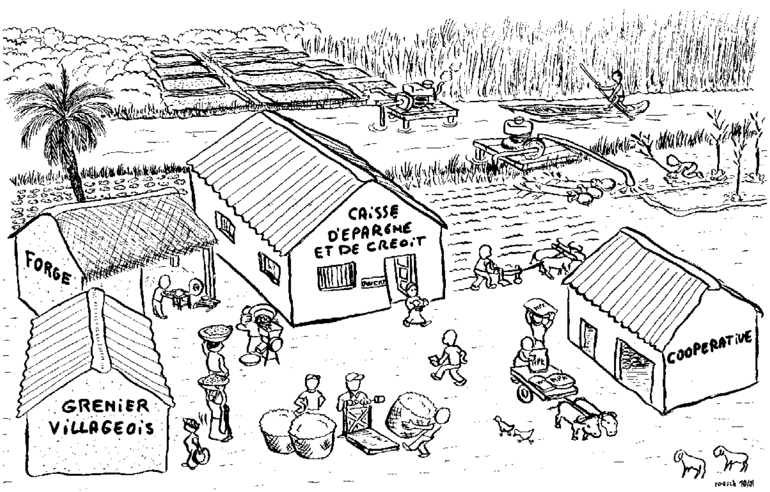
International Seminar

21-24 January 2002, Dakar, Senegal

Financing family agriculture in the context of liberalisation

How can microfinance contribute?

EXECUTIVE SUMMARY



Cirad - Cerise Network- Cta -IFAD - MFA - Afraca - Enda Graf

Abbreviations

ADRK :	Association de Développement de la Région de Kaya (Burkina)
AFD :	Agence Française de Développement
AFRACA :	African Rural and Agricultural Credit Association
ANADELP :	Association Nationale Pour le Développement Local Participatif (Mauritania)
ANED :	Asociacion Nacional Ecumenica de Desarrollo (Bolivia)
ANOPACI :	Association Nationale des Organisations Professionnelles Agricoles de Cote d'Ivoire (Ivory Coast)
FSA :	Financial Services Association
BCEAO :	Banque Centrale des Etats d'Afrique de l'Ouest
BNDA :	Banque Nationale de Développement Agricole (Mali)
BOA :	Bank Of Africa
CECAM :	Caisses d'Epargne et de Crédit Agricole Mutuelles (Madagascar)
CEMAC :	Communauté Economique et Monétaire de l'Afrique Centrale
CERISE :	Comité d'Echange, de Réflexion et d'Information sur les Systèmes d'Epargne et de crédit
CERUDEB :	Century Rural Development Bank (Uganda)
CIDR :	Centre International de Développement et de Recherche
CIRAD -TERA:	Centre de Coopération Internationale en Recherche Agronomique pour le Développement - Département Territoires, Environnement et acteurs
CNCA :	Caisse Nationale de Crédit Agricole (Burkina /Sénégal)
CNCR :	Conseil National de Concertation et de Coopération des Ruraux (Sénégal)
CRG :	Crédit Rural de Guinée
CTA :	Technical Centre for Agriculture and Rural Cooperation ACP-UE
CVECA :	Caisses Villageoises d'Epargne et de Crédit Autogérées
ENDA Graf :	Groupe de Recherche Action Formation (Sénégal)
FAO/AGSM :	Food and Agriculture Organisation of the United Nations - Marketing and Rural Finance Service
FCRMD :	Fédération des Caisses Rurales Mutualistes du Delta (Mali)
FECECAM :	Fédération des Caisses d'Epargne et de Crédit Agricole Mutuel (Bénin)
FEPRODES :	Mutuelle d'épargne et de crédit de la Fédération des groupements et associations de Femmes Productrices de la Région de Saint Louis (Sénégal)
FERT :	Formation pour l'Epanouissement de la Terre
FIFATA :	Fikabanana Fampivoarana ny Tantsaha (Madagascar)
FUPRO :	Fédérations des Unions de Producteurs (Bénin)
GRET :	Groupe de Recherche et d'Echanges Technologiques
GTZ :	Deutsche Gesellschaft fur Technische Zuzammenarbeit
IFAD :	International Fund for Agricultural Development
IRAD :	Institut de Recherche Appliquée pour le Développement (Cameroun)
IRAM :	Institut de Recherche et d'Application des Méthodes de Développement
MFA :	Ministry of Foreign Affairs (France)
MVIWATA :	Mtandoa Wa Vikundi Vya Wakulima Tanzania
PAMF :	Projet d'Appui à la Microfinance (Madagascar)
PASAL :	Programme d'Appui à la Sécurité Alimentaire (Guinée)
PASMEC :	Projet d'Appui aux Systèmes Mutualistes d'Epargne et de Crédit (WAEMU)
PRASAC :	Pôle de Recherche Appliquée au Développement des Savanes d'Afrique Centrale
ROPPA :	Réseau des Organisations Paysannes et des Producteurs Agricoles de l'Afrique de l'Ouest
SOCODEVI :	Société de Coopération pour le Développement International
SEXAGON :	Syndicat des Exploitants Agricoles de l'Office du Niger (Mali)
UNCDF :	United Nations Capital Development Fund
WAEMU :	West African Economic and Monetary Union

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EXECUTIVE SUMMARY OF THE DAKAR SEMINAR

INTRODUCTION : Motivations and objectives

Over the past fifteen years, microfinance, in various institutional forms, has been growing in importance in most of the countries of the South. This development began with a double objective: to fight against poverty by supplying sustainable financial services to those populations without access to conventional banks or other services capable of supporting their economic activities and their accumulation processes. With the collapse of the development banks and the disinterest of conventional banks for the rural sector, microfinance institutions (MFI) are today, for many countries of the South, the only financial operators in rural areas (apart from the informal sector). Very often, these institutions have rural origins (credit unions, village banks, financial services associations, …).

In the present context of the liberalisation of the Southern economies, the lack of access to finance remains a major constraint to the development of family agriculture[1]. Despite the closeness of microfinance to the rural community, the volume and type of product offered by the MFI have been found to respond inadequately to the specific financing needs of agricultural practices. Impact analyses show that the rural MFI are very willing to finance rural activities such business, handicrafts and food processing. These activities generate regular, relatively reliable, income with rapid capital flows that limit risks and give a high rate of return. Agricultural activities on the other hand, include a high degree of risk and returns that are often unpredictable. In addition, agriculture calls not only for short-term finance (that the MFI usually supply) but also medium–term finance, that the MFI have more difficulty in supplying. These factors all contribute to explaining why most MFI are so hesitant to lend to agriculture. The aim of making the financial services sustainable is accentuating this trend, with the MFI naturally focussed on the most profitable and least risky economic sectors so as to ensure their durability.

Agriculture is still one of the main economic sectors in most countries of the South. Family farming is in needs to be intensified and modernised, it also needs to invest for technical and organisational innovations… Most often, self-financing is insufficient to finance this modernisation. Moreover, the widespread movement towards the liberalisation of the agricultural sector is removing the last lines of public credit to agriculture, taking apart the mechanisms of securing credit linked to collection monopoly, and leading to a short supply of credit to agriculture.

In this context, the question as to how microfinance can contribute to financing agriculture becomes more acute.

Although the question of finance is crucial for the development of family agriculture in the South, few forums exist in which the different actors concerned (farmers and their organisations, financial institutions, political leaders, donors…) can meet together and confer.

CIRAD, the CERISE[2] network, CTA, IFAD, the French Ministry of Foreign Affairs, AFRACA and Enda-Graf worked together on the organisation of a seminar on this theme. This seminar was held in Dakar from the 21st to the 24th January 2002.

[1] The term agriculture is used here with a broad definition including field crops, market gardening, treecropping, livestock rearing and fattening.

[2] CERISE : Network created in 1999 by the GRET, IRAM, CIDR and CIRAD

Aims of the seminar

The seminar focussed on the following question:

'In what conditions can microfinance, in its various forms and within the limits of sustainability, effectively respond to the scale and specificity of agricultural financing needs in the context of liberalisation? '

Its aims were:

1. To review this question in the light of an analysis of different experiences of MFI in contrasting agricultural situations.

2. To create a forum in which the different categories of actor concerned could meet and discuss the question (farmers and agricultural organisations, microfinance projects and institutions, banks, NGOs, decision-makers, donors, researchers).

