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Role of Microfinance in Poverty Reduction in Guinea

Bachelor Thesis

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DECLARATION

I hereby declare that I have elaborated the Bachelor Thesis on the topic „The role of microfinance in poverty reduction in Guinea” independently, only with the help of expert consultations and with the use of credible sources of information listed in references.

Mariama Camara

In Prague, 2013

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ABSTRACT

The fight against poverty has constituted a national preoccupation for more than a decade. As such, it is a strategy to fight against poverty in Guinea places great hopes in the sector of micro-finance, to give to the poor greater access to financial resources so that they can carry out income generating activities or to improve their access to basic social services.

Micro-finance is an emerging phenomenon as a new market and a further source of profit. In reality microfinance opens access to capital for individuals previously shut out from financial services. It is a chance for the poor to build a better life, make ends meet and break the viscous circle of poverty. It has both business and social aspects such as alleviation of poverty, which make it a very ambitious activity to realize.

However, micro-finance is poorly understood, and it remains unclear whether it delivers on its promises. My goal here is to examine how microfinance helps to reduce poverty in Guinea. What is the role of microfinance institutions in Guinea? To resolve these issues, we need to shed light on poverty in Guinea and to examine the state of microfinance. It is then necessary, from a shared approach to assess the contribution of microfinance to poverty reduction.

Keywords: Micro-finance; Guinea; rural finance; poverty alleviation.

ABSTRACT

Boj proti chudobě představuje národní předpojatost pro více než desetiletí. Jako taková, je to strategie pro boj proti chudobě v Guinei, která přináší velké naděje v sektoru mikrofinancování, s cílem poskytnout chudým lepší přístup k finančním zdrojům, aby mohli vykonávat výdělečné činnosti nebo zlepšit jejich přístup k základním sociálním službám.

Microfinancování je novým fenoménem, jako nový trh a další zdroj zisku. Ve skutečnosti mikrofinancování otevírá přístup ke kapitálu pro jednotlivce, které předtím vypadli z finančních služeb. Je to šance pro chudé vybudovat lepší život, dělat s penězi a prolomit začarovaný kruh chudoby. To má hospodářské a sociální aspekty, jako je snížení chudoby, což může být velmi ambiciózní činností pro realizaci.

Nicméně, mikrofinancování je špatně porozumět a zůstává nejasností, zda-li splní své sliby. Mým cílem zde je prozkoumat, jak mikrofinancování pomáhá ke snižování chudoby v Guinei. Jaká je role mikrofinančních institucí v Guinei? Aby tyto problémy vyřešit, musíme udělat jasno v problematice chudoby v Guinei . Je tedy nutné ze sdíleného přístupu posoudit přínos mikrofinancování ve snižování chudoby.

Klíčová slova: Microfinance, Guinea, financování venkova, snižování chudoby.

ABSTRACT

La lutte contre la pauvreté constitue une préoccupation nationale depuis plus d'une décennie. En tant que tel, la stratégie de lutte contre la pauvreté en Guinée est un grand espoir sur le secteur de la microfinance, pour donner aux pauvres un meilleur accès aux ressources financières afin qu'ils puissent mener des activités génératrices de revenus ou à améliorer leur accès aux services sociaux de base.

Micro-finance est un phénomène émergent comme un nouveau marché et autre source de profit. En microfinance en réalité ouvre l'accès au capital pour les individus précédemment exclus des services financiers. C'est une chance pour les pauvres de construire une vie meilleure, joindre les deux bouts et de briser le cercle vicieux de la pauvreté. Il possède à la fois les aspects commerciaux et sociaux tels que la réduction de pauvreté, ce qui le rend encore plus intéressante.

Cependant, la micro-finance est mal comprise, et on ne sait pas si elle tient ses promesses. Mon but ici est d'examiner comment la microfinance contribue à réduire la pauvreté en Guinée. Quel est le rôle de l'institution de micro-finance en Guinée? Pour résoudre tout ces problèmes, nous devons donner de la lumière sur la pauvreté en Guinée et l'autre pour faire l'état de la microfinance. Il est donc nécessaire, à partir d'une approche commune pour évaluer la contribution de la microfinance à la réduction de la pauvreté.

Mots-clés: Microfinance; Guinée; finance rurale; réduction de la pauvreté.

ABBREVIATION

LDC--- less developed country

MDG'S-- Millennium development Goals

UNDP-- United Nations development program

PRS-- Poverty Reduction Strategy

PRSP-- Poverty Reduction Strategy Paper

ICMC-- International Center of Credit Unions

AFD -- Agence Francaise de developpement (French Development Agency)

NGO'S -- Nongovernmental organization

CGAP-- Consultative Group to Assist the Poor

MFI-- Microfinance Institution

OLS-- Ordinary Least Square

BRAC-- Bangladesh Rural Advancement Committee

WFP-- World Food Program

PUP--Party Unity and Progress

RUF -- Revolutionary United Front

BCRG -- Bank Central of republic Guinea

ECF -- Extended Credit Facility

BNDA -- Bank National for Development agricultural

IAF -- Integral Assistance Program for companies

3AE -- Autonomous Agency Assistance to business

CMG -- Credit Mutual of Guinea

CRG-- Credit Rural of Guinea

BICIGUI -- International bank for trade and industry of Guinea

SCBG -- Society General of Bank Guinea

GNF -- Guinea Franc

BIG -- Bank Islamic of Guinea

UIBG -- Union International of Bank in Guinea

CRG-SA -- Credit Rural Guinea-Society Anonym

CAS -- Credit Agricol Solidarity

CC -- Credit Commercial

CRS -- Credit Rural Solidarity

MIC-- Medium term Credit

FINADEV-- Financing for Development

MGE -- Maison Guinee Entrepreneur (Guinea House of the Entrepreneur)

PRD -- Programme for Rehabilitation and Development

FSA -- Financial Services Association

CGF -- Community Growth Funds

PO'S -- Professional Organizations

IRAM -- Institute for Research and Application of Development Methods

GIABA—Inter-Governmental Action Group Against Money Laundering in west Africa

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1. INTRODUCTION

The half century that has passed since the end of the Second World War was a troubling time for the world, but also an era of growing desperation for hundreds of millions of human beings.

In the midst of unprecedented material progress, human misery has reached unimaginable proportions. Progressing at the same pace as prosperity, poverty has become a global phenomenon, one of the greatest challenges facing the world.

The fight against this scourge or even its eradication is now a global concern, especially a fifth of the world population is affected by poverty more than 2 billion people live below the poverty line with only 2 dollars per day (source: World Bank report), despite this, the poor have always conducted income-generating activities to meet their needs. One of the major problems they face is access to finance.

Indeed, in most of developing countries, the majority of people have no savings account, no contract credit from formal financial institutions, because they cannot offer guarantees. "We recognize the need to ensure access for the poor in particular financial services, including through microfinance and microcredit." This is not nothing but the declaration of the Heads of State and Government at the seat of the United Nations at the World Summit in September 2005. This statement reflects an aspect that is becoming the key to the vault of political relief of poverty Microfinance.

These structures provide financial products and services to active poor at various levels and sectors of the national economy and contributing to economic growth and the fight against poverty.

There is no single solution to meet all financial needs of the poor and vulnerable. However, it is essential to provide specific financial products, according to their application. Microfinance institutions face the challenge to meet this demand without however compromising their financial sustainability.

Many people in Africa especially in Guinea do not have access to financial services. The only reason is that their banking systems do not provide enough support to new economic initiatives.

The Republic of Guinea is located on the Atlantic Coast of West Africa. In spite of it's great wealth mineral, Guinea is part of the poorest countries in the world. The country ranks

178th of 187 countries as classified by the United Nations Development Programme Human Development Index in 2011 (UNDP, 2011). More than half of the population live below the poverty line and around 20 % live in extreme poverty.

To efficiently combat poverty and improve the living conditions of the population in Guinea, the Government has decided to conceive and implement an approach to the problem by developing a strategy to provide a framework for all policies and programs development. The Poverty Reduction Strategy (PRS) directs the use of internal and external resources (including those generated by the debt relief) and serves as a common framework for action by all partners. Poverty Reduction Strategy Paper (PRSP) is the action plan of this policy validated by the population and adopted by the Government.

Microfinance being a way to fight against poverty, two microfinance projects were introduced in Guinea: Credit Mutual and Credit Rural. In 1988 Credit Mutual was created through an agreement between the Government of Guinea and ICMC (International Centre of Credit Union) and the Credit Rural through the French Fund of Central Cooperation, currently called AFD (French Development Agency).

Microfinance is considered by some Non-Governmental Organizations (NGOs) and political and economic decision-makers as a solution to the increasing impoverishment of population and particularly problems of unequal distribution of wealth among the poor and rich. (Source at: <http://www.kiva.org/about/microfinance>)

However, far from being the panacea for the problem of under-development, microfinance has reached its limits. Many projects implemented in the part of the microfinance institutions have difficulty in producing the desired effects. But despite these ambiguous results, microfinance seems to be the only funding indicated for poor households to get them out of their state of misery. This point of view is shared by certain humanitarian economists as Muhammad Yunus of Bangladesh, who seems more optimistic than realist, considering results on the ground.

Microfinance, such as it is known today, is not a new concept. Populations, especially in countries in Africa like Guinea tested it under others forms: tontine, Mutual Insurance Company, etc. As a concept, it took form in Europe to spread across the world and more particularly in Africa. Asiatic origin is much more recent, with Professor Muhammad Yunus of Bangladesh who giving it a humanitarian form.

2. LITERATURE REVIEW

2.1 Poverty

Poverty is the deprivation of food, money and clothing that occurs when people cannot satisfy their basic needs (see Figure 1) it can be understood simply as a need of money, or more generally in terms of barriers to each day life (World Bank 2009).



Figure 1: Guinean children waiting in the queue to drink water

Source: Bah Ibrahima Gallé, (2008).

In man's history poverty has always been a permanent presence, but through the time the meaning has changed. In traditional societies majority people were poor, and as natural and unavoidable the way of life was accepted. The overall understanding is that the condition of poverty is unacceptable, and that we must find the way how to decrease it. (Schwartzman 1998).

In the United States, in the period of 1960s, poverty was defined largely in terms of income and poor people were seen as differing from the rest of society primarily in their lack of finance, and the evident solution was to correct the income shortfall in a simple, efficient, and standardized form (IRP 2007). Decades of research and experience with antipoverty programs have made it clear that poverty involves very complex interrelated and sometimes intractable socio-economics, family, and individual issues.

There were many reasons which showed for this change of views, which three are the most evident ones (Schwartzman 1998):

- A) The first is moral and ethnic: the idea that all Human are equal and should be given the right, not to only civil and political rights but also social rights, including food, education, personal safety, the accommodation.
- B) The second is more practical: poverty, particularly when associated with war and economic mess, leading to potential social unrest, led to international and national migration, threaten the lifestyles of those who are better off and reduces the values of salaries and goods.
- C) The third is more concrete: In the earlier period, the development of science and technology, the spread of education and industrialization has led to general belief that the issues of poverty, ignorance deprivation were the point to disappear, also during the expansion of personal business or during the purposeful and rational action of some combination of them, International Organizations and the Government.

2.2 Definition of poverty

Poverty has many definitions, is not easy to give a simple definition. There are many possibilities how we can define poverty.

The International Labor Organization notes that poverty is a “vicious circle of poor health, low productivity, reduced capacity of work and short life expectancy”

The OECD’s Development Assistance Committee and (ILO, 2003) has defined poverty as comprising multiple “dimensions of deprivation that relate to capabilities human, including food security and consumption, decent work and dignity” (OECD, 2001).

The United Nations Development Programme (UNDP) has introduced two concepts to poverty: human development defined as a process that enlarges people’s choices including dignity, freedom, social status and self-respect; human poverty meaning deprivation of essential capabilities such as a long of healthy life, economic resources, community participation and knowledge. The World Bank has defined poverty as also unacceptable human deprivation in terms of economic opportunity, education, nutrition and health, as well as lack of security and empowerment The World Bank defines extreme poverty as living on

less than 1 USD per day. Moderate poverty is defined as living on less than 2 USD a day. It has been estimated that, 1.1 billion people had consumption levels below 1 USD a day and 2.7 billion lived on less than 2 USD a day in 2001 (see Figure 2).

Many concepts of poverty reflect the truth of the poor. But they make the tasks of identifying the poor and of monitoring progress more complicated.

