evidence shows that it is less effective in delivering those solutions if not managed carefully. Providing affordable credit to the rural communities has long been a prime component of development strategy in developing countries. Governments and donors have sponsored and supported supply-led rural finance institutions to mitigate urban-biased macroeconomic policies. However due to the perceived high risks and heavy transaction costs, commercial banks remain relatively absent in rural financing. Microfinance emerged promising to reduce poverty by providing financial services, thus expanding rural economic opportunities and reducing their vulnerabilities (UNCDF 1999:13). The performances of these institutions have varied across countries based on their capabilities to raise adequate equity, mobilise rural savings and the technical skills to efficiently manage resources. In this paper, by using a case study of VISACAs, a saving and credit organization promoted, owned, managed and controlled by rural communities, we provide evidence why some microfinance institutions if policies are not right can be problematic to address development problems. By assessing the performance of VISACAs, we find that the institutions have supported rural economic activities by providing formal financing to remotest areas of the country over the years. However, the findings show that VISACAs with weak capitalisation, inability to attract high skilled personnel, low outreach and weak linkages have limited their sustainability concerns, thus constrain their role in supporting rural economic activities.

*Copyright © 2015 Dr. Seeku, A. K. Jaabi and Chandran, V. G. R. This is an open access article distributed under the Creative Commons Attribution License, which permits unrestricted use, distribution, and reproduction in any medium, provided the original work is properly cited.*

## INTRODUCTION

Many previous studies (Hulme and Mosley, 1996, 1996; CGAP, 2006; Mosley 2010; Pitt and Khandker, 2010; Copestake *et al*., 2010; Skoufias *et al*., 2013) focused on the demand-side – clients' access to finance and other impact works, however, less on the institutional sustainability of the microfinance institution (MFI) itself. This paper focuses on the supply-side of VISACAs in The Gambia by assessing their institutional sustainability in solving development problems. In most developing countries, credit facilities from the formal financial institutions such as commercial banks tend to discriminate against small enterprises, low-income earners, farmers and rural economy in favour of large corporations. Several studies have highlighted the importance of micro, small and medium enterprises (Berries, 1993a; King, 1996a, King and McGrath, 1999; Robinson 200; Bigsten, 2003) in terms of their contribution to employment, household income, share of Gross Domestic Product (GDP), poverty alleviation and tax revenue for central and local governments, among others. In this regard, MFIs have emerged to fill the crucial gap in banking this market niche in solving development problems. However, for MFIs to play this vital role, they must be institutionally and financially sustainable. The lack of access to formal credit facilities by small enterprises have beenwell documented (see Djankov, 2007; Becks *et al*., 2002, Stiglitz and Weiss, 1981; Bigsten, 2003; Mead, 1994; Berger and Udell, 1998, 2006) constraining enterprise growth and development. Therefore, the gap exists for financial institutions to provide these essential services to vast micro and small enterprises and other rural economic activities. Non-Governmental Organisations (NGOs) and other informal financial sources, such as family, friends and money lenders have also emerged to fill the gap by trying to address the difficulties in financial access. However, several studies including Ledgerwood, (2000); Robinson,

***Corresponding author: Dr. Seeku, A. K. Jaabi**
*Department of Development Studies, Faculty of Economics and Administration, University of Malaya*

(2001); Rhyne and White, (2003); Hulme and Mosley (1996, 1998); Bateman and Chang (2012) and a recent study by Ghosh (2013) highlighted serious limitations of NGOsin addressing financial access for long-term sustainability due to high donor dependence, limited funding sources, weak management information systems and other corporate governance issues. The informal sources are also not significant enough to meet enterprises expansion and growth potentials. With these limitations, governments in most developing economies have in the past assumed a direct responsibility to extend financial credit to key sectors of the economy. They have therefore been in the forefront of promoting carefully crafted financial access in terms of direct allocation of funds to micro, small and medium-sized enterprises (MSMEs) and the agricultural sector under various institutional arrangements (Jaabi, 2004). Government interventions are usually explained by the perceived imperfections in financial markets, which limit the provision of financial credit to key sectors of the economy. Consequently, efforts to provide a level playing field through policies and programmes to ensure adequate transfer of funds to the small farmers who are the pivot of agricultural production in developing countries became imperative.

Direct interventions in the financial markets to stimulate growth were executed in The Gambia through a blend of targeted credit programmes, interest rate subsidies and other government projects (Jaabi, 2004). However, despite some recognised achievements, most of these programmes failed to address development problems due to political hijacking, increased overhead costs, high non-performing loans, among others. In response, microfinance institutions (MFIs) seen as a solution to development problems, emerged with innovative approaches such as group lending, collateral substitutes and offering flexible repayment systems to increase farmers, microenterprises and rural SMEs' financial access. With the relative absence of commercial banks in rural areas, rural financial institutions continue to play a vital role in economic development. However, faced with limited coverage, capitalisation, management skills and technologies continues to threaten institutional sustainability and undermine its role in addressing development problems. Many MFIs are also associated with high lending costs, multiple lending and coercive recovery process (Montana 2011; Bateman and Chang 2012; Ghosh 2013) thus affecting their profit margins as most enterprises become insolvent (Kasekende, 2002; Hulme and Mosley 1996, 1998; Tarinyeba, 2009).