3. To put forward proposals for action on the question of agricultural financing and the contribution of microfinance adapted for each category of actor.

Six more specific working themes were retained:

- How can the microfinance services be adapted to meet agriculture's financing needs? Close-up on medium term credit

- Microfinance and securing credit to agriculture

- Microfinance, agricultural banks, and commercial banks: what partnerships can be made to finance agriculture?

- What are the ways in which donors can act to consolidate the contribution of microfinance to the financing of agriculture?

- Microfinance and farmers' organisations : defining roles and possible partnerships

- What public policies would strengthen the contribution of microfinance to the financing of agriculture?

The seminar brought together 144 participants from 28 countries of Africa, Europe and North America. Primary condition for dialogue, the representation of each of the different categories was relatively even among the participants: 22 microfinance institutions, 21 farmers' organisations, 12 banks, 20 development NGOs from the South and the North, 16 projects of support to microfinance institutions, 15 public authority representatives, 14 donor representatives (IFAD, World Bank, European Union, UNCDF, AFD, French Ministry of Foreign Affairs, GTZ), 16 researchers from Universities and research institutes from the North and the South.

I. What are the specificities of financing family agriculture?

1. Financing family agriculture: what does this mean?

The majority of the agricultural and rural populations of the world, both in the North and in the South, are engaged in family agriculture[3]. Family farming supplies the greater part of agricultural production, and is crucial for supplying both internal and external markets. It participates in territorial management and is at the centre of the relationship between man, produce and territories. Family agriculture is characterised by a strong relationship between the family's economic activity and its composition. This relationship influences decision-making concerning the choice of activities, the way work is organised and how property is managed[4].

In the countries of the South, and particularly in Africa, the difference between family agriculture and industrial agriculture (large plantations...) is clear, both from their logic and their organisation. But this does not imply that family agriculture is monolithic – today different categories of agricultural business which may retain the family dimension are emerging, but they may also evolve towards a more entrepreneurial logic, such as peri-urban animal farming, or ranching. But before considering questions about the technical and financial modalities of farming, a single key question must be asked and discussed: 'What type of agriculture do we want to promote? What role, what place and what status do societies wish to give to agriculture in their economic and social development?'. The ways in which farming is financed and the type of farms taken into consideration are primordial to this – they will determine the agriculture of the future.

The term 'agricultural financing' is broad and covers very different areas:

- financing farms (farming year, equipment, bridging the gap between seasons…)
- financing agricultural organisations
- financing the sale of farm produce
- financing agricultural support services (extension, research, infrastructures,…)

These needs for finance are not of the same nature, are on different scales and cannot be covered by the same financial mechanisms. A large part of the financing of farms and farmers' organisations can be dealt with by "local" commercial financial services (savings, loans, insurance). On the other hand, financing the sale of agricultural produce concerns volumes that justify the involvement of financial services of banks. Financing the agricultural support services and infrastructures are a matter for other mechanisms of finance, which have yet to be organised within the present context of liberalisation (subsidies, para-fiscal taxes, market-based funding, ..).

In the text that follows, 'financing family agriculture' will be used to mean 'financing family farms and the farmers' organisations representing family farming'.

2. Specific needs of financing in agriculture

Microfinance, and financial services in general, often prefer to meet the needs of rural of activities such as business, food processing, or even handicrafts, but are very prudent about financing agriculture. Agriculture has specific characteristics and constraints related to it that explain why the financial services find it difficult to respond to this demand.

What is specific about farm financing?

The first « specificity » of the ***farm budget*** is that it is ***closely interwoven with the household budget***. As soon as they have an access to the market, households develop more or less complex activity systems, mixing agricultural and non-agricultural activities. The household is an economic unit, but it is also a social one and its needs for financing activities, investments and consumption are closely related to its social needs. This distinct characteristic is one reason for the failure of agricultural credit systems that target one crop or one technique - the borrowers systematically divert the credit towards their numerous other real financial needs. This means that all

[3] While this is written in the singular form, it should be remembered that throughout this text 'family agriculture' is used to denote many different types of production activity
[4] Family Farming Programme, CIRAD-TERA

the household's needs for finance should be taken into consideration, including not only the needs related to the targeted agricultural activity, but also those of the complete activity system of the households and the family budget. For any given unit, the ways in which the various financial needs, opportunities and constraints interconnect must be understood. Often, the need of financing thus becomes a problem of cash management, to which the adapted response in terms of financial product may not necessarily be a loan, but could be a savings plan to encourage self-financing.

The very ***great diversity of needs*** is another specificity of farm financing. This variety of needs, along with a great diversity of constraints, varies according to the agro-economic context, the agricultural production system (more or less diverse and intensive), the activity systems of the households, their degree of insertion into the market, etc. In any given region, this variety of needs can be understood on the basis of an agrarian system analysis, involving agro-ecological zoning, household typology and surveys on the farming systems.

The needs of farms for financing concern ***different types of credit***

- Short-term: for financing the farming season (inputs, labour), for fattening livestock, storage, and first steps in processing agricultural produce
- Medium-term: for farm equipment
- Long-term : for heavy equipment, plantations of perennial crops, land purchase in certain contexts

but also ***interest on savings*** likely to develop the capacities of the farm to self-finance, and ***interest on insurance.***

How great is the need for farm financing? Surrounding this question is an ardent debate between the farmers' organisations that reason along the lines of the global financial needs of farms, and the financiers who can only respond to a 'solvent demand'. This is closely related to the agricultural context, the degree of intensification and the degree to which the farms are linked to the market.

The needs of financing in zones of rainfed agriculture [5]

- *Paper presented by the CIDR about the CVECA*

Within those contexts characterised by rain-fed family agriculture (cereals, pulses,…) where agro-climatic conditions are unfavourable and uncertain, the solvent demand and the real needs of credit in agriculture remain small. While agriculture does enable some people to obtain a monetary income in some good years, its role is principally one of providing food, and its uncertain character combined with the paucity of technical assistance makes intensification extremely risky. Cash spending by farms is low (e.g. 5,000 FCFA par hectare in the cereal-producing zone in Mali), and mostly directed to paying for extra labour during peak periods, buying seed and buying and maintaining small equipment (hand tools or light equipment for animal traction). Technical and management training and advice are virtually non-existent, and the sale of produce is not regulated and is marked by wide price fluctuations within and between years.
Most men and women living in the villages have small complementary activities to generate income (small trade, livestock fattening, handicrafts,…). Monetary incomes are of course low and precarious, but they generate enough investment to allow the system to get started.
The need for financing is mostly talked about in relation to starting or consolidating small income-generating activities – loans to bridge the gap between seasons and certain social expenditure. Concerning agricultural financing, the needs are for small amounts for financing the growing season (labour, light machinery and maintenance, seed…). The need of finance for small agricultural equipment (ploughs, oxen) in the medium-term may also be expressed, but much less often.

The needs of agricultural financing in the irrigated zone of the Niger Office, Mali

- *Papers presented by CVECA- Office du Niger, FCRMD of the Niger Office, BNDA, SEXAGON (Mali)*

The economy of the Niger Office zone is centred around rice cultivation, for which yield improvement, increased production and renewed interest following devaluation in Mali have resulted in a highly profitable agricultural crop. Rice cultivation requires a considerable amount of financing for production (inputs, labour, taxes, access to land in some cases), but also for processing and marketing. The portfolio of the financial institutions present in the zone (BNDA, CVECA, FCRMD, Nyessygesso) is principally concerned with this agricultural activity.
Agricultural production is undergoing a slow process of diversification (vegetable growing, livestock, fattening) and needs financing. It concerns the heads of farm units, but also the women and dependants. The development of the activities of the latter categories is still limited because they have little access to land, workforce and capital, and they have little freedom since their lives are under the strict supervision of the head of the household.
The needs of financing expressed by the populations mainly concern credit: short-term, and medium-term for agricultural equipment. There is little explicit demand for savings products, but this could encourage the self-financing of farms.

[5] The boxed texts in this report are an invitation to the reader to go deeper into certain points, and refer him/her to two types of document :

- 1 ° The papers presented at the Dakar seminar and available in the Acts of the seminar.
- 2° The information sheets prepared by the CIRAD and CERISE complete the information given in this report, and present in a concise summaries (4-5 pages) of the salient points of the seminar. Approximately twenty information sheets will be available, in hard copy and in digital form. The executive summary and the information sheets together are intended as an easily accessible working aid for the use of actors in development confronted with the question of agricultural financing.

