

Microfinance makes businesses successful in Guinea



Islamic Development Bank

Together we build a better future



Guinea has long been ranked among the poorest countries in the world, making life tough for the nation's many micro-entrepreneurs, who until recently have been unable to access the capital needed to grow their businesses and improve the lives of their families. In 2001, guided by its national poverty reduction strategy, the Government invited the Islamic Development Bank (IsDB) to help the country's poor to help themselves through a microfinance project, drawing inspiration from a verse in the Holy Quran (Chapter 13, Verse 11):

"... Indeed, Allah will not change the condition of a people until they change what is in themselves ...".

The project's aims were threefold: to increase the access to finance of micro and small enterprises, to support the institutionalisation of local microfinance institutions (MFIs), and to disseminate information and training on Islamic finance. All components of the project were a resounding success, and to date, over ten thousand people have benefited from IsDB's assistance.



The project was implemented through three MFIs that acted as field executing agencies: Crédit Rural de Guinée, Programme Intégré pour le Développement de l'Entreprise and l'Agence Autonome d'Assistance Intégrée aux Entreprises. All of these financial institutions had experience in microfinance that predated IsDB's intervention. They were led by charismatic visionary leaders who fully identified with the purpose of the project and were genuinely interested in helping people to improve their lives. Within the MFIs, competent management teams brought along their experience of microfinance approaches and an understanding of the local business environment, and tailored their implementation of the project accordingly. IsDB provided a line of financing to make funds available to the MFIs, which then in turn provided money to local business owners using a Sharia compatible approach. The Central Bank of Guinea acted as the coordinating and controlling agency. It developed a framework on microfinance complete with policies, rules and regulations. In addition, the Central Bank helped the three MFIs to select eligible borrowers and monitored project implementation.

Safeguarding dignity through Islamic finance

Making Islamic finance the cornerstone of the project was a critical success factor. The population of Guinea

Producing traditional clothing

A young Guinean lady saw an opportunity to provide traditional clothing to the wealthy. She started her own boutique by importing fabric and accessories from France and Germany and tailor-made them for her local clientele. She started with her own resources and bought three sewing machines. As demand grew, she turned to Crédit Rural de Guinée to provide financing amounting to GNF 30 million to purchase 10 additional sewing machines and employ a few tailors. Today her business has grown to GNF 90 million and she employs 15 people.

is predominantly Muslim, and many micro-entrepreneurs would not accept conventional microfinance loans due to religious prohibitions surrounding usury. Adherence to Islamic law and ensuring fair play is at the core of Islamic banking. Because Islam forbids simply lending out money at interest, transactions are based on risk-sharing rather than risk-transfer. Using Sharia compliant approaches to banking changes the relationship between MFI and client. While borrowing along conventional Western lines is not well perceived in Guinea, Islamic finance recasts microfinance as a dignified form of business partnership in which the financial institution has a stake in its client's success and both grow their business in tandem.

The programme's active engagement with local media was a critical success factor. The MFIs worked with local radio stations to spread the message that Islam and banking were compatible concepts, and to explain the values and principles of Islamic finance. These radio programmes were a resounding success, and contributed greatly to fostering acceptance of the project by a population initially reluctant to engage with the financial sector. In addition, they disseminated knowledge about basic business management principles, and alerted entrepreneurs to the availability of funds to grow their businesses with. This stimulated an increase in loan applications by interested entrepreneurs, enlarging the MFIs' pools of potential clients. The awareness campaign also had a broader long-term impact, as the radio programmes increased the general demand for financial intermediation among Guineans, including those in rural areas.

Building capacity at all levels

Giving top priority to training stakeholders at all levels, from experts at the Central Bank to micro-

entrepreneurs in the field, turned out to be a critical success factor. In order to build the capacity of the country's financial system to offer Sharia compliant products and services, IsDB provided extensive training in Islamic finance and business management to more than 100 staff members of the Central Bank and the participating MFIs. The MFIs later used IsDB's training materials to develop a comprehensive training programme for local entrepreneurs, which prospective borrowers were required to complete before receiving a loan.