The concept of enterprise finance has gained recognition as a tool for raising household incomes, promoting small business growth and reducing poverty and inequalities. They may be formal financial intermediaries, semi-formal or informal institutions. Their level of formality depends on the sophistication of their organisational structure and governance, as well as, the degree of oversight by regulatory authorities. The highly informal financial service providers, very small and simple organisations, such as, Ususus[1] are not supervised by the government entity. At the informal end of the spectrum, there are moneylenders, Rotating Savings and Credit Associations (ROSCAs) or Ususus in West Africa, Tontines in Central and Eastern Africa, Merry-Go-Round in Mexico and other parts of Latin America, community savings clubs, deposit collectors, credit unions, and agricultural input providers, traders, and processors. Microfinance Institutions (MFIs), private and public banks are the most formal financial organisations. The middle ground is inhabited by member-owned institutions such as the cooperatives and non-governmental organisations (NGOs) which have operated for centuries in the developing world with varying degrees of success in enterprise financing. Much work has focus on impact studies of microfinance programmes, this study focuses on the institutional sustainability VISACAs in The Gambia. The prior Section introduces the study followed by importance of microfinance in Section 2. Section 3 deals with development of microfinance as a development tool followed by literature review, framework analysis and methodology in Section 5 and findings captured in Section 6. The study ends with discussions and conclusions.

## Importance of Microfinance

Microfinance has been championed as an important development tool with innovative methods of combating poverty, smoothening consumption and providing vital financial services to the entrepreneurial poor by expanding their economic opportunities and reducing vulnerabilities (UNCDF 1999:13). The potential of microfinance is not limited to the provision of financial services but has demonstrated its ability in successfully addressing issues of gender equality, more equitable income distribution and promotion of participatory approaches. As a development tool, microfinance focuses on bottom-up, women, the majority under-served, job creation and ultimately alleviate poverty (Morduch 1999:1570).

The importance of microfinance cannot be over-emphasised in closing an important gap so that micro and small enterprises, farmers and those having difficulties in accessing formal finance can access financial products and services (including not only credit but also most importantly savings, insurance and remittances) to improve their lives and other dynamic livelihood needs. It also provides effective linkages between informal and formal sectors for inclusive economic growth and development. As enterprises grow due to access to MFIs' financial products, they become more visible, formal, accumulate assets and build the required track record and reputation to access formal banking financial products and services. It is clear that the MF industry mission developed from the inability of the conventional commercial banks meeting the financing needs of micro and small enterprises. Since the 1970s there has been explosive growth in credit-led financing that works to reach hundreds of millions of low-income people and enterprises. Today, multiple agencies and MFIs are engaged in savings mobilisation and credit delivery across developing countries. The savings and credit associations have the same underlying principles and attributes of self-managed, autonomous, highly participatory, community-based, democratic, sustainable and replicable entities across the developing world. Over the years, microfinance development programmes are integrated with other development interventions focusing on health,

[1]Informal savings and credit groups in West Africa similar to rotating Savings and Credit Associations

HIV/AIDS, agriculture, market access, poverty reduction, literacy, women empowerment, business development and other natural resource management. Therefore, microfinance generates synergies in solving development problems such as social protection, food security, health, literacy and business training, income generating activities and special youth programs. With training programmes support, many MFIs are making useful contributions, giving the poor and the unemployed some hope, opportunities and self-esteem. With these achievements at a global stage, microfinance was accorded its international deserved accolade by the United Nations in declaring 2005 as the Year of Microcredit. In 2006, the prestigious Nobel Peace Prize was awarded to Grameen Bank and its founder, Muhammed Yunus for their outstanding role in poverty alleviation and reducing vulnerabilities of the poor. Grameen programmes have since been replicated across developing world to promote financial inclusion of the majority excluded from the banking sector. Yunus (1999:171) argues that ''microcredit is not a miracle cure but when combined with other innovative systems that unleash people's potential, it can serve as an important tool in our collective search for a poverty-free world''.

The phenomenon of group lending put borrowers into small groups[2] where members typically receive sequential loans, has been seen as the fundamental innovation that allows MFIs to service clients without collateral, who would otherwise be excluded not only because of the risk of default but due to the difficulties and high transaction costs involved in sorting reliable borrowers. This is the peer monitoring (Stiglitz 1990) where group members are obligated to another to ensure no member defaults. This reduces moral hazard and adverse selection since borrowers avoid selecting potential defaulters. However, critics such as Bateman and Chan (2012:13); Ghosh (2013: 1205) argued that it does not do much for poverty alleviation, ignores crucial role of scale economies, deindustrialise the economy and engage in subprime-style oversupply of credit. In short, they argued that microfinance is over-advertised, far beyond what the recent evidence support (UNCDF 2002).