Needs of financing and solvent demands of farms reach particularly high levels in zones of export agriculture. Until recently in West and Central Africa, this demand was met by the public sector (banks and development societies) within the framework of the integrated commodity channels. With liberalisation, these mechanisms have been taken apart. This has created a space for new financial actors, among which microfinance is solicited. But the volumes implied are often out of proportion to the present possibilities of the MFI and to their capacity for growth.

The profitability of agricultural activities is variable and uncertain. It depends on a combination of factors, both internal to the farms (agro-ecological context, degree of intensification, technical skills, insertion into the market…) and external factors that are not, or only poorly, controlled by the farmers (prices of products, production costs, market trends, quality of infrastructures…). It is also related to the quality of the support services to agriculture (input supply, marketing, technical advice, extension work, research). Among the economic activities of households, the profitability of the agricultural activities is often lower and more uncertain than that of the non-agricultural activities. This explains why many farmers choose, apparently paradoxically, to direct credit towards the non-agricultural activities and to eventually finance agriculture with any profit made from the non-agricultural activities. The analysis of profitability must be carried out for each type of activity, but also more globally, on the level of the rural household's system of activities.

The seasonal nature of agricultural activities and incomes is a problem for financing: the need of ready cash and the cash income mobilised for repaying loans are concentrated into rather short and imposed periods. For the financial institutions, this requires the credit procedures to be strictly adapted to the agricultural calendar and, in the case of a portfolio made up mainly of agricultural loans, poses problems related to cash flow management and the annual regulation of agent's productivity.

The ***difficulty of collecting savings*** in agricultural and rural societies is a strong constraint to creating a sustainable supply of finance. The traditional forms of savings (livestock, cereal reserves, jewellery…) are still preferred by most rural people, who often find them more flexible, more reliable, and even more profitable than the investment offered by the financial institutions. The low rate of mobilisation of savings and particularly that of long-term and stable savings (fixed term deposits) limits the financial consolidation of the institutions and of their credit funds.

Agricultural financing is also characterised by a ***high degree of risk*** of different natures: climatic, health, economic (price variations, difficulties related to sale of produce, competition against imported produce…). These risks are often covariant: they fall upon the all the borrowers of a given zone at once (drought, flooding, epizootics, …). Covariant risks are more difficult to spread out and they disable the usual security mechanisms put in place by the MFI (local joint guarantee). To these risks weighing on agricultural activity are combined less specific risks related to the borrower – default due to death or sickness, irresponsible attitude towards loans in many agricultural zones where laxness regarding credit has been recorded several times, or again default due to poorly controlled borrowing.

How is the financing of farmers' organisations specific?

Farmers' organisations need credit to cover three types of interest, which require different funding:

- Improve the farmers' access to financial services
- Finance collective economic initiatives
- Generate the resources required to
  - ✓ cover the costs of running the farmers' organisation
  - ✓ contribute to strengthening the capacities of the farmers' organisations
  - ✓ participate in co-financing the agricultural support services…

Financing the economic activities of farmers' organisations requires ***large volumes of finance*** (working capital, equipment), with strong constraints related to the ***seasonal nature of the activities***.

The degree of ***risk*** taken on these investments is ***high,*** due to factors outside the farmers' organisations (instability of agricultural markets, price policies,…) but also due to internal factors (poor organisation, inadequate management capacities and tools, weak capitalisation,…). Moreover, farmers' organisations often bear the burden of a long and difficult history on the question of credit (defaults, indebtedness) that endures to compromise their credibility with financial institutions.

Tentative summary of financing according to type of actor x agri-ecological zone and activity system

Agri-ecological zone	**Dry Sahelian zones**			**Forest**	**Irrigated zones**	**Cotton zones**	**Peri-urbane zones**	
Activity system		Dry crops, no intensification Low diversification (far from markets)	Extensive livestock, more or less sedentary; important trading in some zones	Diversified system based on plantations	Irrigated crops (rice, vegetables)	Integrated sectors	Small-scale activities : vegetable growing, small livestock, trade	Family agricultural business : eg.: livestock
Risk level		High climatic risk	High (climatic, health)	Unfavourable developments in prices for produce on the world market	Protected from drought risk. Monoculture frequent	Protected from market risks (before commodity channel liberalisation)	Weak: diversification , strong competition	Health risks Risk related to competition from imported products on the urban market
Constraints		Priority to food crops and auto-sufficiency for food Seasonal income Poorly integrated into the markets	Herds managed as property High mobility of herders	High level of investment Deferred profits	Investment in the irrigation system Monoculture frequent Seasonal income	Seasonal income	Non financial constraints often important : access to land, to agricultural advice	Heavy investment Technical training often inadequate
Potential for financing		Limited by the low level of the solvent demand	Risky Conceivable with a diversified activity system, with trading for example	Financing plantations a section at a time	High and relatively secure	Large volumes; mechanisms of security to be rebuilt	Credit for diversified activities	Financing of a type for small business
Farm Needs for financing	**Short term loans**	Low Credit for bridging the gap between seasons	Animal feed Health, Bridging the gap between seasons	Inputs , labour for the main crop and crops associated with it		Large volumes : credit for the growing season		Working capital
	Medium term loans	Marginal	----------	Equipment	Motor-pump Animal traction or light mechanisation	Equipment, animal traction or mechanisation	Motor-pump Means of transport	Equipment, means of transport
	Long term loans	------------	----------	Extension or replanting	----------	-----------	________	Buildings, land

	Savings	Low capacity to save	Strong competition from traditional investment					
	Assurance							
Farmers' organisations needs of financing	**Short-term loans/ Running costs**	Sector poorly organised Cereal storage	Sale of livestock	Sale of perennial crops, crop diversification		Marketing	Poorly organised sector	
	Medium-term loans	(weighing machines, vehicles)	Weighing machines, vehicles	Weighing machines, vehicles	Weighing machines, vehicles	Weighing machines, vehicles		
	Long-term loans			Buildings	Collective motor-pump / Threshing machines/ Buildings	Buildings		
	Savings							
	Insurance							

II. In the context of liberalisation, how is the supply of finance changing to meet these needs?

Lending to agriculture comes from four types of offer: the public sector, the private sector (private banks, supplier credit), the intermediate sector of microfinance, and the informal supply (moneylenders, rotating savings, family loans).

1. While demand from agriculture is increasing, public sector supply is decreasing, and private supply is hesitant

In many countries of the South, much of the financing of agriculture has up until now been public. This was in various forms – lines of credit and guarantee funds managed by the administration, public banks (agricultural or development banks), development companies, development projects.

Economic liberalisation is progressively dismantling public financing. The limits of credit lines to agriculture managed by civil service administrations or jointly managed by development projects, or even by farmers' organisations, have been revealed (significant arrears, difficult to render durable). With the spread of 'good practice' in the matter of financing, the donors are tending to restrict their investments in loans projects. Development companies are being progressively privatised and their financial operations transferred, with some difficulty, to the banks, the farmers' organisations and the MFI where these exist. The agricultural banks are concentrating their efforts on a few secure sectors (export crops, irrigated crops,…) and are very cautious about venturing into other sectors. Some agricultural banks are trying to break new ground however, by moving closer to the MFI.

The private commercial banks are even more prudent than this, and their commitment to financing agricultural production remains limited for the moment. The few initiatives observed relate to financing peri-urban agricultural businesses or rely on the existence of guarantee funds that limit any risk-taking on the part of the banks.

The contribution of the banking sector to agriculture in the WAEMU

- *Paper presented by the AFRACA*

On the 31 December 2000 the resources collected by the banking system of the WAEMU amounted to 4,186 billion[6] *F CFA, of which 81% in deposits and loans, and 12% in equity. Salaries accounted for 3951 milliard F CFA. The sectorial analysis of how credit was used consistently shows that only a relatively small part goes to agriculture, about 6%, whereas this sector accounts for about 28% (34% in Burkina Faso) of the GDP. For comparison, the banking sector supplies 16 to 17 % of the GDP of the WAEMU. This under-investment in economic activities contrasts with its excess reserves of 235 billion F CFA on the 31/12/2000.*

Beyond the direct effects on public financing, liberalisation is having indirect effects that are strongly influencing the global offer of finance to agriculture. The removal of the state monopoly of produce collection disables the mechanisms of securing credit and leads to a generalised rarefaction of the financial supply. Wide fluctuations in prices, the disorganisation of access to inputs, the dismantling of the system of providing inputs and the marketing channels are all factors that affect agricultural incomes and disrupt the financing by creating a high degree of uncertainty.