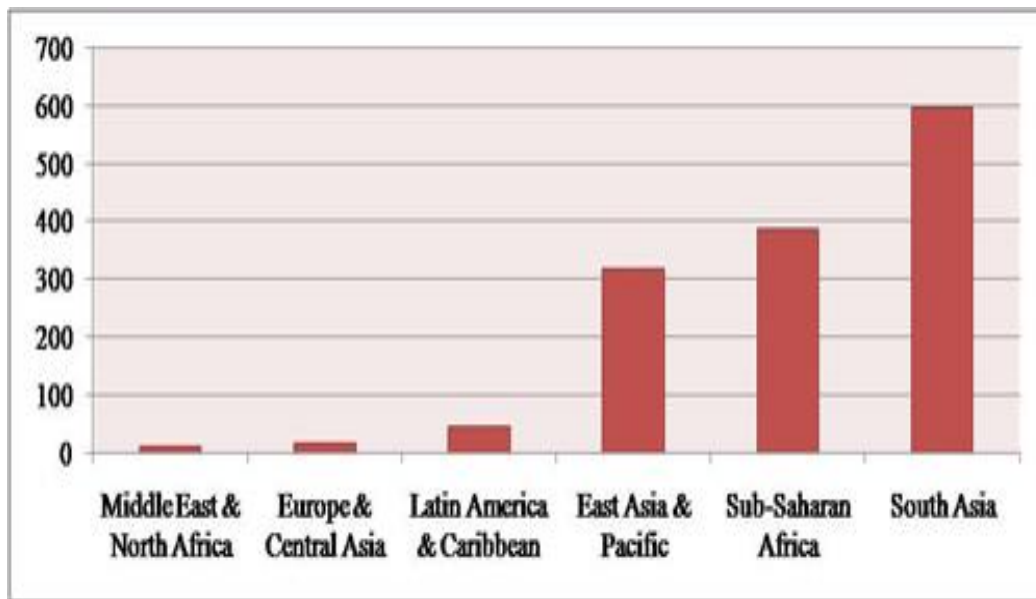


Figure 2: Number of people living under 1.25 USD per day

Source: World Bank, 2008

Poverty headcount ratio at 1.25 USD a day (PPP) (% of population) (in 2005 PPP; WDI, 2009)

2.3. Types of poverty

The awareness and the concern with the poverty issues, expressed in recent years in several summit conferences and the growing presence of the poverty issue in the agenda of national governments and international organizations has led to a renewed need to measure and understand the realities of poverty in its different manifestations, as a first step to devise policies to reduce it or at least to respond to its more dire consequences, and to monitor its course (Jeníček 2003).

Poverty can be caused by various matters and circumstances, and assume very different characteristics and nature. Very often the interest of policy makers is to identify groups and regions which are particularly affected by the loss, so they could take advantage of release - vulnerable groups such as the elderly, children, racial, women, linguistic minorities

and ethnic. If the intent is not only to identify people in need, but to better understand better the reasons for their difficult situation, so it is necessary to examine the possible determinants of this condition.

For that matter can be specified six types of poverty (Jensen 2009):

1. **Situational poverty:** generally it is caused by a crisis sudden or loss and is often temporary. Events which can cause the poverty are the environmental disasters, divorce or serious health problems.
2. **Generational poverty:** occurs in families where at least two generations were born in poverty. In this type of poverty there are these families which are not equipped with the tools to go out of their situation.
3. **Absolute poverty:** this type of poverty is rare in the United States, draws away a scarceness of first necessities as accommodation, running water and food. The families which live in absolute poverty have tendency to concentrate for survival every day.
4. **Relative poverty:** refers to financial situation of a family whose income is not sufficient to answer its society's average norm of living.
5. **Urban poverty:** appears in the metropolitan regions where population is at less 50.000 people. The urban poor deal with a complex aggregate of chronic and acute stressors (for example: crowding, violence, noise) and are dependent on often-inadequate large-city services.
6. **Rural poverty:** exists in nonmetropolitan regions where population is less than 50.000 people. In the rural areas there are more single-guardian households and families which mostly have less access to services, support of the disabilities, and possibilities of quality education.

2.4. Poverty alleviation

Poverty is multi-dimensional and that fact is widely acknowledged. Poverty reduction entails many different kinds of change and it is very important to understand the relative importance of different kinds of development measures and their different benefits to the overarching objective of poverty alleviation. (Barder 2009).

But there is little recognition of the important exchanges within the objective of poverty reduction. There are many ways how poverty reduction can be reached out and the development community entirely agrees on that but sometimes behaves as that there is only one definition of what they are trying to achieve.

The reason why poverty reduction is more than a one-dimensional objective is because there is no universally applicable way to increase the reduction of poverty affecting different people in different circumstances in different places over time, in particular. (Barder 2009):

- A) There is an exchange between reducing poverty for as many people as possible, and focusing on a smaller number of people in the real core (in the worst stage, unchangeable stuff), long-lasting and deep poverty.
- B) There is an exchange between activities that reduce poverty nowadays, and those that reduce poverty in the future.
- C) There is an exchange between programs that provide immediate redistribution of income and provision of global public goods, but which require long-term funding to be sustained, and time-limited programs that are intended to catalyze economic growth or social and political transformation so that long-term funding is not necessary.

Because of these reasons, the international community adopted a new approach to poverty reduction. The key innovation is deriving programs from comprehensive strategies for poverty reduction composed by individual Governments, with the involvement of a wide range, including the donor community and society civil. The strategy for each country, which is to be specified in its so-called Poverty Reduction Strategy Paper (PRSP), will provide a focused policy agenda and promote Government accountability by creating a national dialogue on economic and social policies.

There is a collaborative effort of the international community and each partner playing a vital role. The World Bank, along with the regional development banks and United Nations agencies, takes a leadership in discussions with authorities on the design of policies focused on poverty reduction - including social safety nets to protect the poor and vulnerable. The International Monetary Fund does its part by supporting economic policies that provide a conducive environment for sustainable growth.

2.5. Problems of the reaching the poor

Financial problems of the poor are generally below a threshold. And breakeven is associated with the credit or deposit which means that the bank loses money when making transactions below a certain amount.

Usually, banks do not provide financial services to customers without a minimum income. To manage a client account, the same banks have to support a rather substantial fixed cost which does not depend on the amount of sums of money involvements. For example, the total profits generated by a hundred of 1 000 USD credit is just approximately equal to the profit generated by a 100 000 USD credit, while the management of hundred credits involves a hundred times more work and diverse expenses than the management of the only one. The same basic equation governs the economy of other financial services.

Besides, the poor do not have enough assets that can use as collateral. Even when their own land, they often don't have the property title. This implies that banks have virtually no recourse against defaulting borrowers (Hernando De 1990).

The planners of the states concerned and experts favor the development of international commercial banking sector specializing in transactions involving amounts and often neglect the institutions that provide services to households with limited resources. While these types of households represent the largest part of the population.

Because of these difficulties, when the poor are brought to borrow, they must often rely on family or local lenders who practice high interest rates. A summary of 28 studies on the rates interest informal loans from 14 countries in Asia, Latin America and Africa concludes that 76 % interest rates charged by lenders are local more than 10 % per month, and among them, 22 % more than 100 % per month. These lenders generally practice for the poorest higher rates for the least poor (Robinson 2001).

2.6. Solution offered by microfinance

The credit market does not work perfectly in many countries in the developing world. Informal creditors require interest rates too high. These rates hinder investment, innovation and growth. But economic growth is in the opinion of many economists today a necessary condition for development (Robert, 1988). All the solutions presented by microfinance are to overcome the difficulties related to the specific characteristics of the rural credit market.

It is possible for the formal credit institutions to improve their information on client characteristics and reduce the risk of bankruptcy of the borrower. One successful example is the Grameen Bank in Bangladesh (Grameen Bank 2011).

The main idea is to cleanliness to groups or one of borrowers. A typical group consists of approximately five people (especially women). If a group member does not pay, any member of the group is not granted credit in the future. This implies that each group must choose carefully its members. Endogenous selection into groups allows to the bank practicing microfinance system to exploit the same information as informal agents use for their choice. Information asymmetries are reduced. Group members are also adopting some form of monitoring them.

Since the bankruptcy of a person in the group causes the destruction of the reputation for all, each member has an incentive to control others but also to help in case of difficulty. Collaboration in the group also produces other positive externalities for everyone. But give credit to a group can have its drawbacks. If a group member of bankruptcy, the dominant strategy for the other is not to repay the loan because the group's reputation is ruined anyway. Grameen Bank has solved this problem by crediting sequential. That is to say those members of the group receive funding one after the other.

In general, women are preferred by microfinance institutions. The majority of funds are allocated to groups of poor women (see Table 1). Thus, there is a way to promote equality between men and women. The systems seem to microfinance be a possible solution to the problem of access to credit in developing countries.

Unfortunately, this approach is not the solution to liberate the world from the scourge of poverty, but only a constructive solution. If we follow an article by Jonathan Morduch (1999) published in the prestigious *Journal of Economic Literature*, the microfinance systems have failed to fulfill all the promises.

Firstly microfinance is systematically biased with respect to the choice of persons to finance. Grameen and other systems have experience to find good debtors. It is therefore possible that only qualified borrowers already have taken advantage of cheap financing. Then, the loan amounts are low and require regularly reimbursement programs (see Table 1). Therefore, microfinance can not be used as a means of financing for sustainable investment and economic activities require time to achieve. In addition, lend to groups is also linked to a

lack of flexibility. If circumstances change quickly it could admit that some members of the group can adapt more quickly than others. In this case the person with the lowest capacity to adapt may hinder the development of the group. The structure of the microfinance system also causes an excessively conservative choice to perform collaborative. Since the bankruptcy of one member prevents others to obtain funding, they will not accept profitable projects with high risks. Finally, microfinance programs are not profitable. Situation "win-win" without funding and grant or outside government is often not possible. Administration costs are very high by debtor. But the sums lent are small and therefore the accumulated interests. They are often not sufficient to cover costs. According to calculations by Jonathan Morduch (1999) Grameen Bank charged an interest rate of 12 to 16.6 % per annum between 1987 and 1994. To achieve breakeven load it had a rate of 18.0 to 22.0 %. If we also took into account the fact that many microfinance institutions can refinance at an interest rate significantly below the market rate there would be a balanced interest rate for credit of approximately 35.0 % per annum.

Table 1: Characteristics of selection of microfinance programs

Institution/Variable	Grameen Bank Bangladesh	Banko sol Bolivia	Bank Rakyatl Indonesia	Bandan Kredit Indonesia	FINCA village Bank
Member	2.400.000	81.503	2.000.000	765.586	89.986
Average credit	\$ 134	\$ 909	\$ 1007	\$ 71	\$ 191
Credit period in months	12	4-12	3-24	3	4
Percentage of woman	95%	61%	23%	-	95%
Credit rural/urban	Rural	Urban	Rural	Rural	Rural
Credits only to groups	Yes	Yes	No	No	No
Guarantees required	No	No	Yes	No	No
Credit sequential	Yes	Yes	Yes	Yes	Yes
Repayment frequency	Per week	Flexible	Flexible	Flexible	Per week
Target segment	Poverty	-	-	Poverty	Poverty
Subsidies needed	Yes	No	No	No	Yes

Source: Morduch (1999)

2.6.1. Definition of microfinance

Marc Labie, defines the microfinance as the granting of financial services (generally of the credit and/or of the savings), with people developing a productive activity, generally of the crafts or trade and not having access to the commercial financial institutions because of their socio-economic profile (it acts of the poor, without fixed incomes, which do not offer any for the guarantees demanded by the commercial banking institutions) (Labiem 1999).

For many people and the general public in particular, the microfinance merges with the microloan. It indicates the devices making it possible to offer very small appropriations “microloan” to poor families to help them to undertake productive or generating activities incomes thus enabling them to develop their very small businesses. With the time and the

development of this particular sector everywhere in the world, the microfinance widened to include from now on a range of services broader (credit, savings, insurance, transfer of money etc.) and also wider customers. Microfinance is not thus limited more today to the granting of microloan to the poor but well to the supply of a set of financial products to all those which are excluded from the classical or formal financial system (CGAP 2010).

The CGAP (Consultative Group to Assist the Poor) defines microfinance as a “whole of financial services and banking aimed for the poorest populations”.

Microfinance it's also defines as a tool against poverty. It is building and serving the poor with a financial system which is a system of financial services. by tradition Microfinance was focused on providing a very standardized credit product. The poor need a various range of financial instruments to be able to build assets, stabilize consumption and protect themselves against risks (Srniec et al 2004).

The synthesis of these definitions makes it possible to define the microfinance as a means of economic development allowing the people in low-incomes excluded from the formal banking system, to improve their lifestyle, to increase their incomes, in their offering a set of financial services such as: savings, the credit, the insurance, the transfer of money, etc.

It should also be noted that microfinance does not affect only the countries in the process of development, but also rich countries.

Microfinance develops thus in the countries developed to help the populations excluded from the job market to create their own micro-enterprise.

2.6.2. Brief history of microfinance

The microfinance existed under various forms since well for a long time. We consider that informal mechanisms of loan and loan existed in Asia since several millenniums. In 1849, Raiffeisen created in Switzerland the first co-operative of savings and credit. In France, the brother Pereire is at the origin of the first experiences of creating banking mutualism Companies of Mutual credit. Later in the 1960s and 1970 the other attempts of public banks of credit are born in developing countries. (source :Microworld.org)

However, we consider generally that the "modern" microfinance appeared in the middle of 1970s in Asia and in Latin America. We retain first the example of Bangladesh and Grameen Bank created in 1978 by Muhammad Yunus, Professor of economy at the

University of Chittagong (see Figure 3). He tried to look for a concrete answer to the crisis famine which crossed his country (Counts 2008).

