

Micro-finance revolution comes to Africa

OFID partners with leading micro-lender

BY AUDREY HAYLINS

Compared with other regions of the world where there is a long tradition of lending to the micro-enterprise sector, the continent of Africa has been sorely neglected. This is all changing, however, thanks in no small part to the innovative efforts of a young micro-finance company, Blue Financial Services.



Dave Van Niekerk

In the following interview, **Dave Van Niekerk**, Blue CEO, describes his company's vision for Africa and explains how a US\$15 million loan from OFID is helping to realize that vision.

Since Muhammad Yunus founded the Grameen Bank in Bangladesh in 1976, the micro-business sector has carved out a vital role in developing country economies, most notably in Asia and Latin America, where today micro-credit outlets abound. Providing loans of as little as US\$50, these micro-lenders offer a lifeline to millions of poor people, giving them a means to earn a living and support their families. In many cases, what starts off as a tiny enterprise grows into a flourishing business, with benefits to the wider community.

Indeed, micro-financing has become so popular and successful that the United Nations designated 2005 the year of micro-credit. Micro-financing is now widely appreciated as a highly effective “bottom-up” approach to development that offers considerable advantages over traditional “top-down” aid instruments.

Until recently, the micro-finance revolution had largely passed Africa by, mainly due to reluctance on the part of the commercial banking sector to ►

Micro-enterprises, like this tailor's shop in Kenya, are widely recognized as a highly effective "bottom-up" approach to development.





Another satisfied Blue customer. Prospective borrowers can get their loans approved in under one hour.

PHOTO: BLUE FINANCIAL SERVICES LTD.

◀ provide credit. “Access to credit is something that the banks have been very slow to do,” explains Van Niekerk. “They take deposits and provide banking services, but they are not doing anything to stimulate the economy.” As a result, the vast majority of populations in Africa are what Van Niekerk terms “unbanked”. Where micro-financing is available – usually through NGOs and similar institutions – the eligibility criteria are so strict that most people are excluded from applying.

Serving the unbanked

Blue’s mission is to promote the micro-finance sector across Africa by bringing affordable, ethical loan products to the historically unbanked. Its products, which target different segments of the market and are continually under development, range from consumer finance to small business seed capital and housing finance. Its client base is very much at the lower-income end of the market. “We take on the people who are turned away by risk-averse commercial banks because they have no credit rating or collateral to secure a loan,” says Van Niekerk. He describes typical customers as people with small businesses such as bicycle repair shops or grocery stores. “They come to us for additional capital so that they can buy more stock and increase their turnover,” he says. In South Africa, Blue also gets a lot of clients from the franchise market. “The majority of these people are young black male entrepreneurs who are taking their first step into business and need a small loan to get started,” explains Niek-erk. Blue also provides education loans to help parents cover the cost of their children’s schooling. These micro-credits are usually taken for just one year at a time and are used to pay for anything from primary to tertiary education.

Van Niekerk points out that the majority of Blue’s loans are unsecured. In spite of this, defaults are surprisingly few, a fact that he puts down to a combination of trust and social pressure. “People

are looking for an opportunity to get access to credit and they do not want to disappoint the person who has put their trust in them,” he says. “Nor do they want to risk being publicly ostracized for breaking their society’s moral code.”

Managing risk

Nevertheless, Blue does go to extraordinary lengths to mitigate risk, an effort that Van Niekerk deems essential when operating in an African context. “Africa is an interesting place to do business,” he says. “Many countries lack an efficient national ID system, so we need to find other ways of establishing or confirming an individual’s identity.” He reveals that this can include fingerprinting and biometric facial recognition techniques. “Getting people on our database can be quite a process, but once they are there, they can borrow again and start building a credit history.” And borrow again they do, with 85 percent of Blue customers returning for repeat loans.

Since setting up business in late 2000, Blue has gone from strength to strength. Much of the growth has come in the last three years, following the company’s listing on the Johannesburg Stock Exchange and the involvement of foreign shareholders and investors, including the International Finance Corporation and FMO of the Netherlands. Today, Blue operates 300 branches in 14 countries across sub-Saharan and Southern Africa, employing a staff of over 3,000.

Competitive advantages

Van Niekerk attributes Blue’s success to its many competitive advantages, chief of which is the state-of-the-art IT system that links all of the company’s branches via a satellite network to its head office in Johannesburg, where all loan decisions are made on the main server. Once a loan is approved, the originating branch – wherever it might be – can print out a computer-generated cheque for the customer to cash immediately. Under this ▶

Case study



Mary O. Lyimo, a teacher from Dar es Salaam, Tanzania, watched proudly as her two nephews completed school. However, her joy was short-lived as the two boys couldn’t find jobs and were soon on their way to becoming vagrants on the city streets. With the intention of creating work for them by starting a small business, Mary put a business plan together, but as she did not have the collateral sought by commercial financial services, her applications were declined. Despondently, she walked through the doors of Blue. As a gainfully employed person who could afford a loan she was granted the equivalent of US\$800 to pay off over 36 months. With this money, Mary rented three hectares of land and planted aubergines. Soon she was reaping the benefits and could employ both her nephews full time while continuing her work as a teacher. As her business grew, Mary was able to buy herself a light commercial vehicle to transport her produce to the market. At present she has branched out and is growing chillies and a health herb too.