Within the context of liberalisation characterised by the emergence of a multitude of new actors, lack of co-ordination, the weakness of the structures that are supposed to take over from the state authorities (farmers' organisations, private agricultural services, MFI…), new mechanisms of financing agriculture must be designed and tested.

[6] throughout this report, a 'billion' is used to mean a thousand million

2. The intermediate sector of microfinance: growing vigorously, even in rural areas.

Microfinance, a change in the concept of financing

Microfinance emerged in the 1980s, within a context of liberalisation, as a response to the previous modes of financing proposed by the public agricultural banks, development banks and development projects.

The emergence of this sector corresponds to a conceptual change in the way rural financing is approached. In the old approach, the aim was to inject credit into rural economies in order to initiate a virtuous cycle of increasing incomes enabling investment. The credit was mostly for agriculture and was considered as an input into the production process, targeted on a technical package or a particular crop, and was usually subsidised. There was little pressure to repay and the borrowers had little sense of responsibility towards repayment, and the investment services were poorly developed. In microfinance, the objective is no longer to inject credit into a crop, but to build up a rural financial market that permits sustainable access to the financial services. This is done by bringing together those agents with money to invest (savers) with those in need of finance (borrowers). The aim has shifted from financing a crop towards promoting diversified economic activities and providing the means of developing activities that will generate income and permit saving. This is particularly designed for use by the vulnerable categories of the population (women, young people) that nonetheless have strong potential.

In practice, this change in concept has led to development efforts being turned towards creating self sufficient and sustainable financing institutions, making the user responsible by giving him/her the choice of how he/she invests the money, on condition that he/she repays the loan and at a rate that permits the financial service to be sustainable. Microfinance thus becomes a means by which private initiative is encouraged. Towards the end of the 1980s, and by another shift in the concept, it gradually became a means of fighting against poverty by encouraging private initiatives.

Over a period of 20 years, microfinance has grown significantly around the world - in the countries of the South, the East and, to a lesser extent, the North. These microfinance systems take various institutional forms (friendly societies, village banks, joint guarantee systems, …), and many of them are owned and managed by the populations benefiting from them. The terms 'micro finance' and, more restrictively, 'microcredit', are deceptive because today the sector is made up of very extensive networks (several million users in the large Asian networks), and the MFI provide diverse services (savings, loans, even insurance), and a wide range of loans, from very small loans (15 euros) to much larger ones to enable investment (3000 euros).

In Africa, microfinance has gone through three main phases of development, advancing further in West Africa than in Central and East Africa.

The first phase took place in the 1980s and was the experimental period in which a financial system needed to be tailored to the needs of the populations that had been left behind by the banks (i.e. about 90% of the rural population of most African countries). It had to be demonstrated that these disadvantaged populations were capable of making good use of the credit and of managing sustainably the local financial institutions adapted to their needs. Even though a large number of the microfinance institutions are based on old principles (credit unions developed in Europe and North America in the 19^{th} and 20^{th} centuries), the main 'models' used for the financial services today derive from this experimental period.

In the early 1990s, in West Africa as elsewhere, a craze for microfinance was sparked off and a great many microfinance systems sprang up and developed, with massif international support. The reach (number of clients or members) became a major objective of the decision-makers and drew the whole sector into an euphoria of expansion. This race for growth was to lead numerous MFI into serious crisis, with arrears and misappropriation of funds. Some of these crises ended with the complete collapse and disappearance of large networks.

The 3rd phase began around 1993/1994 with concern about the durability of the institutions coming to the fore. Efforts were therefore concentrated on the financial performance of the institutions : financial autonomy, balance sheet structure and financial solidity became the foundations of 'good practice' Scope and growth were still targets to be met, but a strong accent was put on seeking financial profitability. The big microfinance networks, backed up by their donors, followed by adopting these objectives and refocussing on those zones, populations and activities capable of attaining this performance. The result of this was a significant trend to refocus their attention towards the cities and market towns in rural areas with strong potential, and away from the disadvantaged zones.

After twenty years of development, what has been achieved and what are the limits to rural microfinance? Has microfinance become a viable means of rural financing?

The main achievement of the past twenty years of development is the creation of a fabric of microfinance institutions (MFI).

In West Africa, in the eight countries of the WAEMU, recorded for the end of 2000 showed 303 institutions offering 2,778 access points, and serving 4.3 million people[7]. At the same time institutions mobilised 116.8 billion FCFA of savings and had 103. 4 billion FCFA in outstanding loans. This institutional fabric is diverse: even though most of the institutions are run as credit unions, the effort to innovate has produced different 'models' of financial services adapted to a wide variety of contexts and populations.

In Central Africa, the development of microfinance is more recent and more difficult to evaluate due to the lack of an adequate information system. In 2000, 1034 microfinance structures were listed in the CEMAC, with 411,000 members.

Despite a spectacular expansion, the rate of penetration of microfinance in rural areas is still inadequate. Estimates for 1999[8] indicated that on average only 20% of rural households and 7.5% of the active population had access to financial services in the WAEMU. The average figures conceal considerable differences between countries – in Benin, where microfinance is strongly developed, 40% of households have access to financial services, whereas in the Niger only 5% have access. Similarly, financial volumes treated are still relatively small.

The microfinance sector is still fragile, especially in Africa. Most institutions have not yet attained financial autonomy. Close monitoring of microfinance in West Africa reveals that the financial situation and the quality of the portfolios of the MFI have been declining over the last few years (13% doubtful loans out of outstanding loans of 101 billion in 2001[9]). The technical autonomy of the MFI is inadequate and they are in great need of making their practices more professional (management, information systems, control systems...). The MFI have not acquired social viability, crises of governance are frequent and sometimes serious. Finally, insertion into the financial market is poorly developed and relations with the banks especially remain difficult.

Regulation and organisation of the sector are well underway in West Africa and are in their early stages in East Africa. In these regions microfinance is acknowledged within a specific legal framework (PARMEC law in West Africa and CEMAC regulations Central Africa), professional associations of microfinance institutions are gradually taking shape at national level, policies concerning the sub-sector have been defined and national programmes of support to microfinance are beginning to be put into place.

Microfinance is thus a dynamic and innovative sector, but it is still fragile and should be very prudent about taking risks and initiatives towards expansion. It is also a sector that is in need of support and time, to consolidate and commit itself to creating the second generation of MFI that is lacking in the 'least profitable' rural zones.

3. How is microfinance contributing agricultural finance today?

A tentative quantification

It is difficult to quantify the contribution of microfinance to agricultural financing of for a number of reasons. These include: figures available for this sector lack precision, the information systems of the institutions and of the authorities controlling them are still very inadequate, the concepts used for collecting information have yet to be fixed, the fungibility of the credit is a major methodological difficulty making any evaluation of the use of credit uncertain...

Two attempts at quantifying the contribution of microfinance in West Africa have been made, and one sectorial evaluation has been carried out by the IFAD for East and Southern Africa, but as yet no such study is available for Central Africa.

[7] Source : BCEAO/PASMEC : contribution to the seminar in Dakar (21 – 24 January 2002)
[8] Source : BCEAO/ PASMEC
[9] Source: BCEAO/ PASMEC

Tentative evaluation of the contribution of microfinance to agriculture

- *Paper presented by the IFAD on the theme of the financing of agriculture in East and southern Africa*
- *Papers presented by the CIRAD and the BCEAO/PASMEC on the contribution of microfinance to agriculture in West Africa.*

The two studies undertaken in West Africa led to similar results. The study carried out in 1999 for WAEMU on agricultural financing[10] indicated that, out of a total of 66 billion F CFA worth of loans accorded by microfinance institutions, about 20 billion F CFA of loans were directed towards various agricultural activities in 1997, that is, a thrid of their global portfolio.[11] The contribution to agriculture varied according to country, with the figures for 1997 indicating that it was strong in Benin and Mali (4 to 6 billion FCFA/year), intermediate in Senegal and Burkina Faso (2.5 to 3 billion/year) and weak in Togo, Niger, and Côte d'Ivoire (in the order of 1 billion/year, or less). These differences were related to the global dynamic of the microfinance institutions in the various countries, the origin and the nature of the institutions (credit unions of agricultural origin in Mali and Benin), and the presence of cash crops integrated into commodity channels (cotton in Mali and Benin).