However, even the well–organised credit programmes are clearly not a silver bullet to solve development programmes. Measures to ensure formal financial inclusion need to be considered as one element of a broader set of financial strategies for development (Epstein 2005; Chandrasekhar, 2010). However, even the vocal critics admit that microfinance helps smooth consumption patterns during periods of cyclical downturns. If smoothening consumption means more children to school, essential medication and maintain high nutrition for all, then microfinance possess positive long-term impact on productivity. For all its limitations and difficulties, microfinance is still relevant in expanding financial access to those outside the coverage of formal banking sector and in the absence of proactive measures, could be forced to rely on exploitative lending and extra-coercive loan recovery systems of local moneylenders and pawnbrokers (Chowdhury, 2010; Taylor, 2011) or continue living in deprivation and vulnerabilities to severe socio-economic shocks.

[2]Pioneered by Grameen Bank in the early 1980s

**Development of MFIs in Solving Development Problems**

With the virtual absence of formal banking sector in financing the majority unserved and under-served in most developing countries, governments have decentralised the financial system to include MFIs to target this niche market in various savings and credit delivery systems. The pioneers of microfinance including Grameen Bank, Bank Rakyat Indonesia and Bancosol in Bolivia delivery systems are now replicated across the developing world serving hundreds of millions of micro, small and medium enterprises. Developing innovative technologies, microfinance has been able to reach vast number of poor people, farmers, MSMEs and those having difficulties in accessing formal finance. Adopting group lending through peer monitoring, repetitive increase lending, collateral substitutes, flexible repayments and financial education, MFIs have over the years provided financial support to hundreds of millions people in the developing world. Many developing countries, The Gambia without exception, decentralised the financial systems to include village-based financial institution as part of the overall financial sector reforms in the late 1980s to provide formal financial services to support rural economic activities. The capacity building support in the form of human resource training, access to revolving funds and other institutional building helped MFIs to consolidate on their roles in rural financial provision. Further access to technologies, mobile banking and product developments will indeed add value and expand the frontier of financial access in the remote areas while promoting viability and continuity.

**Background of VISACAs**

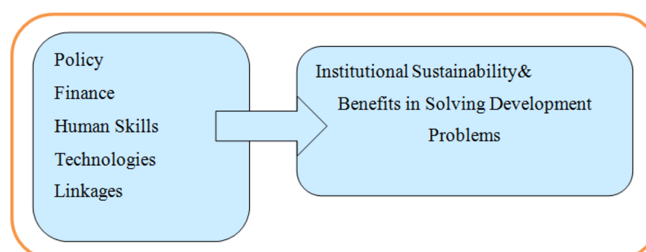
The Gambia experienced a long history of Government sponsored institutional credits that have proved to be poorly managed. Credit programmes were characterized by gross administrative lapses and high overhead costs. The Government also prioritised various agricultural and rural development programmes aimed at increasing agricultural output and productivity and at the same time reduce poverty and increasing rural employment. By the late 1980s to early 1990s, most of these programmes which included the "Jahally Pacharr Small Holder Project, the Agricultural Development Bank, The Gambia Commercial and Development Bank and the Rural Development Project had over the years supported key sectors of the economy. However, despite some recognisable achievements, many failed to address the main objectives of rural economic development due to high operational costs, non-performing loans and poor credit risk management. The failure of the government supply-led approach brought about policy reform initiatives with emphasis placed on alternative options capable of providing financial services to a greater number of the rural population and a wider sectoral segment in a manner that is sustainable, accessible, viable and affordable. Consequently, the new policy direction, which emerged, placed emphasis on the need for diversifying the intermediation base to the extent of covering grassroots community-owned institutions. It also placed equal emphasis on resource mobilisation and a shift from supply-led to a demand-driven approach. The Central Bank of The Gambia plays a key pivotal role in this development effort. This led to the creation of the Agricultural Credit Unit (ACU) in 1989, upgraded to a full-fledged

Microfinance Department in 2001. The revised FIA 1992 has addressed this requirement as the first step towards the institutionalisation of the village-based financial institutions. The legislation has permitted operations of village-level microfinancial intermediaries, while the supporting regulations ensure that the financial intermediaries are conducted with prudence. In this regard, the regulatory framework contains prudential rules and guidelines on the functional, operational, monitoring and supervision components of the various intermediation processes. After the financial sector reforms of the late 1980s, the sector was decentralised to include non-bank financial institutions (NBFIs) to institutionalise low-tiered financial organisations. CIDR supported the establishment of village Savings and Credit Associations (VISACAs) in the Central River Region South to support the economy activities offered by the Jahally Pacharr Smallholder Rice Project. The successive IFAD and AfDB helped to replicate VISACAs across the country. In 1990, the Gambia government mandated the Central Bank of The Gambia (CBG) to streamline NBFIs operations and by 1992, the CBG in collaboration with key stakeholders provided the operational policy rules and guidelines to develop, regulate and supervise these institutions. After two decades in operation, the myth that the rural poor cannot save more so to manage their own financial institution has been shattered.