Source: Blue Financial Services



Blue CEO, Dave Van Niekerk, with OFID Director-General, Suleiman J. Al-Herbish, at the loan signature ceremony.

Case study



Isaac Khonde Kanguya of Livingstone, Zambia used his loan from Blue to manufacture good quality ox-drawn carts to transport goods and people. Transport in rural areas is often very expensive in Zambia, and Isaac came up with the idea of the carts to provide a cheaper alternative. Isaac's carts do not require fuel, so they have become extremely popular and he has received orders from villages more than 150 km away. Isaac either sells the carts or exchanges them for cattle. So far he has managed to collect and sell 16 herds of cattle and has made more than four times the original loan amount applied for. Isaac employs two people to build the carts and recently obtained his biggest order to date for 25 units. With the profits from his cart business, Isaac has been able to complete the construction of his own house and is building two other houses as well as a block of three flats.

Source: Blue Financial Services

◀ system, small loans can be turned around in under one hour. According to Van Niekerk, it is this kind of service that has elevated his company above all its competitors. "People want the best when it comes to service, and that is what we aim to give them," he says. "We understand that our customers are working people with families and aspirations. They want to be treated with dignity and respect, and they want to borrow in an environment that is upmarket and professional. Above all, they want to be dealt

with quickly and efficiently and to walk out with money in their hand." Another of Blue's advantages is its pricing policy. "We keep a close eye on our competitors and always try to price ourselves under them," says Niekerk.

Social conscience

For a company operating in the hard-nosed business of finance, Blue shows remarkable compassion for both the people and the communities it serves. "Our model is built on a double bottom

line," says Niekerk, "one that delivers both social and financial returns." Blue's ethos, he insists, is not simply about turning a profit. "We are driven by the knowledge that, handled responsibly, micro-financing is a powerful tool for poverty alleviation. So, we make a point of ensuring that we have the dual effect of giving our investors a return on their money and, at the same time, empowering and uplifting the communities we serve."

Such statements are far from window dressing: corporate social investment (CSI) forms an integral component of the Blue philosophy. "We believe we have a responsibility to plough back some of our profits into the community," says Niekerk. Thus Blue allocates 10 percent of its annual earnings to a comprehensive CSI program that funds projects ranging from the purchase of equipment for hospitals and schools, to sports' sponsorship and charity work. "We never give cash, as there is always the chance it will not reach the end user," says Niekerk. "Instead, we take a hands-on approach and actively encourage staff to get physically involved. Another key principle is that we will not allocate funding to emotion-driven lost causes, or to communities that are not prepared to work to help themselves." As part of its CSI program, Blue also runs financial "road shows" to help educate people how to handle money wisely.

Future expansion

As far as the future is concerned, Blue has big plans for expansion. "For this, we are looking at countries that have economic and political stability and good foreign exchange movements," says Niekerk. "We are also interested to see what is being spent on infrastructure development and on uplifting the people." Steps have already been taken by Blue to move into Ghana and, further north, into Egypt, where the company will be the first registered micro-financier. Egypt will

Blue staff member, Irene Wambui, volunteers her time at a local orphanage as part of her company's corporate social investment program.



also be Blue's first foray into an Islamic country and the company is developing some Sharia compliant products specifically for the Egyptian market. "If we get it right there, we would hope to then move into some other North African countries," reveals Niekerk. He points out, however, that expansion is not always straightforward, due to the red tape involved in getting the necessary licence. "As a foreign company, we need government support to come in and set up a financial services operation. And, where possible, we like governments to give us access to the civil service payroll so that we can deduct loan repayments directly from source. All this can take as long as three years," explains Niekerk.

Blue also has plans to attract more female customers. Unlike the Asia and Latin America experiences, where the

majority of micro-borrowers are women, loan seekers in Africa are predominantly men. Van Niekerk ascribes this to the comparatively large number of civil servants on the continent, a situation that has created a formally employed market with a strong male bias. "However, we think this spread is likely to change," he says, "and when it does we will be ready with products that will be attractive to female entrepreneurs."

Partnering with OFID

Van Niekerk is confident that Blue will continue to grow at its current pace for at least another five to six years and reports that the company is beefing up its resources, both financial and human, accordingly. He admits, however, that this is not an easy task in the current economic climate. "Blue's biggest challenge right

now is to attract new investors in order to raise the capital needed to support the company's growth and meet the demands of the market," he says. With the commercial banks largely cash strapped, Blue's corporate finance team is talking with development finance institutions like OFID, as well as with sovereign funds and private equity funds. "OFID's US\$15 million loan has come at the perfect time and is a great boost," says Van Niekerk. "The funds will allow us to channel additional capital into about six or seven of our countries where there is greatest need. They will be used to provide small business credits as well as education and home improvement loans." ■