Estimation of the volume of finance accorded to agriculture by the MFI in 1997

1997	VOLUME CREDIT MFI (Billion FCFA)	ESTIMATED VOLUME CREDIT TO AGRICICULTURE (Billion FCFA)	IN % OF TOTAL MFI CREDIT VOLUME	CONTRIBUTION according to type of MFI (in % of volume of loans accorded to agriculture by the MFI/country)*			
				CU	VB	PCC	CL
BENIN	14,5	5,5 – 5,7	36	99	-	1	-
TOGO	7,8	0,780	10	75	-	10	15
COTE D'IVOIRE	6,1	1,2	20	>90	-	5-6	2
SENEGAL	16	2,5 – 2,8	17	75	-	25	E
MALI	9,5	4,7 – 5	49	<75	>25	e	E
NIGER	4,5	1,3	29	26	-	48	26
BURKINA	9,7	3	27	60	5	26	9
TOTAL	66,3	19 – 20	27	-	-	-	-

Source : Combination of the PASMEC database and information colected directly from the MFI by CIRAD research programmes and missions on the financing of agriculture.
(*) : classification PASMEC : CU= Credit unions ; VB= Village banks ; PCC =Project with a credit component ; DL= Direct loan

The BCEAO/PASMEC [12] came to similar conclusions in 2000. Information gathered for that year from 36 big microfinance institutions indicated that they had accorded a total of 83 billion FCFA, of which 44% was to commercial activities, 31% to agriculture, 8% to handicrafts, 4% to services, and 5% to social activities. The total amount in loans granted to agriculture was in the order of 25.4 billion FCFA.

[10] Deram, Riezenthaler, Wampfler, 1999. Le financement de l'agriculture en Afrique de l'Ouest. Study carried out for WAEMU.
[11] These figures are estimations made by the MFI of the loans they accorded to agriculture, but cannot provide precise information on the amount of money that was actually attributed to agriculture by the borrower, who in the end is free to use the loan as he/she wishes.
[12] BCEAO/ PASMEC : paper presented at the seminar in Dakar (21 – 24 January 2002)

Different contribution to agriculture according to type of microfinance institution.

In 1997 as in 2000, the greatest contribution is made by the credit unions. In 1997, it represented 99% of the total volume contributed by the MFI to agriculture in Benin, over 90% in Côte d'Ivoire, over 75% in Mali..... Only Niger departed from this general pattern with only 26% being contributed by the credit unions with the major part coming from loan projects.

Among the credit unions, it is the networks that originated from within the agricultural community and that have attained a significant dimension on a national (FECECAM in Benin, ...) or regional (Kafojiginew in Mali) scale which accord the largest amounts, and which are experimenting with medium-term loans. Very small credit unions also play a significant role in financing agriculture however (e.g. ADRK in Burkina, credit unions among fishermen in Senegal...).

The Village Savings and Credit Banks (Caisses Villageoises d'Epargne et de crédit, CVECA) are committed to agriculture in various ways. Their contribution is directly related to the profitability of the activity in a given zone. For example, in Mali it is important for the CVECA of the Niger Office (80 to 90% of their portfolio is directed to irrigated agriculture), and much less so in the zones of the Sahel where the Dogon people live.

Those MFI that are built on very short-term loans, very small amounts (direct loans such as those offered by Grameen Bank), or specifically targeted on women, make a more limited contribution to agriculture.

Finally, some projects with a financial component still remain in the microfinance sector. Many of them have been called upon to support integrated or agricultural projects and are now faced with large sums of arrears and uncertain prospects for durability.

Potential and limits of the different types of microfinance institution to respond to financing agriculture

- *Papers contributed by : Enda Graf, Feprodes (Senegal), Equity Building Society (Kenya), CVECA (Mali), ADRK (Burkina), CECAM/FERT (Madagascar), Réseau des Caisses Populaires (Burkina), ANADELP (Mauritania), ASF (Benin)*
- *Information sheet : Credit unions, village banks, financial services associations, solidarity group lending … : Do we have a model for a microfinance institution that is more appropriate to financing agriculture?*

Even though it is significant, the involvement of microfinance in agriculture has serious limits

It is evident that a considerable part of the loans portfolio of rural african MFI goes to agriculture. However, the significance of these figures must be put into perspective:

- The amounts of credit supplied are small compared with the financial needs of agriculture. The example of Benin is sufficient to illustrate this – the contribution made by the MFI to agriculture was in the order of 6 billion FCFA in 1997, while the financial needs of the cotton sector alone were in the region of 30 to 40 billion, of which about 10 billion was needed just for production.

- The big microfinance institutions (FECECAM in Benin, Kafo Jiginew in Mali, …) have developed in the safe agricultural zones (cash crop zones, integrated commodity channels, irrigated areas …) but, at the moment, microfinance has little presence in the more uncertain zones of food crop production. However, these zones represent, according to recent estimations[13], a potential of about 50 million people in West Africa. Recent developments within the MFI towards seeking profitability as a means of achieving sustainability risk accentuating this trend away from disadvantaged and insecure zones.

- Apart from the institutions that grew up directly out of an agricultural context, the big microfinance networks protect themselves by approaching agriculture with a strategy of extreme prudence, and limit the amounts of credit accorded to this sector.

- The credit products offered are limited to short-term loans and respond poorly to a diverse demand (e.g. for medium and long-term loans).

[13] FIDA, 2001. Stratégie Régionale en Finance Rurale pour l'Afrique Centrale et l'Afrique de l'Ouest. (Regional Rural Finance Strategy for West Africa) CIDR/CERISE December 2001.

- The savings services of the MFI are, in general, not specifically adapted to the needs of agriculture. The traditional forms of investment (livestock, cereal stocks) present certain advantages, such as being more profitable, more flexible, and more adaptable to the constraints experienced by the household, and are therefore often preferred by clients of the MFI.

- Concerning insurance products, attempts at agricultural insurance (harvest, livestock…) have been few and inconclusive. Attention is now being turned towards health insurance. This is easier to put into place, it responds to a real concern of rural populations and has a positive effect on safeguarding the labour force.

In the context of the liberalisation of agricultural economies, microfinance is under much pressure to take over from public financing.

III . How can the contribution of microfinance to financing family agriculture be improved ?

What are the factors limiting the contribution of microfinance in agriculture today? What ways and means (technical, financial, institutional) can be used to push back these limits? These were the central questions of the six workshops and the debates in the Dakar seminar. A summary of the analysis of each point is presented here, followed by executive recommendations.

1. Upstream, modernise the agricultural and microfinance sectors and make them more secure

Modernise the agricultural sector

The financial services can only be used effectively and profitably in a favourable economic context. The agricultural sector is, more than ever at this time of liberalisation, a high-risk sector, still poorly organised and inadequately regulated. Its modernisation and stabilisation are therefore key points on which financial policies are built.

Strengthen the existing microfinance sector and support its expansion

The vitality of the way in which microfinance has developed in West Africa masks an extreme fragility, whose characteristics have been described above. For the sector to be able to cope with the change of scale needed for financing agriculture in a liberalised context its present capacities must be strengthened. These include making it more professional, more secure, and moving it further towards local ownership. All these processes require technical, financial support and, above all, time. In some countries this process has begun with the help of sectorial support programmes.

2. Adapt microfinance to the demands and constraints of agriculture

Improve the MFI's knowledge of agricultural activities

The credit supplied by the MFI is inadequately adapted to the specificities of agricultural financing (little product diversity, poor adaptation to the farming systems in terms of calendar, costs, and modes of repayment). The MFI vary greatly in their awareness of these specificities. The evolution towards a financial approach often leads to people with a more 'banking' type of profile, who do not necessarily have much understanding of the farming world. There is a lack of adapted means for analysing farms, activity systems, and monitoring the markets. There is often a lack of communication with the structures that could eventually provide this information.

Executive recommendations

- *To develop an adapted financial offer, a thorough understanding of the characteristics and the constraints of agricultural activity is necessary. This understanding must encompass the technical aspects (production systems, farming practices...), the economic realities and social organisation. It must enable adapted financial products to be defined, systems of guarantees to be developed, and potential causes of system failure to be identified.*

- *The MFI should aquire tools adapted to analysing the financial needs of agricultural households :*

Method of needs analysis : how can the financial services adapt to the needs of family farms?