VISACAs 'mobilise local savings to expand their funding base and operate revolving loans to rural entrepreneurs, farmers and groups. The community (village hosting the VISACAs and other neighbouring villages) own, control and run the VISACA, having guaranteed autonomy in decision-making and moral authority to administer loan appraisal, granting and recovery. The management committee (MCs) is selected by the community at annual general meetings responsible for the day-to-day administration of the VISACA including appraising, granting and recovering loans. The MCs appoints VISACA managers and cashiers. The membership fees form the seed capital which is inadequate to finance operations and absorb losses. The annual IFAD sponsored Rural Finance Project (RFP) wholesale funds annually to supplement savings mobilised to finance rural farming activities, enterprises financing and other rural economic projects. The expiry of RFP at end December 2013 calls for alternative financing if the VISACAs are to fulfill their crucial role in the rural financial market. The token membership fee entitles one as part owner of the VISACA. The community ownership is also a disincentive as governance becomes with no identified ownership. The quality of MCs and cashiers are often weak as the VISACA lacks the capacity to attract high skill personnel due to poor remuneration as services are often voluntary. This undoubtedly affects staff morale, commitment and to a large extent seriously undermines VISACA performance and growth.

### Framework Analysis and Methodology

Supply-side constraints are factors that limit the institutions' economic performance. Efforts to address weaknesses in public sector policies, governance, physical and financial infrastructural development, human resource skills and technologies will effectively stimulate institutional capabilities, thus enhance their economic performance, growth and institutional sustainability. Rural financial institutions like the VISACAs face severe supply-side constraints (see Figure 1) ranging from public policy support, skill human resource to manage credit risk, adequate savings mobilisation and equity finances, limited financial products, technologies and linkages with commercial banks to operate sustainability (Yaron, 1992, Hulme and Mosley, 1996, 1998; UNCTAD, 2006:1; Rogers and Pontius 2009:230).In addition, inefficiencies at firm level coupled with weak business environment (Gelb *et al*, 2007), weak creditor right protection and costly doing business indicators have to a greater extent compounded the problem and undermine institutional sustainable to solve development problems in the rural economy (see Marco, 2004; Rogers and Pontius, 2009). Accordingly, the ability of developing economies to address supply-side constraints will be crucial for economic agents such as the VISACAs to support rural economic development (Rasiah, 2007; Lall 1992, 2005).




Source: Adapted from Jaabi (2014:178)

**Figure 1. Supply-Side Constrain Analysis**

## MATERIALS AND METHODS

The study adopted both qualitative and quantitative methodologies. The study used structured questionnaire and personal interviews of VISACA managers. The secondary data was sourced from VISACAs, Central Bank of The Gambia, Rural Finance Project.

### Sample Size

There are 51 VISACAs in active operation in The Gambia. The sample is stratified with 12 selected, four from high, average and weak performing VISACAs, The 12 VISACAs are across the country in all the administrative regions and four NGO facilitating networks. We assess VISACAs' sustainability concerns based on Operational self-sufficiency (OSS), profitability, portfolio at risk (PAR), return on earnings (ROA), prudential capital adequacy and policy perspectives. OSS is calculated as total income/total expenses to assess how income generated is able to cover total operating costs for the sake of sustainability. Data is collected from 2004 -2012.

### Specification of Variables

The primary and secondary data are used in the study across the country. Operational self-sufficiency (OSS), profitability, portfolio at risk (PAR), return on earnings (ROA) are analysed to assess VISACAs' sustainability concerns and policy perspectives.

### Age

Age is measured as number of years of establishment

**Size**

Size is presented as total assets

**Operational Self-Sufficiency - OSS**

OSS is calculated as total income/total expenses to assess how income generated is able to cover total operating costs for the sake of sustainability.

**Profitability**

Profit/loss is calculated as total income minus total costs

**Management Quality**

The effectiveness of MCs to appraise, grant and recover loans. The lack of remuneration of MCs affects their morale, commitment and effective loan recovery. Management quality is a key variable used as a dummy measured as:

Mgt quality = 1 if management quality is good
Mgt quality = 0 if management quality is poor

**Literature Review**

Over the years, many developing countries' policies were directed to support the development of rural financial entities in the presence of market failures in the rural credit markets (Yunus, 1997; Ojo, 1999; Jirongo, 2004). Direct interventions of governments in the financial markets through a blend of targeted credit programs such as interest rate subsidies, low interest revolving credit and other government policies seem justified to stimulate growth and development. Other credit delivery programs included sanctioning of commercial banks to allocate a percentage of their resources to finance key sectors like agriculture, SMEs, tourism, among others. In addition, a number of credit guarantee schemes existed to enhance formal credit delivery to key sectors. However, public sector agencies credit supply-led approaches from the 1970s through to the 80s were disasters due to poor repayments, cost of subsidies ballooned and much of the credit were diverted from target recipients (Adams, Pischkeand Graham, 1984, Jirongo, 2004).