Training only marked the beginning of a close relationship between the lenders and their clients throughout the credit cycle. MFI staff combined training and consulting approaches by proactively assisting individual applicants in developing their original ideas into full business proposals, covering all aspects of operations from financing to marketing and reporting. These comprehensive business plans not only served to turn good business ideas into bankable applications, but also improved the profitability of the resulting businesses, benefiting MFIs and clients alike. This intensive relationship management extended beyond the signing of the financing contract and the disbursement of funds, as MFIs maintained close monitoring contact while keeping their doors wide open for clients seeking expert advice on how to best leverage their funds to grow their businesses.

Thanks to the combination of Islamic finance, information dissemination and intensive training, the project achieved outstanding rates of return. With their message that Sharia compliant finance was available to ambitious entrepreneurs, the radio programmes had

cast a wide net and generated a large number of loan applications, enabling MFIs to choose only the best among a large pool of applicants. The subsequent training of these entrepreneurs by MFIs, coupled with continuous post-disbursement monitoring and support, resulted in extremely strong portfolio performance. Only 3% of project loans slipped into default – compared to an average default rate for conventional financing of 10% – resulting in an impressive repayment rate of 97% across the three participating MFIs.

Real impact on the economy

The project attained or exceeded all its original target objectives. The project originally set out to finance 600 activities through its MFI partners, but in the end, more than 650 activities were able to benefit from IsDB's funding. It had a tremendous positive impact on the participating micro-entrepreneurs, 62% of whom were female (against a target of 50%). Health conditions and school enrolment rates in beneficiary families improved; given the average family size of nine persons in Guinea, the project directly contributed to improving the living conditions of almost 6,000 people. In a country with few opportunities for securing a respectable living, IsDB's project gave budding entrepreneurs a chance to make an honest living and even provide employment to others in their

Electrifying a community

Years ago, a young entrepreneur purchased a generator for his welding business in Upper Guinea, where grid electricity is in short supply. During the hours when he was not welding, he provided electricity to members of his local community, who used it to power refrigerators to prevent their food from spoiling. Demand for this service was so high that one generator alone could not handle the job, so he approached one of the project MFIs for finance. Drawing on IsDB's training curriculum, the MFI helped him to develop his concept further. With the help of a line of credit, he now not only runs several generators, but also manages a safe storage facility for fridges and supplies ice to the local market.



Success factors

Islamic finance

Building the project around an Islamic finance model of banking heightened its acceptance within Guinea. Addressing ethical concerns about usury in a substantive way ensured that microfinance and Islam were seen as complimentary, not contradictory, by local stakeholders, and enabled entrepreneurs to full-heartedly engage with the project.

Information dissemination

MFIs' work with local radio stations played a key role in spreading awareness of the availability of credit that was both accessible to micro-entrepreneurs and fully Sharia compliant. This increased the number of loan applications to the MFIs. As a result, MFIs were able to cherry pick the best businesses from a large pool of applicants.

Training

IsDB's training in Islamic finance to the Central Bank and partner MFIs built the long-term capacity of Guinea's financial system to offer Sharia compliant products and services to a largely Muslim population, laying the cornerstones for the future growth of a financial sector responsive to the demands and priorities of local entrepreneurs.

communities. This was of particular benefit to women, who might otherwise have resorted to undignified ways of earning money. In fact, some beneficiaries who had previously been recipients of zakat, a traditional Islamic form of alms, improved their livelihoods so much that they morphed from welfare recipients to welfare providers, providing zakat to their less fortunate neighbours. At the same time, IsDB's project strengthened the nation's agricultural, trade and industrial sectors by facilitating the creation and growth of numerous financially sustainable and productive micro and small enterprises that will continue to make valuable contributions to Guinea's economy for years to come.

Meanwhile, thanks to the 97% repayment rate achieved by the initial project, IsDB has been able to create a revolving fund that continues to operate with equal rates of success. The fund has already extended funding to more than 600 additional activities, bringing the total number of clients to over 1,200. IsDB's systematic introduction of Islamic finance created a strong demonstration effect that was felt across the

donor community in Guinea. By the end of the project, upwards of 50% of financing facilities offered by other donor agencies were being channelled through similar Islamic modes of financing.

Based on the resounding success of the project and its wider positive socio-economic impact, all stakeholders involved have expressed great interest in securing further financing. IsDB has already begun leveraging the success of the Guinean project on a larger scale by replicating it in other member countries.

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