- *Information sheet CERISE/CIRAD n°1: Méthode d'analyse des besoins : comment adapter les services financiers aux besoins des exploitations familiales ? (Method of needs analysis : how can the financial services adapt to the needs of family farms?)*

The information sheet presents methods of analysing the financial needs of farms. At the « micro » level, the needs of farms are approached by the study of farming system and activity system of the households. At the « meso » level of a village or a region, the analysis of needs is based on farm typology.

- *Collaboration with management advice services working with family farmers and organisations could be a good way of improving the understanding of MFI*

What can management advice bring to the analysis of family farms' needs of finance?

- *Paper presented by CIRAD/IRAD/PRASAC (Cameroon)*
- *Information sheet n°5 : Les apports du conseil de gestion à l'analyse des besoins (what management advice for family farms contributes to need analysis)*

- *It would be beneficial if the reflection and experimentation to find adapted products was conducted with the endusers/members/clients of the MFI*

- *The personnel and the members of the MFI should be encouraged to find out about what experiments are being conducted elsewhere : study trips, communication via internet where this is possible, participation in networks, development of an information/innovation centre within the professional associations of the MFI and the sectorial support programmes...*

- *Experimentation with new products can only be done if the MFI have sufficient means – availability of the personnel and enough time, the means to experiment, …*

- *Beyond basic knowledge, an information system charting the changes in agricultural activities is also necessary. Creating and maintaining such a system within the MFI could prove costly. A cone contractual system with other institutions active in the same area (farmers' organisations, development projects, support services, …) could spread the cost and encourage information exchange. (Papers presented by PASAL and CRG /Guinea).*

Diversify the credit portfolios

An MFI based on a portfolio that is too heavily biased towards agriculture is extremely vulnerable, due in particular to the importance of the risks weighing on agricultural activity.

Potential and limits of the MFI with strong agricultural portfolios
- *Papers presented by CVECA and FCRMD of the Niger Office (Mali)*
- *Paper presented by the SOCODEVI - Mutuelles des Producteurs de café cacao (Coffee and cocoa producers credit unions) (Togo)*
- *Paper presented by the CECAM (Madagascar)*

Executive recommendations

- *a diverse portfolio of loans should be sought :*

* *this corresponds to the real needs of the economic units, which are at the same time farm, rural, and social units, units of consumption and of emergencies..*
* *it will provide the producers with a real economic choice, so that, by choosing to invest in the activity that they believe presents the best profitability / risk ratio, they develop a more responsible attitude towards their loan*
* *finally, and most importantly, it permits the MFI to spread the risks over several agricultural products and rural activities, thereby limiting, to a certain extent, the impact of the co-variant risks on agricultural production.*

- *But this diversification may be difficult to achieve when the economic activities of a zone are poorly diversified themselves (paper presented by the CVECA and the FCRMD of the Niger Office, Niger). It can also lead to significant costs (conception costs, costs of adapting the information system to different products, follow-up costs…)*

- *It can carry the risk that an agricultural MFI 'loses its soul' if the non-agricultural share of the loans and clients becomes dominant*

Strengthen the offer of medium-term credit

In West Africa, over 90% of the money loaned to agriculture by the MFI is in the form of short-term loans. Apart from a few credit unions networks, very few MFI propose medium-term credit to agriculture. There appears to be no attempt at providing long-term loans in West Africa, where they would be needed to finance the replantation of perennial crops (coffee, cocoa, oil palm..) and the development of tree crops. In the same way, only a very small part of the medium-term credit required by the farmers' organisations is supplied by the MFI.

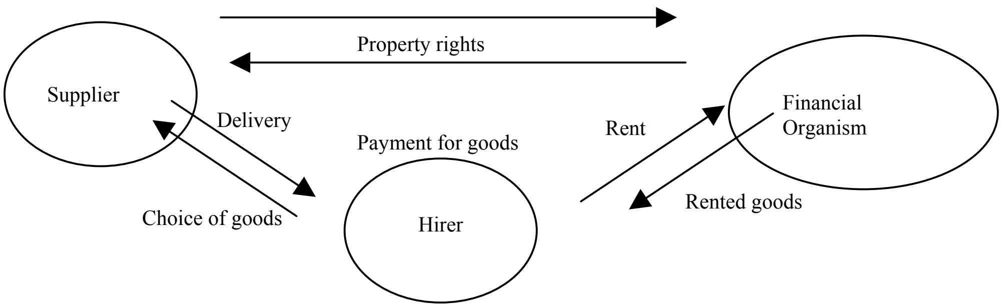
The slow development of medium-term loans – and, *a fortiori,* long term loans also – is due to a combination of factors. These include:
- technical causes: poor risk management, inappropriate guarantees
- financial cause: the MFI lack the resources, especially stable long-term resources, necessary for medium-term credit, mainly due to the weakness of stable investments (fixed term deposit)
- strategic causes: the MFI prefer settle for short-term investment in safe sectors; taking risks in the medium-term requires a medium-term vision of development, that many MFI do not have

Several attempts at supplying medium-term loans are producing encouraging results however:
- the FECECAM (Benin) and Kafo Jiginew (Mali) are obtaining good results with an offer of credit for agricultural equipment in the cotton zone, but the mechanisms for safeguarding these credits are closely tied to the well controlled cotton commodity channels and face the risk of upheaval as these channels are liberalised.
- The ADRK in Burkina Faso has contributed to funding agricultural equipment in the region of mixed farming in the Kaya region, supplying medium-term loans for over ten years with satisfactory results.
- Attempts at leasing and hire-purchase are still rare among the MFI, but some are opening up interesting prospects (CECAM in Madagascar, ANED Bolivia)

Hire-purchase methods

- *Paper presented by the CECAM (Madagascar)*
- *Paper presented by the FAO on experiences of hire-purchase in Bolivia*
- *Information sheet n°3: Financing medium-term investment: experiences of hire-purchase and lessons learnt by the CECAM (Madagascar) and the ANED Bolivia*

Hire purchase, inspired from leasing, is an alternative to usual medium-term credit for equipment that avoids the constraint of the guarantee. A few experiments in hire purchase for agriculture have been set up by MFI but they remain limited in scope.



Basic principles:

- *The financing body remains the owner of the goods until they have been completely paid for by the beneficiary. The beneficiary is considered as a hirer until he/she has paid the total value of acquisition of the goods (initial value + interest + charges).*
- *The hirer undergoes a selection by the financing body; which also ensures the monitoring of the goods throughout the entire period of rent.*
- *The hirer contributes directly towards the goods (usually in the order of 25%), generally in the form of a down payment at the start of the contract, in order to encourage a responsible attitude towards his/her debt repayment.*
- *In the case of rent arrears, the financing body can take back the goods, without necessary recourse to any special legal procedure.*

Executive recommendations

To improve the supply of medium-term credit to agriculture, all of the causes limiting its development should be worked on:

- *Improve the MFI's access to long-term resources by increased mobilisation of savings (improve products, look for savings where they can be found,...) and better access to bank refinancing*
- *Improve the design of medium-term loan products through better knowledge of the needs and constraints of farms*
- *Make medium-term loans safer*
- *Analyse the possibilities of reducing the interest rates on medium-term loans*
- *Integrate medium-term loans into a global development plan for the MFI, proposing a long-term vision*

Defuse the debate over interest rates

The question of interest rates crystallises the tensions between the MFI and the farmers' organisations as was clearly demonstrated, once again, during the seminar in Dakar. The interest rates generally practised by the MFI are high (usually in the range of 2 to 3% per month) if they are aiming at a target of sustainability, implying financial autonomy.

Interest rates - the cost of credit - are the result of the [cost of the monetary resources + transaction costs of the financial service + cost of risk]. These costs may be high, especially in rural zones (very many small loans in remote areas, to populations that are often disperse, high risk, high resource costs), which explains the high interest rates practised by the MFI. It should be noted however, that these rates are appreciably lower than those practised in the informal sector.

The farmers' organisations consider that these rates are exorbitant and incompatible with the profitability of farming. They believe that such rates are freezing investment in agriculture. This dispute generally leads to a complete blockage in discussions, with the farmers' organisations that want 'financial tools under the control of the farmers' organisations' be created – implying that they would practice more advantageous rates to agriculture, - along with a government subsidy in the form of reduced interest rates, similar to the financing mechanisms that permitted the modernisation of farming in the North.