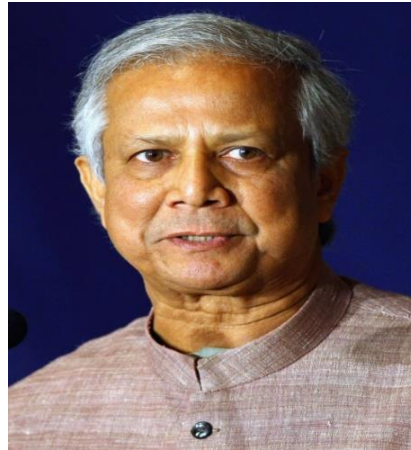


Figure 3: Muhammad Yunus (2006)

Source: Kallie Szczepanski-about.com Guide, (2006)

Determined to experiment practical solutions, Professor Muhammad Yunus began to visit Bangladeshi villages (See figure 4). During one of these visits to Jorba, he found a group of 42 women who made stools in bamboo. Because they had no stockholders equity to buy raw materials, they had concluded a market with local storekeepers who gave to them of what to buy raw materials in exchange for which they had to sell them stools to a definite price, hardly upper to the price of these raw materials. Professor Muhammad Yunus was surprised discovering that the total amount of the needs for these 42 women to develop their activity in an independent way was 27 USD. He lent them the money of his own pocket, without interest, so allowing the group to sell their stools to better prices and to go out of this cycle of debts which connected them to the local traders (Helms, 2006).

This is the way how Grameen Bank (the bank of village) was born and popularizes the united credit, the credit assigned to a group member of which each of his stands by others, to take advantage of it and pay off it (Robinson, 2001).



Figure 4: Muhammad Yunus speaks with the borrowers of the Grameen Bank

Source: Jean-Charles, (2001).

From now the offices of Grameen Bank are present in more than 80 000 villages, and count more than 6 million borrowers. In 2006, Professor Muhammad Yunus received the Nobel Peace Prize. (Grameen Bank 2006)

The success of Grameen Bank which now counts as customers more than 7 million poor Bangladeshi knew an echo in the whole world. In practice, it proved to be difficult to copy this experiment. In the countries where the population densities are lower, it is much more problematic to reunite the conditions of profitability to create services and trade of proximity.

It confirms that Grameen Bank demonstrated not only the poor repay their credits, but that they can pay high interests and that the institution can therefore cover its own cost.

May be that's why Muhammad Yunus said:

“I did not intend to create a bank, but I wondered how the poor could improve their living conditions. In the year 1974 was the year which shook me to the core of my being. Bangladesh fell in to the grips of a famine, I was disgusted by the futility of economic knowledge that I was teaching. I knew someone who wanted to borrow to develop his business, but no bank would accept. I solved the problem by paying out of my pocket, but it was a personal solution. I was looking for an institutional solution. I offered myself as a guarantor obtained permission to money from the bank and gave to people. At the same time, I came to develop some rules. It worked and I increased my bank loans. Reimbursement was 100%, but the bank was not convinced by the demonstration: what you do is too small. It proves nothing. So I did it in seven villages, but the bank did not believe it. Then I made these loans in an entire district that bankers had identified for me. They were still not convinced. So I decided to create my own bank” (Counts 2008).

Inspired by the successes of Grameen Bank, many institutions of microfinance appeared in the 1970s and 1980. Most of them started their activities as NGO and were financed by subsidies resulting from public and private money they became profitable and quickly increased the number of their customers. They allowed to demonstrate that the poor people were solvent although they cannot offer of financial guarantees. So, the microfinance has proved a viable business, and the poor people constitute a real market today (Robinson 2001).

Later, in the 1990s, it realized that the industry of the microfinance could not count that on the financing by subsidies. Therefore, certain institutions restructured to attract public or private commercial investments. Structures specialized in the financing of the IMF appear. They propose loans in the IMF which give then to their customers (Robinson 2001).

In 1997, was the first summit of the microcredit in Washington; it was a real turning in the story of the microcredit.

As the interest for the microfinance grows, other models outside NGO, are encouraged, to create an economically viable industry, able of offering to the populations disadvantaged the complete financial services at the right prices, while guaranteeing a reasonable return to the commercial investors. Besides the numerous microfinance companies which exist nowadays, various big bank institutions also entered the market of the microfinance, such as the Swiss Credit, the Deutsche Bank and Citigroup. Little by little, the microfinance became integrated into the classic financial system.

At the end of 2008, almost 15 billion USD had been invested in the microfinance through the institutions of microfinance, the majority from organizations in favor of the development such as the World Bank, but with a not insignificant part from a variety of private sources and in commercial purpose. Also, other financial services such as the "micro-savings" and "the micro-insurance" come to enrich the range of services of microfinance.

The biggest Microfinance Institution is in Asia, particularly in Bangladesh and India, In China, however microfinance is only beginning. In Latin America. Microfinance is historically very strong in Bolivia (Accion is one of the first networks of microfinance of the world). It recently developed rapidly in Peru and in Mexico.

It develops in a very dynamic way in Africa in politically stable countries such as Benin, Senegal, Mali, Kenya, etc. It was a big success in Morocco and is quickly progressing in the Middle East (Palestine, Egypt and Jordan).

It is difficult to plan the future of the microfinance, but various studies consider that today 10 000 IMF affects more than 190 million customers in 85 countries. It estimates that 500 million people are always in expectation of financing. The access to financial services is one of the manners for the poorest to reach other part of the development such as health and education. And it is maybe the one of the biggest issues in the development of microfinance in coming years.

Furthermore, 2.5 billion young generations will become adults in 10 to the next 20 years and it seems uncertain that the traditional labor market can take up such a population growth.

Microfinance as well as the other forms of promotion of the auto-entrepreneurship will play probably a big role and will be more important in the world economy.

2.6.3. Characteristics of microfinance institutions

In simple terms, a microfinance institution is an organization that provides financial services to low-income people who have no access or limited access to the formal financial sector (traditional banks). Within the sector, the term microfinance institution today refers to a different variety of organizations, diverse in size, structure and degree of their legal status (NGO, association, mutual or co-operative savings and Credit Company, bank, financial institution etc.).

Depending on the country, these institutions are regulated or not, supervised or not by monetary authorities or other entities, may or may not collect the savings of their customers and the general public.

The image that we are mostly made of an MFI is the one of a NGO, an organization totally and almost exclusively dedicated to the range of financial services of closeness which aims at assuring the economic and social auto-promotion of the low-income populations (CGAP, 2006).

Many forms of organizations are active in microfinance. Of different sizes, they can be profit or non-profit, regulated or not, or not authorized to collect savings. Many MFIs started

as non-profit organizations in the form of NGOs, credit unions, or public bank. Today an increasing number of MFIs are regulated partly profit companies because it is a condition for being allowed to collect savings. NGOs, cooperative or credit union, bank, nonbank financial institutions are all possibly status for MFIs.

The important goal for MFIs is to reach, sustainably, a large segment of the population, in particular rural and poor households, small enterprises, and women, who are normally excluded from the credit market. For example in Guinea The extensive assessment of the poverty profile undertaken in the context of the PRSP identified zones with low degrees of urbanization, underdeveloped infrastructure, production and communications equipment, as the poorest of the country. In Guinea, rural population represents close to 70 % of the total population, and rural poverty accounts for 87.5 % of national poverty, with nearly 18 % of the rural population living in extreme poverty. (Conde et al 2001)

Other institutions with large existing infrastructures, such as state owned financial cooperatives, banks, and even retail chains can participate a important role in reaching out the poor.

Therefore, there some very important issues in Microfinance Institutions are:(Adra-nepal 2006)

1) - MFIs structure of: most MFIs are connected to NGOs, and are often incorporated as such, or as nonprofit organizations or other forms depending on the legal structure of their country of origin, credit unions, on savings cooperatives. In a number of countries, commercial banks have become large providers of microfinance services. Other institutions with large existing infrastructures, such as state owned financial cooperatives, banks, and even retail chains can participate an important role in reaching out to the poor.

2) - services and Functions: the poor need a wide array of financial services, from vehicles for savings collection, to credit and various loan products. The importance of these two functions differ from country to country. There is some evidence that this often the case in africa. As savings institutions, MFIs are useful in helping the poor to save and to establish some credit history and financial record.

3)-customers: microfinance institutions are drected to poor people, including micro entrepreneurs but also, and increasingly, individuals that face severe barriers to entry into the conventional financial system.

4) - Management risk: because MFIs direct activities towards a risky clientele, they have to develop appropriate solutions to risk management. Those include group lending, where a group of borrowers is collectively responsible for the repayment of loans of each of its members (this model was pioneered by Grameen Bank in Bangladesh in the mid-1970s)

5) – Operations of Financial : Given the nature of the services performed by the MFIs and their clientele, MFIs usually operate with small balance sheets, loans and deposits of limited size, on average 50 USD or less for loans and 5 USD for deposits. MFIs usually operate at high costs and low revenues because of substantial overheads and fixed costs, due to the labor-intensive nature of microfinance lending and to the high risk associated with their clientele.

As a result, MFIs usually charge high interest rates to borrowers. However, many MFIs are not financially profitable and are dependent on the support of donors, which include domestic and foreign NGOs, Governments, or foreign official donors. A challenge for MFIs is to reach sustainability in the medium and long term.

2.6.4 Social banks/Rural banks

An old but interesting approach, tested new methods of econometrics by Burgess and Pande (2005) is the concept of social and rural banks. Many economists believe that the requirements of creation of rural banks are ineffective. They argue that the programs initiated by the Government increases the barrier to entry in the banking sector in the cities and the possible surplus is captured by local elites and not the poor peasants. This argument is applied to the whole economy in an article of Djankov et al. (2002). Ultimately, many authors say that social banks did not reduce rural poverty and even prevented economic growth.

However, the evidence in favor of this argument remains low in fact; we see that countries with better developed financial systems can exploit opportunities for growth. The development of financial systems can also stabilize the national economy with favorable consequences for the country in question. These arguments provide the basis for state intervention in the banking sector. Robin Burgess and Rohini Pande (2005) use data from an expansion of bank branches in India. In 1977 the Central Bank of India has introduced the rule of "1:4". This rule provided that for each open new branch in a city already served by a bank the main company was established four branches in locations without access to banks. The rule "1:4" led to the creation of more than 30.000 rural banks in poor villages and towns

without financial institutions before the introduction of the rule. Robin Burgess and Rohini Pande (2005) calculated the effect of the program on poverty and total production. They found a 1.0 % increase in the number of rural banks reduce rural poverty by 0.36 % and by 0.55 % increasing local production.

In addition, social banks allow the poor to save. Table 2 presents OLS (Ordinary Least Square) estimates of the effect of the program. The variable poverty is defined as a rate of people living on less than one dollar per day. The variable "general trend" tries to take into account the overall development of the economy in India. The creation of rural banks had an effect of reducing rural poverty grace of financing granted and with the ability to save. Urban poverty was not affected in a significant way by the creation of rural banks. This seems logical and can also test the robustness of the results. It is important to note that the coefficients have no immediate interpretation. The importance is placed on the negative sign of the coefficients and their statistical significance. After all, social and rural banks increased the standard of living and have not prevented economic growth as some economists supposed.

Table 2: Effects of poverty on social banks

Estimation / Variable	poverty rural	poverty rural	poverty urban	poverty urban
Share of rural credit banks	-1,52a	-	-0,67	-
Share savings rural banks	-	-2,22a	-	-1,05
Variables "General Trend"	Yes	Yes	Yes	Yes
Adjusted R2	0,72	0,66	0,91	0,89
Control variables	Yes	Yes	Yes	Yes
Number of observations	503	503	503	503

Source: Burgess and Rohini (2005)

However, the conclusion that rural banks represent an optimal policy of fight against poverty would be premature. Due to the high number of bankruptcies (approximately 42 % of loans) the program was very expensive. Then social banks do not take into account asymmetric information and specific characteristics of rural credit. This also explains the

failure rates exorbitant. In addition, banks are often criticized by social right not to follow a policy of redistribution to the expensive poor. The program in India also depended on interest rate subsidy. During the 80s the interest rate in the rural branches was 11 % per annum. By cons, subsidiaries urban loaded a rate of 14 % per annum. One could argue that these subsidies had a negative effect on the development of urban areas. The theoretical and empirical research on social and rural banks is still without ambiguity to explain problems discussed above before deciding on the final policy to adopt.

2.6.5 Microfinance and the Millennium Development Goals

Access to financial services increases the capacity of the poor to achieve the MDGs by their own means and sustainable manner. Financial services enable the poor to increase and diversify their revenue, raise human property, social and economic life which improves their lives in ways that reflect the multidimensional aspects of poverty. Experience shows that the poor choose to invest in a wide range of goods: improving nutrition, improvements in health, access to education, repair the roof of their house and extend their small businesses.

It is well-known that the majority of the world population, mainly people in developing countries living on less than 1 USD per day, has no access to formal financial services. A recent study by the World Bank concluded that three microfinance institutions (MFIs) in Bangladesh, which were 50 % directly related to microfinance, reduced the level of poverty of poor clientele. This impact is even more significant in extreme poverty than moderate poverty (Khandker et al, 2005).