In addition, due to gross mismanagement, high operational costs, increasing non-performing loans and political hijacking of the programmes which became endemic caused a clampdown for such noble missions be realised (Chemin, 2008). Although, many developing countries recorded success stories in government credit programmes as in Malaysia (Rasiah, 2011), agricultural credit guarantee schemes in Nigeria (Ojo, 1999), Chile's Fondo de Garantiapara Pequenos Empresarios/ public sector guarantee funds (Torre, 2008) and Mexico's development financing and factoring programme (Schmukle, 2007). The NGO financing has serious limitations in meeting project financial requirements. The funding limitations, governance issues and low outreach requires a more sustainable approach that addresses ownership stake, finance and governance to meet rural economic financing demands. Advocates of financial system approach, such as Robinson (2001); Rhyne and White (2000); Ledgerwood (2002) and Hulme and Mosley (1996, 1998:783-790) have been critical of supply-led lending technologies. They argued that subsidy dependent approach requires a huge amount of continuing subsidies to sustain it and has not proof to be a global affordable model. Much reliance on donor and government funds has not been sustainable as growth prospects become limited if such funds dry out. Accordingly, even if the long-term continuance of these subsidies is assured, these assumptions do not match very well with the real world (Robinson, 2001:6; Ledgerwood, 2002; Rhyne *et al*, 2000). The probable irreversible trend of banks in financing SMEs, microenterprises and farmers is due to significant unmet demand of this sector (Robinson, 2001; Ledgerwood, 2000; Otero andRhyne, 1994; Khandler, 1998) and the fact that it has been proven that this massive unmet demand on a global scale can be met profitably through financial system approach able to cover intermediation costs and remain self-sufficient.

However, critics have argued that the commercialisation of microfinance has not offered much of a solution in increasing financial inclusion in most economies (Bateman and Chang 2012; Ghosh, 2013). The Initial Public Offering (IPO) of Mexican MFI, Compartamos in 2007 charging 195% interest rate on the microloans only succeeded in enriching private investors and senior managers instead of employing strategic poverty reduction programmes of the Mexican female poor. This has attracted much criticism on Compartamos and commercialisation of microfinance as an economic development model (Hulmeand Mosley 1996, 1998; Christen 2008; Bateman and Chang, 2009, 2012; Bateman 2010a, 2011a). The over-supply of microcredit led to hugely destructive microfinance meltdowns around the world such as in Bosnia in 1999 – 2000, Benin, Morocco in 2008, Nicaragua and Pakistan associated with huge client over-indebtedness, massive client defaults, withdrawal, increasing suicide cases and most MFIs running into huge losses and forced closure. The most devastating microfinance meltdown ever occurred in 2010 was in the Indian state of Andhra Pradesh (Mortana, 2011; Arunachalam, 2011, Bateman *et al*, 2012; Ghosh 2013).

The over-indebtedness led to increasing rate of farmers' suicide, sleepless nights and eating less thinking about next installment payments in Andhra Pradesh (Chan *et al*, 2011; Mortana, 2011) due to MFIs multiple lending and excessive debt exposure. However, the crisis in Andhra Pradesh was exacerbated by severe agrarian dislocations stemming from the effect of trade liberalisation and drought cycles that adversely affected poor farmers and landless labourers. The influx of state-run programmes, NGOs and private MFIs targeted the same segment in the market under conditions of significant uncertainty and distress instead of exploiting new areas that led to multiple lending and its consequent over-indebtedness (Taylor, M 2011; Ghosh 2013). The presence of powerful community leaders as agents and politicians created added problems to micro-lending and recovery. Some MFIs charge prohibitive interest rates and indulging in oppressive loan recovery practices (Shylendra, 2006; Bateman, 2012) while other unscrupulous NGO intermediaries as in Benin Republic were employing irresponsible credit delivery and an aggressive recovery (Chan *et al*, 2011). Further micro-credit over-supply problems emerge elsewhere, notably in Lebanon, Peru, Kyrgyzstan and Azebaijan.

Despite much criticism against the financial system of microfinance, the long-term financial sustainability is assured under the commercial microfinance to meet significant unmet demand on global stage profitability (Christen, 2008; Hulmeand Mosley, 1998; Robinson, 2001; White, 2002). The coverage of intermediation costs is crucial for institutional sustainability on one hand and continuous financing of small enterprises and rural economic activities on the other. Like all financial institutions it is wrought with the ups and downs of the market. Lending system could be dangerous especially when enterprises are allowed to borrow irresponsibly, seen as the build-up of both the Southeast Asian financial crisis of 1997/8 and global financial crisis of 2008. Several studies including Yunus (1999); Ghosh (2013); Robinson (2001); Rhyneand White (2000) and Rhyne (2011) have argued that commercial microfinance does work with responsible lending and provision of broader range of financial products and services, including not just credit but also savings, remittances, insurance, leasing and factoring.