The problem of interest rates

- *Information sheet n°4: Le taux d'intérêt en question (The problem of interest rates)*

The first part of this document analyses the controversy over interest rates; the second part presents the methods for calculating the various interest rates used (constant, sliding, real, …) by the MFI.

Executive recommendations

- *The dispute over interest rates is a big obstacle in the path of leading to the formation of the new alliances needed for financing agriculture. It can only be removed by efforts towards clarification, training in economics and the analysis of the real situation of farms. The MFI and the farmers' organisations should work together on this.*

- *The need to build sustainable financial services should be reaffirmed and the conditions defining this sustainability should be discussed between the MFI and the farmers' organisations.*

- *Interest rates should cease to be the 'black box', both for the loan users and for the agents and the elected representatives of the MFI (who are often incapable of explaining how rates have been fixed). The MFI should describe how they calculate interest rates in order to explain why costs are high.*

- *This lack of transparency also applies to the type of rate used. Certain MFI apply a uniform rate of interest, at a fixed % per month applied to the initial loan on whatever amount of capital remains, rather than applying a sliding scale to the remaining capital owing. The MFI should take steps towards greater transparency and communicate better so that information on interest rates can be of use to the borrowers (calculations and information on the 'global effective rate of credit').*

- *The profitability of the farming activities should be analysed for each context, in order to provide a clear and basis objective for discussion.*

- *The MFI should make an effort to reduce their interest rates. Several means of doing this can be explored: reducing running costs and investment costs; reducing arrears, negotiating the cost of the resource. Medium-term interest rates should be dealt with separately, since they can be lower than those for short-term loans (reduced transaction costs).*

- *The possibility of preferential interest rates for disadvantaged zones or activities should not be ignored, even if it appears unorthodox in the current context of liberalisation. The position of the farmers' organisations which propose that specific support mechanisms are warranted due to the specificities of agriculture (degree of investment, level of risk ..) and its stabilising role in society, must be taken into consideration and discussed.*

Propose new savings products adapted to agriculture

Although the MFI are increasingly concerned about the mobilisation of savings, the products on offer at the moment are neither diverse nor attractive. None of the savings services proposed is specifically designed to address the needs and specificities of farming (appeal compared to investing in livestock, adaptation to the rhythm of agricultural investments). The adaptation of savings schemes to farming is however an important issue because, in a great many situations, the capacity to self-financing is not negligible, and could be put to good use by adapted savings schemes.

Executive recommendations

- *New savings products must be based on a thorough analysis of household practices to identify the various forms of traditional investment practised, the ends to which these savings are directed, and the appreciation of their advantages/limits by the households.*

- *This analysis would benefit from including the points of view of all the members of the household (head of the family, women, young people…) who approach these matters differently, and have different needs and constraints.*

3 . Improve the safety of credit to agriculture

Firstly, make the sectors of agriculture and the MFI more secure

It would be useful to recall here that in order to safeguard agricultural financing, agriculture itself (prices, outlets, organisation, support services…) and the microfinance sector must be made safer. This will involve the 'professionalisation' of skills and management tools, making controls stronger and more professional, drawing up rules for the sector and regulating competition, improving governance within the institutions, and social control.

New techniques and organisations to safeguard credit

The use of joint guarantees and solidarity groups, based on mobilising social capital instead of a collateral guarantee, has revolutionised the approach to financing and has given loan access to the poorest people. Even though this scheme still serves as a foundation for most MFI, its limits are gradually coming to light. The social guarantee is in practice more of a social pressure than real solidarity; the mechanism only works where there is strong social cohesion; it fades over time, it can be manipulated, and it remains strongly entrenched in the local circles of influence. Moreover, joint guarantees provide no protection from co-variant risks (if all the borrowers are hit by the same catastrophe, none of them will be able to make repayments for the group), which puts strong limits to its use in farm financing.

Potentials and limits of joint guarantees and solidarity groups
- *Information sheet n°8 : Les potentialités et limites de la caution solidaire (Potentials and limits of joint guarantees and solidarity groups)*

Confronted with these limits, a new generation of safety mechanisms are being devised, aimed at strengthening the joint guarantee (collective responsibility) by making the individual more responsible and by transforming the social guarantee into collateral. Although these mechanisms are experimental, they are looking promising as means of financing agriculture.

1- New forms of joint guarantees: equal share guarantee funds, mutual guarantee societies

The essence of these innovations is to transform the social guarantee into collateral.

Guarantee funds are a 'standard' tool whose limits are now well-known: neither the lender nor borrower are responsible, and neither party risks their own funds. Quickly spent and difficult to reconstitute, it is rarely a way to 'sustainable' safety.

Potentials and limits of 'standard' guarantee funds
- *Paper presented by the IFAD on the means of securing the credit used by the IFAD*
- *Paper presented by the Garantee Fonds of the Coffe and Cocoa Coopératives of Ivory Cost*
- *Information sheet n°7: Potentialités et limites des fonds de garantie « classiques » (Potentials and limits of 'standard' guarantee funds)*

The concept of equal share guarantee funds is an attempt at getting round this problem. The equal share guarantee fund is contributed to, at least in part, by all parties involved in the loan transaction, who should therefore be more careful about its proper management.

Mutual guarantee societies take up this idea and develop it further.

Safeguarding loans with mutual guarantee societies

- *Papers presented by PASAL and the Crédit Rural of Guinea*
- *Information sheet n°9: Sécuriser le crédit agricole par des structures de cautionnement mutuel (Safeguarding loans with mutual guarantee societies)*

Bodies supplying mutual guarantees are institutions that aim at developing guarantee mechanisms for loans that are drawn by their members from a financing institution. The first experiments with this idea were set up in Canada and Europe, as forms of societies related to the credit unions. Today, this idea is making a come-back, especially in Africa, to make the credit systems of microfinance more reliable. Existing examples are still at an experimental stage (only 2 or 3 years of operation) and were created under different legal forms according to the national legal contexts (societies or associations).
Guarantees from credit unions associate the classic principles of mutualism (preliminary savings) with the joint guarantee approach. They build up a guarantee fund with contributions from the borrowers and the financing body, which can be mobilised under certain conditions clearly stated in a contract in the case of non repayment of the loan.

2 – New forms of contract : storage loans, inventory credit, debt transfer

The guarantee is based on having control of the product. These innovations have been tested in agricultural contexts

Make loans safer with storage contracts: storage credit, inventory credit to agriculture, debt transfer…

- *Work by J. Coulter on warehouse receipt financing and debt transfer*
- *Information sheet n°10 : Sécuriser le crédit par le crédit stockage (Securing loans with inventory credit)*

Warehouse receipt financing, or inventory credit, is an innovation that has been explored by development projects and taken up by microfinance. It aims at making loans to farmers safer, relying on storage contracts.

How does this work?
Smallholders generally sell their produce between seasons just before harvest, and store the new production until the following lean period, when prices and sales potential are optimal. However, due to inappropriate conservation or drying techniques, poor storage conditions and/or urgent needs of cash, smallholders cannot always choose when to sell their produce. Warehouse receipt financing gives them the possibility of storing their produce in a reliable warehouse whilst waiting for prices to rise, and by using this produce as a guarantee, they can obtain financial resources prior to selling their production. According to the modalities of the system, it may also offer food security to the farmers who can take from their stock in order to survive between seasons.

3 – Strenghten the individual treatment of loan demands

When loans are accorded on the basis of the joint guarantee alone, it is the social capital of the individual that is evaluated. Very often, the applicant's economic situation and the viability of his/her project are unknown to the MFI. This form of guarantee permits the mass treatment of applications and the reduced transaction costs that are particularly significant for small loans. However, when the social cohesion is too weak to allow the joint guarantee to work, or when the amounts of credit are greater (e.g. medium-term loans for equipment), an alternative is to give individual treatment to the applications for credit. Some MFI are again exploring this alternative. It implies examining the borrower's economic situation and analysing his/her project. In practice, this analysis is still rudimentary and, because management documents are lacking, it is influenced by the direct knowledge that the personnel or the elected representatives of a MFI have of their members. The conditions required for this form of treatment to work are: extensive decentralisation of the MFI, delegation of the power to accord loans into the hands of local elected representatives, and training the decision-makers in economic analysis.

4 – Can management advice help to make the credit secure?