In early 2005, the Microfinance Summit Campaign affirmed that it will contribute to the achievement of the Millennium Development Goals, particularly those aimed at reducing the half of extreme poverty by 2015.

The Campaign was also extended until 2015 with two main objectives:

1. Ensure that 175 million of the poorest households, particularly women in these homes receive credits allowing them to realize independent economic activity and other financial and business services by the end of 2015.
2. Ensure that 100 million of the poorest families in the world spend less than 1 USD a day adjusted for purchasing power parity (PPP) over 1 USD per day adjusted by the end of 2015 (Millennium project, 2006).

The evaluation of the achievement of these two objectives is a challenge: we must create effective tools that can accurately indicate whether a household lives on less than 1 USD per head per day, and if subsequently the incomes of the household cross this threshold. Microfinance organizations have already realized the importance of knowing their customers better, particularly their level of poverty. Official policies, partners, donors and operators also consider the microfinance as an effective approach to achieve the Millennium Development Goals, especially that of reducing poverty to half by 2015. Some microfinance organizations have already begun to create tools to assess the poverty level of their clients and whether they succeed in break free.

2.6.6 The role of microfinance in poverty alleviation in LDC's

The alleviation of poverty was a key objective of most of the development policies and programs, including the microfinance programs (Hulme et al 1996).

Microfinance has proved to be an effective and powerful tool in the reduction poverty. As other numerous tools of development, however, it is not enough penetrate the poorest of society. The poorest constitute the great majority of those who have no access to primary health care, housing, good food and basic education; also, they constitute the majority of those who have no access to microfinance.

The positive role of microfinance in the global effort to reduce extreme poverty comes up regularly in discussion topics, sometimes as a creed that is pronounced.

Increasingly, doubts are expressed on the fact that microfinance systems actually affect the population living in extreme poverty that can be defined as 50 % below the poverty line.

In 2003, CGAP found that the majority of clients of microfinance actually ranged around the poverty line.

Three approaches oppose in reality when we approach this question:

- a) Those who believe that microfinance cannot touch most of the poor in a sustainable manner;
- b) Those who instead believe that it is possible and large-scale;

- c) Finally, a voice through which recognizes that it is not clear but the search for innovations to strengthen microfinance services to the poor must be maintained.

For the former, the application does not actually exist: families living in extreme poverty in small isolated communities without basic infrastructure, markets or no use of a credit so that it will enable them to repay the capital at a time and interests. These people have actually need other interventions are not the responsibility of the microfinance system (Robinson 2001).

In addition, there are not only the poor people who ask for microfinance services. Without this type of services, the category of less poor are nonetheless vulnerable could also switch to the extreme poverty.

In 2001, the CGAP identified the experience of BRAC (Bangladesh Rural Advancement Committee) in Bangladesh with its generation program of income for the development of vulnerable populations is interesting in a title. In 10 years, he touched about million women, combining the distribution grain (WFP - World Food Program) saving services and credit courses (small livestock, agriculture and gardening, fishing and commerce): two-thirds of these women came out of absolute poverty and no longer require government assistance. This program has cost a total of only 135 USD per beneficiary.

It should be noted however, only a third of women, program was not successful. Experience probably shows that the combination of elements of food security and promotion (income generating activities) is probably more efficient than schemas based only on the support, even if it does not say that it may completely replace programs social, as Matin and Hulme (2003) noted.

Microfinance has indirectly a positive influence on nutrition and health because income increased through participation in programs of microfinance invariably will lead to higher nutrition and greater access to health care.

Graham (2000) concludes that: “Nutritional indicators also seem to improve where Microfinance institutions have been working. Hashemi and Morshed cite a study conducted by the World Bank in collaboration with the Bangladesh Institute of Development Studies, which showed that the Grameen Bank not only reduced poverty and improved the welfare of participating households, but also enhanced the household’s capacity to sustain their gains

over time. This was accompanied by an increased caloric intake and better nutritional status of children in households of Grameen Bank participants”.

Microfinance also plays a crucial role in the realization of the third Millennium Goal, to promote gender equality and empowerment women. Presently, 70 % of people living in absolute poverty (on less than 1 USD per day) are women (Cheston et al 2002).

World leaders finally began to realize that poverty alleviation will only be achieved through the empowerment and also economic improvement of women. Thus, microfinance is an integral component to new development strategies because it allows women greater autonomy and control over their economic well-being.

A case study of Guinea was conducted in order to determine whether microfinance has an impact on women’s empowerment. The study shows that “running a successful business does not only contribute to women’s improved well-being, it also helps indirectly and directly to their empowerment. The increase in working capital is particularly important for women’s empowerment. In almost all cases, the increase in capital has given women more options and greater control over their businesses and their lives (Cheston et al 2002).

The Trust Bank Program in Guinea has clearly contributed to the empowerment of women in a number of ways. Access to credit and business training has helped women to develop and improve the leading to increased respect, decision-making and their businesses. Power in the home and community. Advice and peer support has helped women manage their triple roles as mothers, wives, and businesswomen. Education and experience in leadership have helped women become more confident and capable leaders (Cheston et al 2002).

Microfinance clearly contributes to a greater economic stability and well-being of poor families through increase in their income, health, nutrition, education and empowerment, but can microfinance actually lift families out of poverty? Answer is yes.

Microfinance is proven to improve the standard of living of many families to such a degree that they are completely lifted out of their impoverished situation.

3. Brief description of Guinea

3.1. Geography

Guinea Conakry , know officially as the republic of Guinea located in west of Africa see (figure 5), Guinea with an area of 245,857 km ², between latitudes 7° and 12° 30′ North and longitudes 8° and 15° West. has a population estimated at 10.2 million inhabitants. Conakry, the capital, has over a million inhabitants and biggest city, also the centre of Guinea's economy, education, culture and commerce. (Source: Businessafrica.net)



Figure 5: situation of Guinea in the map of Africa

Source: <<<http://www.worldatlas.com/webimage/countrys/africa/gn.htm>>>

Guinea, shares common borders with six (6) countries including: (see figure 6)

In the North West by Guinea-Bissau (385 km)

- North Senegal (330km)
- East by Mali (858km)
- The South-East by Ivory coast (610km)
- In the South-West by Sierra Leone(652km)
- At the South by Liberia (652km)
- To the West by the Atlantic Ocean.



Figure 6: Guinea with his limited country

Source: <<<http://www.aircraft-charter-world.com/airports/africa/guinea.htm>>>

With its 24 ethnic groups: The most prominent groups are the "Fula, Mandinka and Susu".

Guinea is divided into four natural regions (See figure7) with different characteristics ethnic, climatic and geographic which are: (GIAPA 2012):

1. Guinea Maritime or Lower Guinea (La Guinée Maritime): located along the Atlantic Ocean and backed by the Fouta-Djallon, it is populated by Susu. Its is where Conakry, the country's political and economic capital, is located, Its vegetation consists of mangrove, palm and coconut trees and its covers 18% of the country. The big rivers (Rio Nunez, Rio Pongo, and Konkoure) flow into the sea. Maritime guinea's climate is marked by heavy rains, especially on the side where the monsoon blows. Maritime Guinea with its immense fine sand beaches that stretch for miles is an excellent destination for beach tourism.
2. Middle Guinea or Fouta Djallon area: located at the center of the country, it covers about a third of the country. Is dominated by the Fouta-Djallon Mountain which are: Mount Laura (1515 meters) is found in the north in the Mali Mountains and Mount Tinka (1425 meters) are the highlights. This area is mostly populated by Fula. The climate is mild and many rivers have their source in (Senegal, Gambia ...), which earned Guinea the name of the Water Tower of West Africa.
3. Upper Guinea: it occupies another third of the country dominated by ethnic Mandinka whose traditional activities are farming, hunting and cattle raising. It is watered by the River Niger. Upper Guinea is a savannah

region suffering desertification in several places. It is confronted with the brushfires and deforestation due to the cut and burn system farming. The climate is dry and hot with a harmattan dominant in March. Its have two seasons in the year, the winter from May to October. From November to April summer season.

4. Guinea Forest: This area is mainly mountainous and is largely covered by forest. Mount Nimba rises to 1752 meters and is very rich in iron ore. There are several ethnic groups, including Kissiens, Toma and Guerze. The foresters are planters and cultivators. The population of Guinea forest suffers from the distance between the capital Conakry and region.



Figure 7: map of republic of Guinea with his region divided by four (4).

Source: Sangaré Abdoulaye, 2010

3.2. History

The name Guinea. In the African tradition, women generally refer to men. History teaches that: the first Europeans to discover the coast of Guinea found a woman along the ocean and asked her “what is the country name?” the woman respond in Susu (the dialect spoken on the coast of Guinea) I am a woman, go to see the men on the coast witch mean in susu: " n'tan guinée nan nan." Because the woman didn't understand what the man asked so the European thanked her and understand that “guinee” mean the name of the country noted Guinea as the country name. Every time they met another country climate and vegetation similar to that of the country they had discovered (Guinea), they called Guinea plus a second name. Thus there are 4 different Guineas today: The Republic of Guinea or Guinea Conakry, Guinea Bissau, New Guinea and Guinea Equatorial. (guineeconakry.info 2005)

Population

The Nalous, the Baga, Susu settled on the coast of Guinea in the eighth century, followed Djallonkés originally called Mandingo in the eleventh century. In the fourteenth century, the region of Upper Guinea was part of the Ghana Empire and Mali was as well populated by the Malinke of origin Mandingo. In the eighteenth century, the Fulani brought Islam to North Africa and occupied the region pushing the average Soussous Guinea to the coast. In the 1800s, Almamy Samory extends its territory to the south (current Guinea forest) inhabited by the Kissi, Tomah, Guerzé, and Manoh. Colonization fixed the boundaries of Guinea in 1893. (GIAPA 2012)

Contact with European

The Portuguese were the 1st to discover the Guinean coast in the fifteenth century. They set up counters and developed with the help of local population, trade in spices, palm oil, gold, ivory and slaves. The Berlin Conference (1884/1885)" cutting of Africa between the different powers" awards Guinea to France, Guinea Bissau to Portuguese and Sierra Leone to English.

Resistance to colonial penetration

Before the arrival of Europeans, Guinea was shared by the major warlords who themselves were on conquests of territory to expand their empires. These warlords waged war against years of colonial penetration in Guinea. Almamy Samory Touré was the most formidable warlord in the anti-colonial fight and occupied the trays of Upper Guinea, a part of South-eastern Guinea (current Guinea-Forest), and part of Upper Volta (current Burkina Faso). His empire was called "Empire wassoulou" with its capital Bissandougou. Among the many battles he fought against the French, the war Woyonwayako (2 April 1882) was the most prominent where he challenged the French despite all the heavy weapons they had. He used the "tactics of scorched earth" and had a powerful cavalry. He took the title of Almany in 1884 and the Fama later. Neutralization of the king of the empire Babemba Sikasso (current Mali) weakened Samory. Through the complicity of its own militia, Almamy Samory Touré was captured by the commander Gouraud on the 29th of September, 1898 and exiled to Gabon where he died 2 June, 1900 as a result of pneumonia. Resistance continued in Forest Guinea under the leadership of warlord Zégbéla Togba, and Maritime Guinea. In 1901, Guinea is defeated and became an integral part of French West Africa.

The French colonization

Once called “The Rivers of the South” Guinea is was now under French domination. The companies of the Metropolis settled down to exploit raw materials such as bauxite, rubber, gold, diamond. They developed the export crop by using the natives (autochthons) as labor.

In the early 60s General De Gaulle, President of France, organized a referendum in the French colonies in which the colonies were free to choose to integrate the French community or become independence. (Schmidt, 2007)

The consequences of “NO” from Guinea to De Gaulle

Independence of Guinea was proclaimed on October 2nd, 1958. France was unhappy; there is no choice but to withdraw its army the following month its army, its state employees (including teachers in schools), the credits and cooperation. France closed all the doors to Guinea. Imports to France from Guinea were banned and France refused to sell products to Guinea (even textbooks) and there was no way that the Guinea could join the French cooperation (zone CFA franc). France also vetoed the installation for the entrance of Guinea to the United Nations. These economic and political blockades were led to the destabilization of the young state. Guinea had to use the means of edge to provide its citizens with minimal services. It was very difficult to find urgent solutions. For example, to teach science in universities, teachers from Russia had to come to Guinea to give lessons at the University. These teachers took 3 months courses in French Guinea and began to teach the following months. In the absence of French teachers, Guinea opted for the teaching of national languages in primary schools. 8 languages (Kpelle, Kissi, Bassari, Malinke, loma, Pulaar, Susu and Konianke) were selected to write the first syllabary “textbook” Guinea. The French language was no longer taught in schools from the 1st to the 8th grade. It was a simple discipline of the 9th year of college. The imbalance of education is probably the saddest consequences of the rupture between France and Guinea. The consequences are still visible today on the level of officials Guinean, Guinean students. The training of Guinean, the international relations of Guinea (Partnership, cooperation.), governance (political), education of the population, involvement in development, the initiative, the language policy (common language for national communication) are the challenges facing the Republic of Guinea.(Schmidt,2007)

3.3 Languages and ethnic groups

Guinea is composed of three important ethnic groups: the Fula (40 %), Madinga (30 %) and Susu (20 %). The 10 % remaining consist of minority ethnic groups, in particular the Foresters. Each ethnic group prevails in a natural area: the Fulbe Fouta or in Middle Guinea, the Madingo in Upper Guinea, Lower Guinea Susu and the forester in the forest region.