## RESULTS

This section focuses on the statistical relationships and the secondary data analysis to assess the performance of the 12 VISACAs.

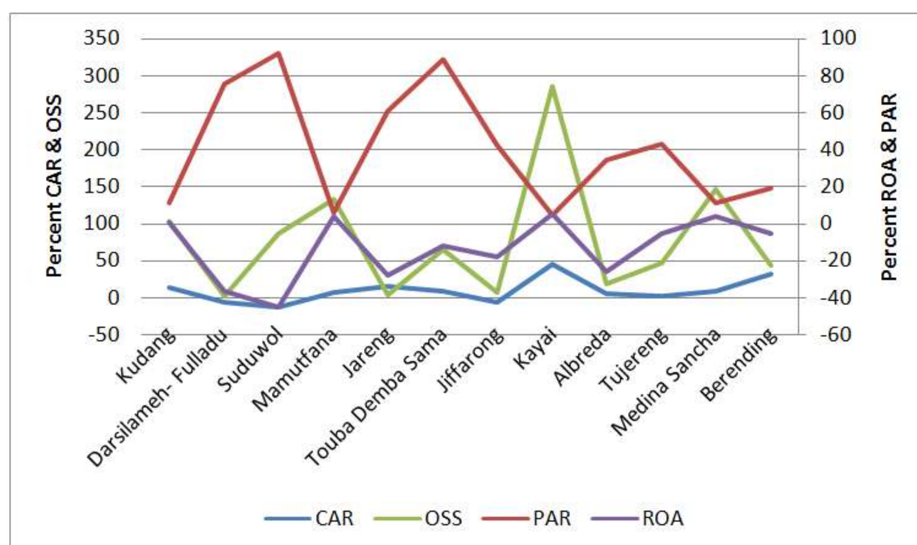
Table 1 shows the performance indicators of 12 VISACAs. Only two (Kayai and Berending VISACAs) met the prudential capital adequacy requirement of 16% with Jarreng coming closer at 15.5%. The rest show weak capital status explained by poor management quality, limited deposit mobilisation and high non-performing loans. Jiffarong, Darsilameh and Suduwol VISACAs recorded negative CAR explained by poor loan recovery. Darsilameh, Jarreng and Medina Sancha VISACAs show excessive external loan borrowing of 2344.7%, 559.5% and 742.5% respectively as shown in Table 1 suggesting significant low deposit mobilisation. Portfolio at risk is the loanable fund at higher risk of repayment. Portfolio at risk for profitable microfinance institutions reported a level of not more than 5%. All the VISACAs except Kayai reported levels above 5% threshold with Mamutfana coming closer at 6.3%. The indicator is worst in Darsilameh, ToubaDembasama and Suduwol. Though Medina Sancha continues to record impressive levels in OSS and ROA, it violated the CAR and PAR statutory requirements explained by heavy reliance on external loans and poor loan recovery relative to a more sustainable equity and savings mobilisation. With the Rural Finance Project providing an annual wholesale lending ceased operation in June 2014, these VISACAs must raise equity and mobilise significant deposits to meet their operational demands.

**Table 1. Financial Performance of 12 VISACAs**

| | CAR | Total Capital | PAR | OSS | ROA | Loan/Deposit | External loan/Deposit |
|---|---|---|---|---|---|---|---|
| Kudang | 12.8 | 70113 | 11.2 | 103.6 | 0.60 | 153.25 | 80.82 |
| Darsilameh- Fulladu | 5.72 | 211431 | 75.6 | 2.2 | -36.80 | 2569.23 | 2344.73 |
| Suduwol | -11.54 | -49824 | 92.1 | 0.94 | -45.1 | 219.52 | 153.26 |
| Mamutfana | 7.03 | 164639 | 6.3 | 132.6 | 3.6 | 231.64 | 135.77 |
| Jareng | 15.54 | 70666 | 61.1 | 3.39 | -27.9 | 728.72 | 559.49 |
| Touba Demba Sama | 9.21 | 31,968 | 88.7 | 64.9 | -12.1 | 252.49 | 72.47 |
| Jiffarong | -5.51 | -43483 | 42.7 | 8 | -17.9 | 98.78 | 41.8 |
| Kayai | 44.5 | 363181 | 5.9 | 286.2 | 4.99 | 18.1 | 7.2 |
| Albreda | 5.2 | 87,922 | 34.7 | 19.1 | -25.76 | 235.52 | 152.62 |
| Tujereng | 2.98 | 45797 | 43 | 46.5 | -5.7 | 28.58 | 49.27 |
| Medina Sancha | 29.68 | 598,605 | 1.3 | 168.2 | 3.06 | 750.85 | 742.46 |
| Berending | 31.62 | 353,515 | 19.6 | 43.9 | -5.6 | 119.2 | 14.76 |