Political System

Guinea has a presidential system, which means the President who is the head of state, is elected by general suffrage for a period of seven 7 years. The Prime Minister is nominated by the Head of State.

Legislative power is provided by the parliament and consists of one chamber, the National Assembly, which seat 114 deputies elected by universal suffrage for a term of five 5 years.

The highest court is the Supreme Court headed by a President nominated by presidential decree. Since the introduction of multiparty politics in April 1992, fifty political parties were recognized.

In the political conditions in 1984 of April, the military committee of national recovery took control of Guinea. The independent Guinea's first president Sekou Toure one week after his death, the Military Committee of National Recovery immediately abolished the constitution. The only political party (PDG), organizations of women's and its mass youth, announced the establishment of the next Republic. In the constitution place, the government was initially based on decrees and decisions issued by the president and different ministers. (Carvalho 2011)

Political parties were controlled. All prisoners were released by the new government also declared the protection of human rights as one of its main objectives.

The country's first multi-party presidential election took in 1993 the place. The elections were marked by lack and irregularities of transparency on the branch of the government. Municipal and legislative elections were held in 1995. Conte's ruling PUP (Party Unity and Progress) party won 76 of 114 seats in the national Assembly, in the midst of opposition affirmations of government tampering and irregularities.

In 1996 of February thousand of unhappy soldiers mutinied in Conakry, the presidential offices were destroyed and several of civilians were killed. Middle-ranking officers tried unsuccessfully to transform the rebellion into a coup d'état. The government of Guinea made hundreds of arrests in connection to the rebellion, and has 98 soldiers and civilians court in 1998. (Carvalho 2011)

In December 1998, Conte was re-elected to another 5 year term in a vitiated election that was in 1993, an improvement. After his improvement of economic conditions and re-election until 1999, Conte changed direction, making big and regressive changes to his cabinet.

Beginning in September 2000, the rebel army of revolutionary United Front (RUF), supported by President Liberian Charles Taylor, started the attacks into Guinea from Sierra Leone and Liberia. These attacks destroyed the town of Gueckedou (in Guinea) as well as some villages.

After the first attacks in September 2000, President Conte, in a press radio, accuses the Liberian and Sierra Leonean refugees living in the country of fomenting war against the government. Approximately, 3000 refugees were detained, although most were released by the end of year.

In November 2001, a national referendum, which some observers believe was flawed to amend the constitution to permit the president to run for an unlimited number of terms and to extend the presidential term from 5 to 7 years, was passed.

During the trip of the president Conte to Japan in late 2003, Conte fell ill and returned to Guinea after medical treatment in Morocco. Conte's illness fueled months of speculation in 2003 over a possible successor. Conte resumed a more active schedule in late 2003 and planned to run for president in elections scheduled for December 2003. Opposition parties and the government began talks in September 2003 over electoral reform although most observers indicate that little time remains to enact the substantive change demanded by most opposition parties. (Carvalho 2011)

In the morning early hours of 2008, December 23, Somparé Aboubacar, the National Assembly president announced on television that Conté had died at 6:45pm local time on 22 December after a long illness, without specifying cause of death.

Six hours after Somparé announced Conte's death, a statement was read on television announcing a military coup d'état. This statement, read by Captain Moussa Dadis Camara on the name of a group called National Council for Democracy, said that "the government and the institutions of the Republic are now disbanded". On the 3 December 2009 Captain Moussa Dadis Camara suffered a head wound in an attempted assassination in Conakry headed by his Lieutenant Sidiki Aboubacar Diakité, who is known as Toumba. Captain Camara underwent surgery at a hospital in Morocco.

Since December 2010 a new politician have been elected, who is now the actual president Alpha Conde.

3.4 Economics

Guinea is a potentially very rich country with its natural resource. Political instability since 2009 has severely impacted the Guinean economy: negative growth, accelerating inflation, doubling the budget deficit. In the end of 2011, Guinea could rely on a clear improvement in its macroeconomic performance (growth of around 4%, revenue up sharply) and better management of public finances.

Its water system is exceptional, which help it to be ranked among the countries of the South Rivers in the colonial time and today it is known as the water tower of West Africa. As such wealth water that dreams its neighbours Sahelian can only be favorable to agriculture and livestock.

The economic potential of Guinea is very vast both in agriculture, livestock and fisheries, the level of its mines and industries;

- **Fishing:** Guinea has 300 km of coastline and 56,000 km² usable. Provides an annual production of 150 000 tones of Industrial fishing and river fishing, with 100 000 tones per year contributes in part to the sufficiency of the Guinean population.
- **Agriculture:** the most exploited culture are rice, maize, cassava, fonio, cola, citrus, tropical fruits and coffee. They provide 24% of GDP despite low growth rate (2001: 0.1%). The Guinea counted 7.5 million hectares of arable land, but only 3 million hectares are cultivated.
- **Livestock:** annual meat production reached 30 000 tones.

- **Hydroelectric:** Guinea has the largest reserves of hydroelectric throughout western Africa, with 6600 MW. But these reserves are still little exploited and Guinea still suffers from shortage of electricity supply.
- **Industry:** 80% of companies are installed in the capital, they are almost exclusively oriented towards the domestic market and do not contribute to exports. These companies direct their activities towards the food, beverages, food cubes, building materials and tobacco.
- **Mines:** Guinea has the largest proven reserves of bauxite in the world, with 5.6 billion tons. Its operations amounted to 17 million tons annually. It also contains other mineral resources such as diamonds (reserves estimated at 300 million carats), iron (750 million tons) and gold (1000 tones). The entire sector alone provides 85% of exports from Guinea. (U.S. Geological Survey- Mineral Commodity Summaries, 2009).

The economic potential and variety of Guinea does not allow the country to grow in light of the economic and social situation is deteriorating dramatically.

On other hand, Guinea's economy is gradually emerging from the tumult caused by poor management and the socio-economic crisis which occurred from 2009-2010. Guinea was subject to international sanctions during this transition period and the country suffered a drastic drop in its exterior financing. The circumstances had a negative impact on macroeconomic aggregates. (Carvalho 2011)

GDP growth rate stood at -0.3% and 1.9% in 2009 and 2010 respectively. This economic slump is mirrored by a stagnating primary sector which grew by 3.2% in 2009 and in 2010; a secondary sector that is moderately recovering at 2.3% (2010) as against -3.1% (2009) and a tertiary sector emerging from a slump, improving in 2009 to -7.3% and in 2010 to 1.1% .

During the transition period, the budget deficit (on commitment basis) doubled, rising from 7.2% (2009) to 14.2% (2010) of GDP. Over the similar time, inflation rise brusquely from 7.9% to 20.8% notably reflecting a 25% in 2009 and 75% in 2010 augmentation in supply money, wing to a large extent on the BCRG's (central bank's) decision to finance to the deficit by increasing money supply. The reserves of Guinea's fell to 26.2% - 253.67 million

USD in the end of December 2010 as against 343.82 million USD at the end of December 2009

His foreign reserves only 1.7 months of import of goods and services are covered on 31 December 2010 and on 31 December 2011 it's covered to 2.9 months of imports.

Guinea's economy relies to a large extent on the growth of the mining sub-sector which accounts for nearly 60% of exports and 15 to 20% of GDP, but only accounts for 25% of the country's internal revenue. (FMI, 2006)

To improve the bleak economic picture, the new authorities in Guinea embarked on reforms with the main objective of curbing inflation, stimulating economic growth and reducing the incidence of poverty. It is expected that the reforms strengthen the management of community finances, let the acceptance of a new code and improve the business environment. In practical terms, the reforms as a priority, should lead to significant investments in growth projects, mainly those associated to energy and infrastructure, shared with the development of the sector mining.

The Republic of Guinea is supported in its efforts by the International Monetary Fund (FMI) with the sign of an Extended Credit Facility (ECF). Within this framework, an International Monetary Fund mission visited Conakry from 19th July to 8th August 2011 to review an ECF supported programme of 194.50 million dollars of tune. Guinea may well obtain a second payment amounting of 27.79 million USD in 2012 of September. In addition, the Guinean and International Monetary Fund authorities held talks on the HIPC initiative completion point. The triggers of the completion point are expected to be monitored following the conclusion of the first review of the ECF agreement and, where necessary, Guinea's external debt burden may be considerably reduced (FMI 2008).

4. OBJECTIVES

The main objective of the thesis is to give an overview of the topics regarding the role of microfinance in poverty reduction and the evaluation of main microfinance institution activities and their contribution to the poor in Guinea.

In explicit terms, the study intends to analyze the role of microfinance in the increase of income and improvement of the living standards of the poor households by helping them to have access to financial services through the microfinance institutions.

The intention of this thesis is to help the readers to understand the people living in poverty and their specific needs and help to find a basic orientation in the field of microfinance, and form an opinion on how microfinance helps to put through the MDG's.

The specific objectives are:

- To describe microfinance, its structure and possibilities.
- To determine the impact of microfinance in Guinea
- To find out how microfinance institutions can help to reduce the level of poverty in Guinea.

The Secondary objectives:

- Serve as a resource of data for specialists in the field of development economics and finance
- Document that explains to everyone interested in poverty, microfinancing MDG's etc.
- Aimed at representing a useful instrument for the private sector to better understand the interaction between the microfinance process and poverty.

5. METHODOLOGY

The study of this thesis presents a search of progress done by MI's in poverty reduction and to obtain a wide variety of information about poverty, microfinance and its impact to reduce poverty in Guinea.

This thesis study has conducted by collecting of gradual gathering of various data and their analysis.

Important facts were found:

- From the expert papers, web pages of certain international, national or some regional organizations and literature
- Data are typically draw from official statistics provided by governments
- The most valuable sources of information were internet (articles from scientific databases - Web of Science, Scopus, Science Direct; online official documents and surveys; online book sources, UNDP, World Bank, International Monetary Fund).
- Direct contacts with 2 PhD students from France in the microfinance domain, where they gave me all the information about their surveys in Guinea for 3 months stay.
- And individual interviews with (the Directors and Managers of microfinance institution "Credit Rural" in Guinea).

In some cases, Guinea may have more recent data that have not yet become available to the expert web page and specialized agencies. In other cases, the Guinean Government does not provide the data required, and the responsible international agencies estimate the missing values. Finally, even when the Guinean Government regularly provides the necessary data, adjustments are often needed to ensure international comparability.

6. Overview of microfinance and microfinance institutions in Guinea

During the 26 years of a socialist economy, there was no microfinance institution. To meet the needs of people, the regime rather established the National Bank for Agricultural Development (BNDA) which had to make loans to rural cooperatives development. Unfortunately this bank is remained in the capital and traded with the privileged regime. For some projects such as the PAG, the rice project Siguiri and other components had microloans. Here too, the experimental nature of the project has had a negative impact on the sustainability of credit programs that were ultimately sacrificed on the altar of the test and the populist character of their organization.

It was necessary to wait for the change of regime to see the new authorities going further into the matter because the country felt a considerable request of financing of the rising free market economy;

1984: Transition from centrally planned economy by the socialist market economy to a liberal type after the death of the first President Ahmed Sékou Touré.

1984: Establishment of the first regulatory framework for Microfinance (included provisions in the Banking law);

1986: reform of the banking system by closing banks states and the emergence of private banks;

1987: Implemented by UNDP of the IAP (Integrated Assistance Program for Companies) ancestor 3AE (Autonomous Agency Assistance to Businesses);

1988: Establishment by the Caisse Francaise de Development in collaboration with the Government of the Guinean project CMG (Credit Mutuel of Guinea);

1989: Established by the French Development Fund and the Government of Guinea project CRG (Rural Credit of Guinea) SA;

1991: Implemented by USAID of the Project PRIDE ancestor PRIDE / Finance Guinea;

2000: Credit Mutuel at the time was the largest microfinance institution in Guinea, closed its doors.

2001: following the bankruptcy of mutual credit. The Rural Credit meanwhile, was institutionalized

Since then, other microfinance institutions created by institutions or by national partners, have made their appearance in 2002 to the present day, notably Yètè Mali (to help yourself), the CAFODEC the Migui the Rafoc, crates etc. NAFA

Today, there are 13 institutions of microfinance recognized by the national territory, (CGAP 2013) which are:

1. Credit Rural of Guinea (CRG-SA)
2. Credit Unions Savings and Credit (CPEC-G Yètè Mali to Guinea)
3. PRIDE Finance
4. Autonomous Agency Assistance to Businesses (3AE)
5. Mobilization for investment in Guinea (MIGUI)
6. Center Support and Training for Development, Investment / Credit and Civic Education (CAFODEC)
7. Community Banks Savings and Credit Guinea (CCEC-G)
8. FINADEV
9. Mutual Savings and Credit for Artisanal Fishermen of Guinea (MECREPAG)
10. RAFOC
11. Coopec NAFA
12. GAAES / NAFAYA
13. MGE (Guinean House Contractor)

With the advent of Professor Alpha Conde to power in 2010, significant policy actions were engaged and that comprise:

- The creation of a National Agency for Microfinance attached to the Presidency of the Republic responsible for designing and implementing government policy in microfinance
- The improvement of a national plan for the inclusion financial that defines the new framework for sector development and lays the foundation for the

promotion and the reinforcement of the institutional framework to attract more actors

- The announcement of the availability of IMF credit of a fund of 130 billion to support the activities of young people and women who are the most vulnerable country.

The main problem of the sector lives remains the lack or the insufficiency of the support that are made. For over twenty years, financial support has not exceeded for 15 million for all microfinance institutions. This seems very small in comparison with neighboring countries such as Mali and Senegal.

Besides, it should be pointed out that in Guinea microfinance institutions play a vital role in the economy because of their proximity to production centers and distant rural areas. Expectations of the population and economic actors towards the IMF are enormous and deserve the special attention of policy makers.

Being this and to qualify itself better, the current challenges faced by MFIs are the following ones:

- Balancing the social mission of the fight against poverty and economic mission of profitability for MFIs;
- Increase the scope of action of MFIs by making quality financial services to reach a larger number of people;
- Mobilizing sufficient resources for development of the microfinance sector through the collection of local savings and intermediation with the traditional banking system.
- Mobilize resources in the medium and long-term government and donors to ensure the development of strong and professional structures able to cope with the growing needs of the population.

6.1 Financial systems and microfinance in Guinea

This point will be dedicated to the presentation of all the various structures making credit for population available, with the aim of obtaining a panorama of what exists in Guinea. It will also see what are the most common credits, for which financing and for which category of the population.

6.1.1 Classic banks sector

Primary banks are still very underdeveloped in Guinea, although the creation of the Central Bank of the Republic of Guinea (BCRG) has played and continues to play a principal role in the establishment of agencies within the country, but very insufficient to cover all the needs of Guinea.

Briefly will be presenting the main banking structures in Guinea, and then determine the areas covered by them. (GIABA 2012)

BCRG: IS the central bank, in other words it is the bank of banks. It has three main functions which are:

- It controls major financial institutions, the banking law defines and supervises banks and insurance companies;
- In creating money, it must ensure not only the stability of its internal value in the fight against inflation, but to external stability in the management of foreign exchange reserves through the implementation of a policy adequate exchange;
- It is a financial agent of the State and manages the accounts of treasury, while participating in the financing of the budget deficit of the State by statutory advances and share proportion of revenues from the previous year.

BICIGUI: (International Bank for Trade and Industry of Guinea) is associated with a bank BNP Paribas Group, founded in 1985. It performs all the functions of a commercial bank. It gets first place in the banking system in Guinea because it covers 35-40% of the market. Its capital is 22 523 100 000 000 GNF and its principal shareholders are:

- 38.05% State Guinean
- 21.52% of the national private,
- 13.66% BNP,
- 8.64% French Agency for Development (AFD)

The SGBG (Society General of Bank Guinea), founded in 1985, obtained the second place in the Guinean market. Its capital is 6 billion GNF. It offers many products and services to its customers such as traditional banking activities (deposits, withdrawals and savings), financial support for enterprises (capital or renovation of the means of production), assistance

to developers, pre-financing of imports of goods and petroleum products, the management of pension funds (CBG Bauxite Company of Guinea) and financial support to the marketing of local rice. Its shares within the country is limited to nine cities, which are Kamsar, Kankan, Kindia, Labé, Mamou, N'Zérékoré Sangarédi and Siguiri.

ECOBANK, established in 1998, is presented to the third network in Guinea. Its sole shareholder is Ecobank Transnational Incorporated. Its mission is to provide banking products and financial services to persons, institutions, government and businesses. The scope of its activities is very limited, since it is present only in two cities, the capital and Fria.

Apart from these three major banks, Guinea has other banking systems, but with a very limited field of action, and mostly focused on the capital, which are:

- BIG (Islamic Bank of Guinea), created in 1983,
- The BPMG (Bank Populaire Marocain-Guinéen)
- The ICB (International Commercial Bank), created in 1997,
- The UIBG (International Union of Bank in Guinea), established in 1987.

The banking rate is very low in Guinea

- 1 cash desk for 160 000 inhabitants in the capital,
- 1 cash desk for 300 000 people nationally.

The banking and financial system has grown considerably since the opening of the central bank in 1961, but remains very limitedly accessible spread in the country and concentrated in the capital. Its presence is very partial and many areas have no banking system identified to enable people to use financial products and services.

Along with primary banks, there are many micro finance systems on the territory of Guinea, to allow the population excluded from formal financial services, access to credit to expand their business.

6.2 Microfinance institutions in Guinea

Guinea has 7 main decentralized working systems in the area of microfinance, which are (CCAP 2012):

1. Rural Credit of Guinea (CRG-SA)

The CRG is a decentralized system that provides credit and mobilizes savings for the poor. The former project was institutionalized in November 2001 as a limited company (SA Society anonym). This CRG-SA has 120 cases covering all prefectures.

Credit services offered by the CRG are: (Conde et al 2001)

- Credit Agricole Solidarity (CAS) ,the financing of agricultural activities (seed, fertilizer, labor, capital equipment leasing ...), with an interest rate of 3.5% and an obligation to provide a united group of at least five members;
- Credit Commercial (CC) to finance the marketing of agricultural products as a priority, and marketing of various products, with an interest rate of 3.5% and an obligation to be a member of a solidarity group ;
- The Rural Credit Solitary (CRS) for financing of small craft and commercial activities, with an interest rate of 3.5% and the requirement to establish solidarity group of five people;
- The Medium Term Credit (MTC) for the financing of micro entrepreneurs and the purchase of goods, with an interest rate of 3% and the obligation to hold a deposit account for the CRG;
- Loans to employees for granting advances on wages
- Savings services offered by the CRG
- Deposit for Unpaid
- Term deposit paid 3 months at 1.25% over the period,
- Term Deposit paid 6 months to 3% over the period,
- 1 year savings plan paid 7%.

2. Network Yéte Mali

- Established in June 1997 under the initiative of the BCRG, the network has 13 unions and credit spread over the five districts of the city of Conakry. It offers credit services which are:

- The regular credit, individual credit capped at one million GNF, with an interest rate of 2.5% per month and the need to deposit 30% of the amount borrowed;
- Micro-credit group, reserved for women's groups 3 to 5 people, the amount is set at individual and 100 000 GNF, with an interest rate of 2% per month;
- The regular credit group on the groups operating in the same industry, with an interest rate of 2%;
- The great entrepreneurs and traders Conakry loan of up to 10 million GNF, with an interest rate of 2%.

Conditions of access to credit in this network are getting the guarantee of a third party, the guarantee and collateral materials and chattels.

The network also provides savings:

- ❖ Savings in view, which is mandatory for all members of the cooperative, with a half-yearly payment of 5 000 GNF costs for bookkeeping;
- ❖ Savings blocked or savings tontine, a single amount is blocked for a period of 3, 6 or 12 months with interest rates respectively 2.4 or 5%.

3. Pride Finance

The Integrated Programme for the Development of Enterprise, created in 1991 is an NGO specialized in microfinance. It has 14 cases, three of Conakry and eleven in the regions (Boke Dalaba, Fria, Kamsar, Kankan, Kindia, Kissidougou Labe Mamou N'Zerekore and Pita). Financial services it offers are small loans to micro entrepreneurs, 100 000 GNF to 5,000,000 GNF, with an interest rate of 3% per month. To access this type of loan, you must meet several conditions: profitability of the activity funded (the loan does not fund the start of the activity, but its consolidation and extension), the contributions of securities as deposit a third lien on minor equipment and inventories.

It is important to note that PRIDE does not finance agricultural production, even with strong demand.

4. Autonomy Agency Integrated Technical Assistance for Businesses

Founded in 1997, it is located in Conakry and has four branches: Kamsar, Kankan, Kissidougou and Pita. Its mission is to grant credits for the marketing of agricultural products, to finance educational facilities for the purchase of huskers, motoculteur ... of credit may range from one to five years and the interest rate annual is 15%.

5. Cooperation of mobilizing resources for investment in Guinea (migui)

Founded in 2002, cooperation has only one agency in Conakry. The main objects of concern trade credit at 70%, 20% and crafts consumption to 10%.

6. Financing for Development (FINADEV)

One box is active Conakry.

7. Network Credit Mutual of Guinea

This network was liquidated in March 2001 and resulted in serious mistrust of people towards the banking system in general and microfinance in particular.

This section clearly shows that farmers and specifically rural populations have difficulty access to the credit to finance their business. Decentralized systems are only partially present inside the country and the conditions of access are not accessible to all individuals requiring funding. They are low magnitudes, despite the high demand for rural finance and very little farming operations. An exception is, however, CRG, which alone covers the entire national territory. Conditions of access are limited to the creation of a solidarity group, which allows the most disadvantaged people to come together for financial assistance.

6.2.1 Other operators supporting the Microfinance

There exist a number of projects which operate in the field of microfinance. These other credit operators are among six and we will now analyze the offers of credit that they propose; (CCAP, 2012)

1. the Guinean house of the entrepreneur (MGE)

This NGO date of 2002, his siege is based in Kankan and it has several offices located in Kankan, Kissidougou N'Zérékoré and Siguiiri. The Credit services offered are:

- Loans "working capital fund artisans"

- Funds 'investment'
- Credits "development space"
- Loans for group purchasing,
- Loans ACM (Association of Mutual Guarantee).

The interest rate is 2 to 5% per month. Conditions of access to credit are the surety and the pledge collateral.

2. the Programme for Rehabilitation and Development (PRD)

Founded in 1993, this NGO is expanding its activities in the prefectures of Guéckédou and Kissidougou Macenta. Its main target audience are the poor peasants in rural areas. It offers two different credits:

- Credit to farmers to finance crop operations, purchases of inputs and agricultural equipment
- Credit to women to finance the commercialization of palm oil, soap, dye and other income-generating activity.

The interest rate is 10% per annum. The only requirement is access to credit to build solidarity groups.

3. The Proposed Increase In Food Resources Siguiri (PADRAS)

This project is an initiative of the NGO ADRA, Adventist relief agency and development. It finances income-generating activities and interests vary from 2 to 2.5% depending on the type of loan. Conditions of access to credit are building a savings of 10% of the amount granted for trade and 5% of the amount allocated for agriculture. All twelve sub-prefectures Siguiri is covered by the project

4. The Financial Services Association (FSA)

The FSA structures self-managed savings and credit, set up by IFAD projects. They offer short-term credit to finance agriculture, livestock, handicrafts and small businesses. Interests vary between 5 and 10% per month depending on the type of loan amounts between 25 000 GNF and 500 000 GNF. Conditions of access to credit are the surety, collateral materials, lien on property and livestock.

The area covered by the FSA is vast and has eighteen regions: Beyla, Boffa, Boke, Dubréka Fria, Kankan, Kérouané, Koubia, Labe, Lélouma Lola Macenta, Mali, Mandiana N'Zérékoré Télimélé, Tougué and Yomar.

5. The Community Growth Funds (CGF)

This network was created in 1999 at the initiative of Project Expanded Natural Resource Management (PEGRN). Its objective is to provide financial services in rural areas. There are 65 boxes divided into prefectures Dabola Faranah, Kindia Kouroussa Lélouma and Tougué. The purpose of credit for the purchase of seeds, farm equipment, mill, animal traction. The interest rate is 4% per month. Conditions related to the credit surety and moral guarantee.

6. Professional Organizations (POs)

Federation of Farmers of Fouta has 18,000 members divided into 450 groups under 23 unions. Administrative regions of Mamou, Labe and prefectures Gaoual and Koundara represent its area of intervention, 10 prefectures. It provides credit inputs to its members through groups that ensure the guarantee (surety).

These operators do not cover the entire national territory and affect a small part of the Guinean population. After presenting the formal banking system, decentralized systems microfinance projects and acting in favour of micro-credit, it can be observed that as microfinance in Guinea, despite numerous existing structures, is poorly developed and covers a very small scope of the national territory.

6.3 An observation: microfinance is still underdeveloped in Guinea

We have seen through this part very heterogeneous agricultural credit conditions reflecting the disparity interventions and therefore the existence of a non-harmonized. It possible to identified several issues that hinder the development of microfinance: (source: Minister of Microfinance in Guinea)

- It appears that microfinance institutions cover a very small part of the country with only 7% of the population affected by the credit.

- The structures are too dependent on external resource (grants) that do not allow the perpetuation of systems.
- The supply of credit does not include all the needs of rural areas.
- There is a need of communication and information systems.
- There is also a need of coordination between the actors of microfinance.
- It is easy to see a lack of financial resources and therefore a lack of funds.
- The current economic environment, including high inflation of the Guinean franc, has a direct impact on credit. Indeed, there is a sufficient amount less than five years, no longer sufficient. Financing needs are more important.

There is a variety of services offering credit for financing in the rural sector, but the structures are insufficient to the extent that they do not cover the entire country and are far from satisfying all demands. Funding to farmers and remote villages still a minority, structures are hesitant to finance because they bring their much less guarantees than a trader for example.