Source: Central Bank of The Gambia (2013). Note: PAR –Portfolio At Risk, OSS- Operational Self-Sufficiency, ROA- Return on Assets, CAR – Capital Adequacy Ratio

Note: Statutory prudential requirement for CAR is 16% and D03m




Source: VISACA Apex, 2014

**Figure 3. VISACAs Status in PAR, OSS and ROA**

The rest of the VISACAs show poor levels in OSS, CAR, PAR and ROA. The benchmark of 120% is set for OSS for institutional sustainability and 1% for ROA. Medina Sancha, Kayai and Mamutfana remain most viable VISACAs reporting 3.5%, 5% and 3.6% respectively. Three VISACAs also reported OSS of 132.6%, 286.2% and 147.5% above the benchmark level of 120% relative to the rest reporting levels below the benchmark manifesting sustainability concerns. Figure 3 shows the 12 VISACAs levels of PAR, OSS and ROA at end December 2014.

**Policy Perspectives**

The decentralisation of the financial system to include village banks, finance companies and development finance institutions have been crucial in delivering financial services to the remotest part of The Gambia. With the low presence of commercial banks in rural communities, VISACAs continues toplay a pivotal role in mobilising rural resources and extend credit to support income generating activities. The VISACAs have been instrumental over the years in this endeavour. However, reliance on donor support for financing and capacity building is very high and unsustainable requiring self-sustaining measures in the form of equity share introduction as in Ghana's rural banks and Nigeria's community banks and greater emphasis on savings mobilisation. The survey shows 83.3% of respondents in favour of equity introduction to address the poor capital status. The recently validated Microfinance Policy Framework proposed equity contribution though this is yet to be implemented. With the donor project ceased operations in June 2014, VISACAs must raise much permanent financing source to sustain operations and equity financing is key in the process. The initial membership fees that are capitalised are miniscule to provide the needed financing and absorb losses. The establishments of myriad of institutions (including the Microfinance Network, Microfinance Promotion Centre and Apex Microfinance) need to be merged to reduce duplication and ensure effective institutional support to VISACAs The enforcement of prudential laws are also weak considering the fragility of these institutions to comply say capital adequacy requirements.

**Finance**

With the donor project ceasing operation by end December 2013, VISACAs must raise much funding to sustain operations and equity financing is key in the process. The initial membership fees that are capitalized are miniscule to provide the needed financing and absorb losses. For VISACAs continuity, adequate financing in terms of equity, increasing deposit mobilisations and retained earnings with relative low debt level are essential if they are to continue rendering the vital financial services to the rural communities.

**Human resource skills**

The human resource skills at VISACAs are generally weak to support efficient management of community finances. Due to their limited funds and challenges of viability, they are unable to attract high skill personnel. This calls for ensuring institutional viability and sustainability to be given top priority if the VISACAs are to achieve such capabilities to attract high skill personnel. Continuous capacity building and broadening financial products are capable of ensuring viability to address this key challenge.

**Equipments**

VISACAs have over the years since inception keeping their transactions manually. With the low caliber of staff, keeping such records accurately and timely is a continuous challenge. Of late, 16 top VISACAs have been equipped with solar panels as power source and computers by the IFAD project to computerize their systems as part of the modernization process. Efforts are also at advance stages to introduce mobile phone money transfer network to enhance remittances even to the remotest village. However, this has to be matched with improvements in human resource skills and hiring of the right skills to handle such sophisticated systems.

**Linkages**

Vertical and horizontal linkages of VISACAs with commercial banks and with other institutions within the apex body are crucial to support their growth and development. VISACAs can extensively benefit from refinancing, training, increased financial products and technological spillovers in their linkages with banks. A number of VISACAs in the North Bank and Western Regions are currently reaping benefits as they link with banks in Western Union money transfers, saving their surplus funds and receiving on the job training. This has to be further consolidated, increase deposit mobilisation, raise equity and remain viable to increase their funding base to engage in these broad range of financial products. Collaboration among VISACAs themselves within the apex through workshops, attachments and annual summits can be a valuable avenue to learn from one another.

## DISCUSSION AND CONCLUSIONS

Incorporating rural development as part of the national strategy is crucial and the operation of an efficient financial system in the area is vital in complementing these efforts. MFIs invaluable support to rural microenterprise development is key in poverty alleviation, employment creation and enhancing rural economic growth. Otero (1994) described it as ''active collaboration'', calling for active public policy role, academics, policymakers, international development agencies, practitioners, financial institutions and meso-organisations to address constraints in microfinance delivery. It is important that MFIs are internally or operationally efficient through the use of appropriate management and information technologies for sustainability sake. The analyses show that the VISACAs face huge supply-side constraints that limit their internal efficiencies and by extension their noble role in solving development problems. VISACAs poor capitalisation, low ROA, OSS, weaknesses in savings mobilisation, over-reliance on external loans, poor management skills, limited financial products, among others pose serious sustainability threat. The introduction of equity shares is a policy solution to the poor state of the VISACAs to enhance capital adequacy, mobilise more savings and increase internally generated income to supports institutional sustainability. This is not only a necessary but sufficient condition for VISACAs to live up to their expectations of tool in solving development problems.