In the area of microfinance, this part has allowed to recognize the centrality of the CRG which now appears as the Guinea Bank and the demands of credit rural are increasing and funding is limited. The CRG is the structure that works best for the poor, but it's actions are far from meeting all the needs of the population.

6.4 History of CRG and its characteristics

This point has for main objective to present the history of the CRG, that is the project of rural credit in the initial, then its institutionalization in 2001. It will also be the opportunity to present all of its savings and credit.

In the 80s, a new mode of action in the fight against poverty appears: credit to the poorest. Grameen Bank (institution developed from 1977) is the first to demonstrate that it is possible to distribute credits to vulnerable populations, while having satisfactory repayment rates, ensuring the sustainability of such an action. Grameen Bank will inspire lots of experience of micro credit, notably through the concept of "surety", that is to say the structure of membership in groups of at least five individuals jointly and severally responsible for the proper reimbursement of the credits of each. (Godquin M 2002)

In 1987, the Ministry of Rural Development of the Republic of Guinea commissioned a study on the financing needs of rural populations. The study by IRAM (Institute for Research and Application of Development Methods) emphasizes the importance of the needs of rural populations. Following the results of this study, a decision was made to hire a credit to support the population.

Created in 1988, the project Rural Credit of Guinea has aimed to make rural people access to micro-credit through the creation of associations established in local credit unions. This project falls within a first experimental step between 1990 and 1991, with the establishment of the first two cases of the network, and Téliimélé Koundara. It is under the supervision of a steering committee composed of key ministries, the Central Bank and donors. (Godquin M 2002)

The initial objective of the CRG is to enable an economically disadvantaged population to create itself additional income to improve their living conditions. CRG will adopt the practices of the Grameen Bank, while adapting to the Guinean reality. He will opt for a cap on credit amounts to make them unattractive for large landowners and the richest merchants. The CRG is a basic logic is to establish a methodology for the distribution of credit to rural populations and expanding this mode of action by the multiplication of settlements. (Doligez et al 2009)

On 28 November 2001 the CRG has become a limited company or society anonym (SA), which marks the culmination of a long process of institutional, political, social, economic and legal construction. (Doligez et al 2009)

The mission that settled today the CRG is to contribute to the social stability and to the economic development of the country by an access widened by the rural populations and urban in financial services of closeness adapted to their needs.

The objectives of the CRG-SA are :(Creusot A 2001)

- To approve the local mutuals
- To build and enforce internal rules and standards within the network
- To check the local mutuals- Make all the necessary technical services for the local mutuals
- Represent and develop the network.

CRG has many partnerships, AFD (French Development Agency), which is the main donor for over fifteen years. After funding the first three phases of the project, it now funds the Society Anonym (limited society) in grants for network consolidation.

In the side of his French partners, it is necessary to add the multiple donors who participated in the financing of the network, we mention among other support European Development Fund, the African Development Bank, CRG also spent many agreements with NGOs, the French Association of Volunteers for Progress and Veterinary without Borders in other various protocols on credit.

6.4.1 Products of credit and savings of the CRG

CREDIT first of all, to benefit from a credit in the CRG, it is necessary to satisfy a number of conditions which are: (source: Minister of microfinance in Guinea)

- The residence: every applicant of credit has to be resident permanent of the locality covered by the cash register;
- Age limits: every applicant must not have more than 65 years old for the men and 55 years old for the women;
- The national insurance contribution: the non-associated savers must pay 1 000 GNF and the partners 2 000 GNF;
- The CRG operates on the basis of the surety, in other words, it pools the risks.

Joint guarantee applies on all types of credit, solidarity groups ranging from 3 to 10 people and up to 25 members for the villagers contracts.

Another basic principle of the CRG is the progressiveness. Indeed, it's better to test the reliability and management capacity of borrowers, first in small amounts, and then increase regularly the amounts of loans according to the results. The maximum limits are established to allocate available funds a large number of borrowers, and to always serve the same clientele, that is: farmers, ranchers, fishermen, traders and artisans who needs funding, but without access to traditional banking system. In contrast, those with big needs must have access to the services of traditional banks. (Conde et al 2001)

SAVINGS

The CRG has three savings products:

- Demand deposits unpaid
- Term deposits, 3 or 6 months, paid at the rate of 5% or 6% per year
- The savings plan, paid at the rate of 7% per year.

SAFE SERVICE

The CRG offers the possibility to deposit funds securely to the fund management fee calculated up to 2% of the highest balance of the quarter.

6.5 Roles and Impact of Microfinance Institutions for the population.

To discuss these impacts its important to make an overall assessment of institutions in early 2012 through a table of indicators. See (table 3).

Table 3 Indicators

Numbers Topics	31.12.09	31.12.10	31.12.11
Outstanding credit (GNF billions)	61.48	75.23	104.69
Outstanding savings (GNF billions)	39.59	55,89	76.69
Number of clients	171 322	231 516	309 333
Number of crates	368	397	404
Reimbursement rate	94%	92%	95%

Source: (Tremen S, Leblanc G 2012)

The analysis of this table shows the following lessons:

Geographical coverage and the number of people affected by microfinance institutions are far superior to those of the banking sector. The penetration rate is 5% in the microfinance sector while just over 1 %.(source: Minister of microfinance in Guinea 2012)

This score should be improved by strengthening the capacity of institutions to improve their performance and no doubt by improving the overall situation of the country.

However, the true merit of microfinance institutions is that they intervene directly and predominantly in favor of the poor sometimes very poor. Customer not exceeding 20 000 people.

To highlight the impact of this evidence, we will look at a few impact studies carried out in the largest microfinance institution that is the Rural Credit of Guinea, which holds over 60% market share in the sector, true some surveys made by two (2) Ph.D (S  verine Tremen and Guillaume Leblanc) students of institute of research and application method of development from France (Paris) during their mission in Guinea in 2012.

The socio-economic effects of access to credit

The evaluation of the effect of the action of an MFI, especially its socio-economic impact on affected populations providing credit is the problem of the vision that we can have this concept.

It is common to see a double vision of the concept of impact in microfinance. A first vision can be described as "minimalist", believes that the establishment of a system of microfinance helps improve access to sustainable at lower costs to the borrower financial services (in relation to informal sector: wear, private loans). Therefore there must be a social impact in the sense that such a company frees up income that can be used for something else (better nutrition, access to care, education).(source: Minister of microfinance in Guinea,2012)

The second approach, "maximalist" required to recognise that there is improvement in the social situation to measure it through reliable and accurate measurement indicators of a visible improvement both in terms of health, education or even participation in the processes of democratic representation.

From the effect of access to credit for households, we realize that the benefits of the activity funded by the credit go first to the family, before being used for any other purpose.

Surveys conducted on the ground has allowed to analyze the different effects of credit associated local branches, particularly in terms of economic activity and changes that could lead to the household level.

Effects on economic activities

On agricultural activities, all associated surveyed in 20 cases visited, the credit allowed (Source: direct interview with Tremen and Leblanc 2013)

- 59% of the cultivated area by expanding the use of outside labor,
- 45% of the cultivated area by expanding the use of materials of agricultural work,
- 45% to expand the cultivated area by purchasing new seeds,
- 20% for selling production into new markets,
- 12% to intensify production through the purchase of fertilizers.

By noting clearly that the main effect of the credit is the extension of surfaces cultivated before the intensification and the extension of the zone of sale.

If we look at the main expenditure financed by Credit Agricole, we observe that 79.5% of the funds are used in part for the purchase of seeds and 85.5% for the rent al of labor. The credit has helped to increase employment through the use of the hand outside work.

Also noting clearly that access to credit had an impact on members, however, it remains difficult to quantify given the often inaccurate in terms of profitability of lending.

In terms of direct effects of the credit, the credit is most often used to develop the activity. In the sample of 307 borrowers surveyed, it appears that access to credit has enabled 38% of them to change their activity. (Source: direct interview with Tremen and Leblanc 2013)

In agricultural activities it appears that access to credit allows the extension of cultivated through the use of labor and equipment for agricultural work surfaces. The intensification of the use of inputs concerns only 12% of shareholders benefiting agricultural credit.

For trade, the effects induced by access to credit, are mostly identifiable at the increased activity (by an increase in inventories and working capital in particular). It's also noted a decrease in the level of dependence on supplier credits and expansion of sales areas for 15% of respondents.

Effects on households

During the realization of surveys, the question of the effect of access to credit on the family aroused many of palaver it seemed clear to respondents that the benefits obtained by a father or a mother had to go first to the family, given the standard of living of households.

Observing the results, any type of credit confused, 78% of respondents reported that the gains obtained by the credit have increased the registration of their children in school, 95% to improve access to care health, 94% to improve the nutrition of the family and 93% to allow the purchase of clothing for the household. (Source: direct interview with Tremen and Leblanc 2013)

The populations affected by the crates are considered poor; it is not surprising that the gains are directed to basic needs such as access to care and feeding.

From all the surveys made by the 2 PhD student (Severine Tremen and Guillaume Leblanc) they notice that, "Through the interviews with associates, credit plays an important and indispensable role for widowed women. These women now alone must provide for their children, food, education and clothing".

7. Results and Discussion

"Social responsibility" and "sustainable development" are key themes at a time when banks are making profits records. While the gap is widening between rich and poor.

However, it is important not to demonize or fantasize about microcredit potential of this financial instrument. That is why microfinance seems to be an intermediate solution to increase the purchasing power of poor populations, still it is the rich who are responsible for financing and organizing microfinance. There is a real risk that they are a charity activity to feel good and no more. Many questions may arise about the ability of microfinance to reduce poverty. The reduced interest rate, the irrational use of money from donors, the exploitation of beneficiaries, the categorization of the poor, inconsistency of development projects, etc are all concerns which need to be clarified.

An important question is this: Is there evidence that microfinance reduces poverty?

For many supporters of microfinance, the evidence that microfinance is an effective tool in the fight against poverty is obvious. This belief was subject to a number of criticisms. Sociologist Jon Westover found that most of the evidence of the effectiveness of microfinance to reduce poverty based on anecdotal case studies. He sifted through 100 articles on the subject. Only six items took on enough support data quantitative to be representative. These six publications, one of them found that microfinance reduces poverty. Two others were unable to conclude that microfinance reduces poverty although authors attributed a positive effect on the program in question. The other 3 studies reached, roughly the same conclusion: the majority of participants felt that their financial affairs had changed favorably but some had the opposite feeling. (Westover, 2008)

in the case of Guinea, there is evidence that microfinance actually reduces poverty, true the interview with director of microfinance and from 2 PhD student from France during their stay in Guinea from all that, the study made, demonstrate that the effect on household, the economic and socio economic activities proved that the associated borrower which are 75% are very satisfied, which means they get at time the reimbursement granted amount and take more credit and the associated borrower which are 13% are just satisfied that's mean their activities evolve and associate that are not at all satisfied are 12%, the reasons are that their activities do not run well. (See graph 2).

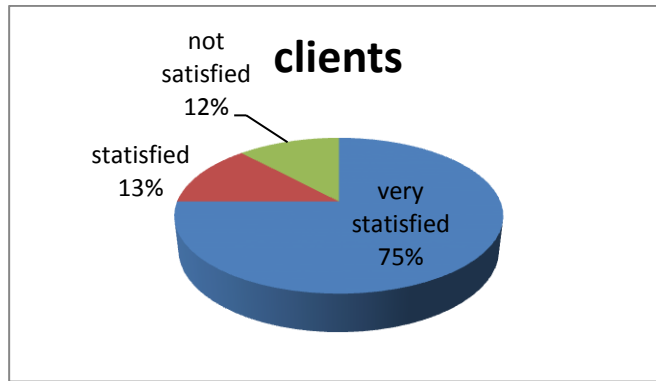


Figure 8: how clients are satisfied

Statistics show that the number of poor Guinea borrowers increases, because MFIs (credit rural in Guinea) have been very successful in addressing the poor and their financial needs.

Therefore some study also proved that, According to the interviewees, the CRG has strong point:

- 66.4% appreciate hospitality in caisse,
- 51.2% felt that the training provided before each new associated credit is informative and of good quality,
- 31.3% found that the officers and elected the caisses do a good job because they grant loans on time,
- 27.7% thank CRG to help the poor.

On the whole sample 66.4% of associates even said not find any weak point operation about the CRG. The associate satisfaction is also evident by the fact that resignations are rare.

The guide to the Microfinance by Boye, Hajdenberg and Poursat, recognizes the fact that some studies have concluded that there is an absence of any impact negative or otherwise and this, hardly gives the studies any significance because of too low frequency of these results. This guide which-held several studies to years apart and on different continents, has shown that the action of MFIs collecting impressive results, both economically with impact on the level of income and the ability to save as a social with effects such improvement on children's schooling, access to care and improving habitat.

Access to finance allows the poor to benefit participating in economic opportunities.

Whereas higher earnings are no means automatic, customers have showed that reliable sources of credit provide a fundamental foundation for planning and growing business activities.

Studies show that clients who join and stay in programs have better economic conditions than clients who didn't stay in programs, signifying that programs contribute to these improvements. Some studies also showed that on a long period of time many clients do actually graduate out of poverty.