## REFERENCES


Adams, D. and von Pischke, J. D. 1992. Microenterprise credit programs: Deja vu? *World Development*, 20(10). 1463-1470.

Bateman, M. and Chang, H. 2012. Microfinance and the illusion of development: From Hubris to Nemesis in Thirty Years, *World Development Review*, Vol 11, 13-36

Bennett, L. and Goldberg, M. 1993. Providing enterprise development and financial services to women: A decade of bank experience in Asia. Washington, DC: The World Bank.

Bennett, L., Goldberg, M. and Hunte, P. 1996. Ownership and sustainability: Lessons on group- based financial services from South Asia, *Journal of International Development*, R(2). 270- 289.

Bhatflang Hoff, K. and Stiglitz, J. E. 1993. Imperfect information and rural credit markets: Puzzles and policy perspectives. In K. Hoff, A. Braverman, and J. E. Stiglitz (Eds.), The economics of rural organization: Theory, practice and policy (pp. 33-52). Washington, DC: The World Bank

Bhatt, N. 1997. Microenterprise development and the entrepreneurial poor: Including the excluded? Public Administration and Development, I7(5), 37 1-386.

Bhatt, N. and Tang, S. Y. 1998a. Group-based microfinance and economic development. In T. Liou (Ed.), Handbook of economic development (pp. 115-138). New York, NY: Marcel Dekker.

Bhatt, N. and Tang, S. Y. 1998b. The problem of transaction costs in group-based micro-lending: An institutional perspective. *World Development*, 32(4), 623-637.

Ghosh, J. 2013. Microfinance and the challenge of financial inclusion for development, *Cambridge Journal of Economics*, Vol 7, 1203-1219

Gonzalez-Vega, C., Schreiner, M., Meyer, R. L., Rodriguez, J. and Navajas, S. 1997. BancoSol: The challenge of growth for microfinance organizations. In H. Schneider (Ed.), Microfinance for the poor? (pp. 129-161). Paris: Organization for Economic Cooperation and Development

Holt, S. L. 1994. The village banking methodology: Performance and prospects. In M. Otero and E. Rhyne (Eds.), The new world of microenterprise finance: Building healthy financial institutions for the poor (pp. 156-184). West Hartford. CT: Kumarian.

Hulme, D. and Mosley, P. 1996. Finance against poverty (Vol. I). London: Routledge.

Jani, N. D. and Pedroni, M. N. 1997. Financing women entrepreneurs in South Asia: A conversation with Nancy Barry. *Journal of lnternational Affairs*. 51(I), 169-178.

Khandker, S. R. 1996. Grameen Bank: Impact, costs, and program sustainability. *Asian Development Review*, 141 I), 97-130.

Khandker, S. R., Khalily, B. and Khan, Z. 1995. Grameen Bank: Performance and sustainability. Washington, DC: The World Bank.

Rhyne, E. 1994. A new view of finance program evaluation. In M. Otero and E. Rhyne (Eds.), The new world of microenterprise finance: Building healthy financial institutions for the poor (pp. 105-1 16). West Hartford, CT: Kumarian.

Rhyne, E. and Vogel, R. C. 1994. Maximizing the outreach of microenterprise finance: The emerging lessons of successful programmes. Washington, DC:

Taylor, M. 2011. 'Freedom from Poverty is Not for Free': Rural Development and the Microfinance Crisis in Andhra Pradesh, India. *Journal of Agrarian Change, 11: 484–504.*

van de Walle, D. 1997. Rural finance in Africa: Institutional developments and access for the poor. Annual World Bank Conference on Development Economics 1996 (pp. 180-184). Washington, DC: The World Bank.7-63.

West Hartford, CT. and Kumarian. Chao-Beroff, R. 1997. Developing financial services in disadvantaged regions: Self managed village savings and loan associations in the Dogon Region of Mali. In H. Schneider (Ed.), Microfinance for the poor? (pp. 87- 108). Pans: Organization for Economic Cooperation and Development. Christen, R. P.,

Williamson, 0.E. 1985. The economic institutions of capitalism. New York, NY: The Free Press. World Bank 1997. Burkina Fuso: Le projet de promotion du petit credit rural. sustainable banking

Yaron, J. 1994. What makes rural finance institutions successful? The World Bank Research for the poor. The World Bank. Washington, DC: The World Bank. Observer, 9(I), 49-70.


*******