However access to microfinance opens up possibilities of improving the economic conditions of the poor. Sustainable financial services that improve the conditions of the poor depend on careful program design, on efficient operations, a clear vision of sustainability, and on regularly trying to understand the needs of client. A large number of impact studies have been made for example on Grameen Bank from various perspectives, they have all come with result showing the material impact on its members through the wide range of social and economic indicators, including higher income, better feed intake, better consumption on clothing, better nutrition, less child mortality, better accommodation, more adoption of family planning practices, better healthcare, improved access to education for children, participation in social and political activities, women empowerment . (YUNUS, 2003).

The second big question is why does microfinance institutions have to charge high Interest rates for loans for the poor?

For to be sustainable in finance, banks need to have revenue, at least to cover expense costs. And thus, banks often request a high interest rate on the poor.

More specifically, the provision of financial services to the poor is expensive, especially when compare to the scale of lending. That is considered as the most important reason why commercial banks do not make small loans.

Just give an example: a 100 USD loan requires the human affair costs and other expenses similar to the loan of 1000 USD and more. Microfinance officers often have to visit homes, enterprises of the poor, and then appraise the reliability of borrowers through interviews with family members and their other acquaintances. And in some situations, the officers also have to regularly remind borrowers to repay the loan. These expenses can be

estimated about 25 USD. In terms of absolute value, it is not a big amount, but in comparison with the total the loan, it takes 25% value of the 100 USD loan. The rate of transaction costs in comparison with the total small loans is often high. Thus, banks often calculate the interest rate in high cost in order to cover the implementation cost.

Another hypothesis is compatibility with low interest rates profitability of MFIs and loan funds. With some calculations the result was: with 500,000 GNF credit must produce 445,000 GNF after one year to repay the loan at an interest rate of 17% and save 180,000 GNF and increase the level of living of 180,000 GNF (500 GNF per day). This gives a percentage of 89%. If a borrower does not reach this rate, it means it does not repay the loan, or it does not save or it does not improve his life. Similarly with 85,000 GNF taken after one year to 500,000 GNF loan, it is difficult for an MFI can be self properly. Because they must give 5,000,000 GNF, 128 credits per year to cover its expenses which average between 850,000 GNF and 1,000,000 GNF (salaries, office rent, water and electricity, labor costs and taxes, security guards, phone , displacement, etc..for small MFIs). The rate must be specified in the range to enable entrepreneurs to make opportunistic business long. Which is advantageous for the borrower and the MFI.

The poor need access to credit in sustainable and long- term way, therefore, MFIs have to continuously improve effectively and expand lending network. This will reduce costs of lending for these MFIs; and make chance for poor people to have access to capital and lower borrowing costs. Like everyone, the poor also need a variety of financial instruments in order to accumulate assets, stabilize consumption and protect themselves against risks.

8. Conclusion and Recommendation

Following this work, it is important to note that:

The analysis of the viability of MFI's in Guinea has highlighted two (2) tendencies:

- The largest institution which is the CRG is well organized and show very good results in financial terms
- The network called emerging (network Yéte mali, Pride Finance etc...) although having good results in financial terms, has great difficulty to implement and consolidate. The problem they face is the problems of Organization, Resources and Governance.

Microfinance institutions have long played a remarkable role in the fight against poverty. They are viewed as tools of entrepreneurship development at the local level in response to the issues of which classical institutions did not provide answers.

In Guinea, the microfinance has experienced remarkable expansion resulting in the increase of financial structures and the diversification of products and services offered to the population. It seeks to provide access to financial resources for populations excluded from classical banking in order to support their efforts to improve their income and living conditions.

Today, Microfinance contributes significantly to the fight against poverty. However, the average impact or long-term sustainability involves the financial services offer to target populations and this involves the sustainability of the Microfinance Institutions.

It should be noted that in addition to the enthusiasm of the people, the development of Microfinance follows from the commitment of governments and partners to support the development and promotion of the Microfinance considering the way microfinance contributes to economic growth and the fight against poverty.

The International Year of Microfinance was initiated in March 2005 and now the whole world is facing this tool to significantly reduce poverty. In Africa, the promotion of SME /SSI is one of the pathways identified for the creation of wealth.

However, major players in this sector must be better informed about the requirements of running a business. Accustomed to manage a more or less informal, it is necessary to train those involve to be competitive in the local market and the global market as well.

In addition, the focus was placed on the contribution of microfinance in the fight against poverty. Microfinance is a development tool among others and should be part of a broader framework of development assistance. Microfinance is not the only solution to the problem of development in Guinea.

Possible Recommendations:

To develop the microfinance sector at the national level, the governments in Guinea must play an important role, of promoting microfinance by establishing a legal and regulatory environment for such institutions to operate.

The weaknesses noted in MFIs in Guinea were mainly associated with the lack of management tools, development plan and difficulties in providing reliable statistical and accounting information.

The possible recommendation should be;

- that those responsible should acquire manuals accounting, administrative procedures and internal control and implement an accounting system with accounting professionals to enable record tracking.
- to have a management information system based on a computer system including general accounting and portfolio management.
- to strengthen the capacity of beneficiaries through training sessions and awareness in the management of credit, savings and how to improve their standard of living in the community.

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10. Appendix A

QUESTIONNAIRE FOR ASSOCIATED BORROWER

MODUL 1: CARACTERISTIQUE OF THE SURVEYS

1.1. Are you?

- Associated Borrower
- Associated in the queue
- Savers

1.2. The interview takes place in which region?

- Low Guinea
- Middle Guinea
- Upper Guinea
- Guinea Forestrv

1.3. The interview takes place in which caisse?

- | | | |
|-------------------------------------|--------------------------------------|---------------------------------------|
| <input type="checkbox"/> Banian | <input type="checkbox"/> Kamsar | <input type="checkbox"/> Mamou |
| <input type="checkbox"/> Bissikrima | <input type="checkbox"/> Kindia | <input type="checkbox"/> Marella |
| <input type="checkbox"/> Boffa | <input type="checkbox"/> Kissidougou | <input type="checkbox"/> N'zérékoré 1 |
| <input type="checkbox"/> Dabola | <input type="checkbox"/> Kolaboui | <input type="checkbox"/> N'zérékoré 2 |
| <input type="checkbox"/> Dalaba | <input type="checkbox"/> Koulé | <input type="checkbox"/> Sandénia |
| <input type="checkbox"/> Damaro | <input type="checkbox"/> Koumbia | <input type="checkbox"/> Sangardo |
| <input type="checkbox"/> Diecké | <input type="checkbox"/> Koundara | <input type="checkbox"/> Sinko |
| <input type="checkbox"/> Dinguiraye | <input type="checkbox"/> Lola | <input type="checkbox"/> Sinta |
| <input type="checkbox"/> Douprou | <input type="checkbox"/> Maférinya | <input type="checkbox"/> Tanéné |
| <input type="checkbox"/> Faranah | <input type="checkbox"/> Mambia | <input type="checkbox"/> Téliélé |
| <input type="checkbox"/> Ghessoba | | |

1.4. Gender Male female

1.5. Age :

1.6. District / neighborhood:

1.7. Distance from the caisse (of the place of residence):

1.8. Household Composition

Men: Woman: Children:

1.9. Occupations / activities: main activity + 2 secondary activities

Study code at the end	
--------------------------	--

1.10. Are you elected?

- Before
- Currently
- Never
- In project

1.11. During which period were you?

1.12. How long have you been elected?

1.13. Are you part of a group?

- Yes
- No

1.14. If yes which kind?

- | | |
|--|----------------------------------|
| <input type="checkbox"/> ACM | <input type="checkbox"/> Kilé |
| <input type="checkbox"/> villages contract | <input type="checkbox"/> Tontine |
| <input type="checkbox"/> Solidarity group | <input type="checkbox"/> Others |

1.15. Do you have other functions within the community?

- Political religious social

Precisions:

MODULE 2: STANDAR OF LIVING

2.1. What level of education have you?

EDUCATION

- No study Secondary study
 Primary study Graduate Studies, University
 technical study Islamic school

Nber of children at school / total

2.2. How many children are old enough to go to school?

--

ALIMENTATION

2.4. Last year, how many months in lean period of duration? (Corresponds to the period when the feed of the family is not sufficient)

POSSESSION OF ASSETS

2.5. Your village / neighborhood has it electricity? yes no

2.6. Which lighting do you use in your home?

- Electricity Oil lamp
 Generator Others:

2.7 Do you have any household electric appliances?

- Refrigerator Freezer Wash machine
 Stove TV None
 Others:

2.8. Do you have land? yes no

2.9. What surface?

2.10. Do you have livestock? yes no

2.11. Number?

2.12. Do you have a means of transportation?

- Care Motorcycle bike Cart None
 Others:

2.13. Do you possess the means of production?

- Sheller Motoculteur Moulin None
 Others:

Millennium Development Goals:

Goal 1: Eradicate extreme poverty and hunger

Goal 2: Achieve universal primary education

Goal 3: Promote gender equality and empower women

Goal 4: Reduce child mortality

Goal 5: Improve maternal health

Goal 6: Combat HIV/AIDS, malaria and other diseases

Goal 7: Ensure environmental sustainability

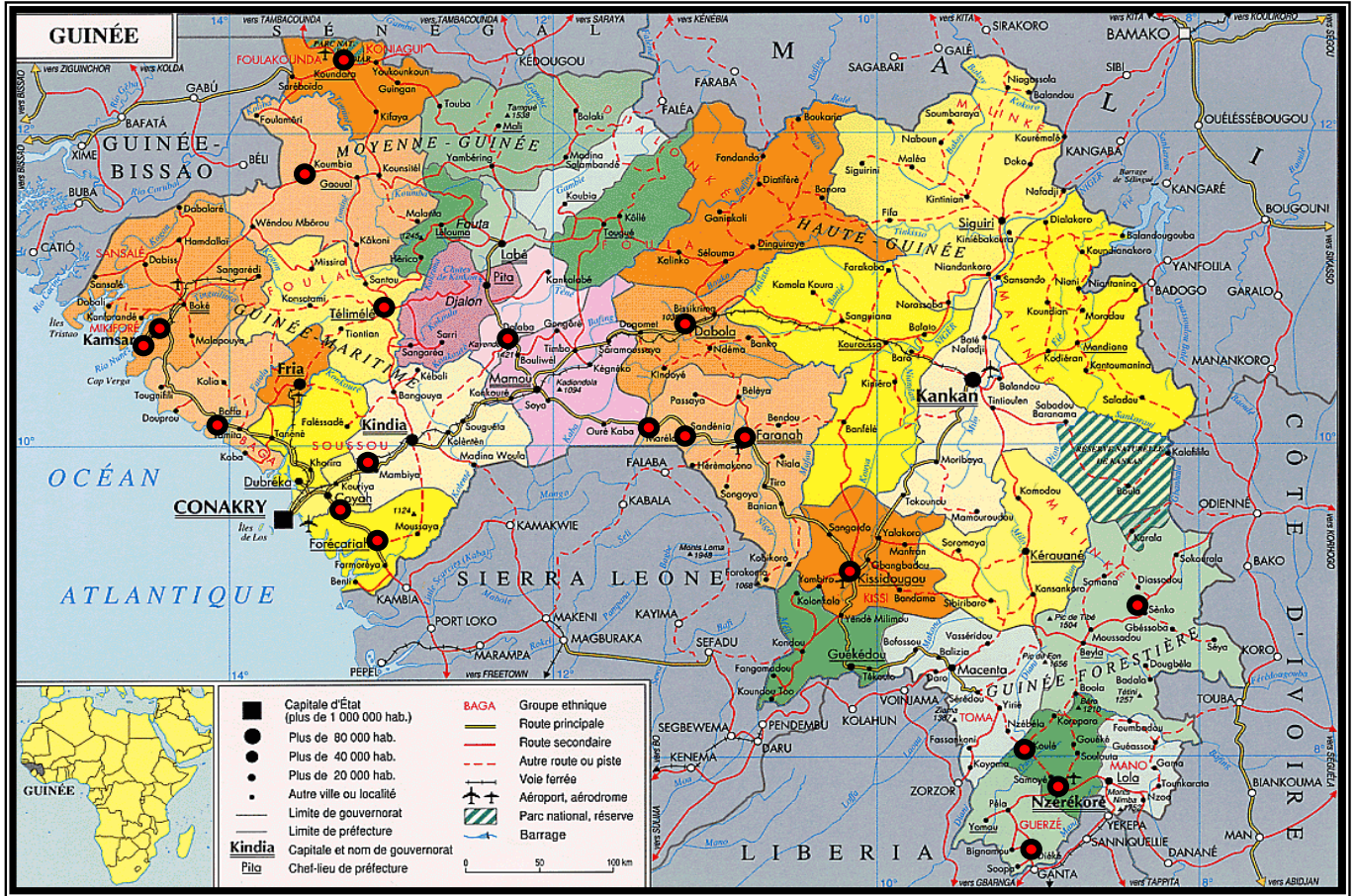
Goal 8: Develop a global partnership for Development

(Source: World Bank 2013)

Appendix B:

Figure 6: Detailed maps of the guinea

Source: (Tremin,Leblanc 2012)



● Caisses visted by the team