Management advice practised with farmers, but also with farmers' organisations, can be an effective means of improving the production of information on the specific needs and constraints of agriculture, and of confidence-building between the borrower and the MFI.

What can management advice bring to farm financing and to MFI?
- *Paper presented by CIRAD/IRAD/PRASAC (Cameroon)*
- *Information sheet n°5: Que peut apporter le conseil de gestion au financement de l'exploitation agricole et aux IMF ? (What can management advice bring to farm financing and to MFI?)*

A means of safeguarding agricultural loans : management centres backing up the farmers' organisations
- *Paper presented by the Projet Centre de Prestation de services of the Niger Office Zone (Mali)*
- *Information sheet n°6: Un outil de sécurisation du crédit à l'agriculture : les centres de gestion appuyant les organisations paysannes (A means of safeguarding agricultural loans : management centres backing up the farmers' organisations)*

5 –Sectorial regulation tools for safeguarding loans : risk management centres

In all the zones where microfinance is strongly implanted there are numerous financing systems working in the same areas with the same populations. The need for controlling risks, for monitoring and for regulation increases. The risks related to competition between the MFI in the same area are important -: risks of false accounting (kite flying), household debts, arrears… The problem is worse in the zones where heavy debts prevent all access to new loans. The risk management centre is a tool for regulating the competition between MFI and for cleaning up systems of repayment arrears. While the tool is attractive, there are many problems concerning its establishment, and few successful experiences have been reported as yet. The example of the risk management centre set up by financial institutions working in Niono in Mali is therefore of particular interest.

Safeguarding agricultural loans: the risk management centre
- *Papers presented by the BNDA, CVECA, FCRMD of Mali on the risk management centre of the Niger Office*
- *Information sheet n°11: un outil de sécurisation du crédit : la centrale de risque (The risk management centre: a means of making farm loans safer)*

Risk management is an agreement for collaboration between the various finance institutions operating in the same area. The agreement institutes rules of procedure for competition, information exchange, and for dealing with financing problems in the area, such as arrears and late payments. Using the experience of the Niger Office as an example, the conditions for setting up and running a risk management centre, along with the potential and the limits of such an organisation are analysed.

Executive recommendations

Improved safeguards are a key issue for the development of farm financing. While innovations have been made in this area, they are still poorly developed. More work is required on several aspects of these innovations to make them more effective in the agricultural sector:

- *their application in the specific field of agricultural financing has yet to be tested: how should the mutual grantee societies be defined on the basis of agricultural activities? ; how can the principle of a risk management centre be adapted to different agricultural contexts (associate farmers' organisations, enter into contracts with agricultural market monitors …) ?*
- *the advantages, limits and impacts of these innovations need to be analysed ;*
- *the dissemination these innovations should be improved, and communication between different groups about their experiences should be developed ;*
- *new forms of agreement should be negotiated between the various categories of institution that are emerging within the liberal context (farmers' organisations, financing institutions, private support services, …) ;*
- *adapted public policies should be negotiated between the different parties involved in order to create propitious conditions for the development of these innovations.*

4. Decompartmentalise the microfinance sector and strengthen its presence on the financial market

The microfinance sector is still very compartmentalised, and, although professional organisations are beginning to appear in most countries, there is little contact between the MFI. The decompartmentalisation of this sector would have a positive effect on agricultural financing. It would improve risk control, lead to better use of resources by putting those MFI with excess liquidity in contact with those looking for funds, and extend the access to financing in remote rural areas through the linkages between MFI with different degrees of decentralisation and potential to finance agriculture.

In order to respond to the needs of financing in agriculture, the MFI must mobilise capital on the financial market. Very few MFI have the possibility of direct access to this market. For all the others, this implies developing links to the banking system. The MFI are rarely linked with the commercial banks. Links are, however, more developed with the agricultural banks in those countries where these still exist (e.g. Burkina Faso, Senegal, Mali). The forms of collaboration are diverse, varying from the MFI depositing their excess savings and cash in the bank, to various levels of commitment to refinancing the MFI by the bank.

Attempts at refinancing the MFI by agricultural and commercial banks

- *Papers presented by the BNDA (Mali), CNCA (Senegal) , CVECA of the Niger Office (Mali)*
- *Paper presented by the Nigeria Central Bank*
- *Information sheet n°12: Partenariats entre banques et IMF : acquis et enseignements (Partnerships between banks and MFI: achievements and lessons*

One of the missions of the African Rural and Agricultural Credit Association (AFRACA) is to strengthen the links between the banking sector and microfinance sector.

AFRACA's experience of partnerships with rural financing systems concerning agricultural financing

- *Paper presented by the AFRACA*

Executive recommendations

- *Relationships between banks and MFI are still difficult to build up. Various means of strengthening these relationships should be explored:*
  - *Modernise and safeguard agriculture, make the MFI more professional in order to raise the level of confidence placed in them by banks*
  - *Continue the organisation of microfinance by subsector*
  - *Encourage mutual understanding of the both sectors: forums of discussion, informing the banks about the specificities of microfinance, making the MFI more professional in its banking practices, interrelated or joint training sessions*
  - *Develop common tools: co-managed lines of credit/guarantee funds, risk management centres*
  - *Encourage the cross-holding of capital*
  - *Develop voluntarist ways of accompaniment after the model of the PAMF project in Madagascar*

The Microfinance Support Project Madagascar (Projet d'Appui à la Microfinance, PAMF/Madagascar), *financed by the UNDCF has the objective of supporting the establishment of durable partnerships between the MFI and the recently privatised agricultural bank, the BOA/BTM and eventually other banks in this sector that may be interested. The project acts as a link between the bank and the MFI, putting a line of credit and guarantee funds, as well as tools (guidelines..) at the disposal of the bank, and helping to make the MFI more professional so that they become credible partners for the bank.*

- *It is expensive for the MFI to use to the financial market (8 to 15% in the examples analysed). There is often little scope for negotiating these rates with the banks, and these high costs can constitute an important* *obstacle to the development of refinancing partnerships. In many cases, the MFI cannot completely transfer these costs onto the final creditor rate because this is limited by the rate of return on the activities financed, social and political acceptance of high rates… They are therefore obliged to reduce their margins, endangering their own profitability.*

- *If there are other opportunities of obtaining resources, the MFI will be tempted to capture them. Certain governments offer public credit lines that are targeted for the MFI (for example government loans at 6% in Burkina, lines at concessional rates offered by the Solidarity Bank in Mali , …). While bearing in mind the uncertainties of this type of public financing, the MFI are able to turn to them if they should wish to improve their profitability.*

- *Faced with the cost of refinancing with the help of banks, an alternative is to develop internal resources. It then becomes important for the MFI to be able to mobilise savings, and this could lead to a profound change of strategy.*

5. Make political bodies and donors more aware that microfinance greater support in financing agriculture

The seminar was also an occasion for clarifying and discussing the ways in which the donors intervene to increase the contribution made by microfinance to agriculture. Several papers (from the IFAD, MFA, AFD, GTZ, and UNCDF) clearly demonstrated that the paradigm in the matter of financing is changing. The aim now is to encourage the creation of viable financial service structures, evolving independently within a financial market enlarged to include populations that do not have access to normal banking services. The donor's experience also reveals what microfinance is up against, the fragility of the institutions created from it, the limits of 'crude liberalisation' and the need to build institutional and social foundations for the market (regulation, the role of Government, legal framework,…). In addition, it is evident that this new sector, so costly to put into place, does not fill all the gaps in financing, and especially concerning rural areas and agriculture.

Two intervention strategies appear from these findings:

- In the first strategy, the present inadequacies of microfinance are interpreted as being a transient consequence of the change in paradigm, and an inevitable step on the way to the creation of a financial market. The integration of marginalised sectors and populations will happen gradually as they strengthen their position in a liberalised environment. Improvements to farm financing are thus conditioned by economic policies and their effects on rural development. In this approach, the effort is directed to consolidating the global agricultural economy, which then brings the populations to a state of being possible bank clients, to supporting the existing microfinance networks and to the structural organisation of the sector.

- The second approach is more voluntarist, and is based on providing various types of assistance aimed at consolidating the contribution the microfinance makes to agriculture. These are the propositions that the working group retained as being lessons for action.

Donor intervention strategies relating to agricultural financing
- *Papers presented by the IFAD, French Ministry of Foreign Affairs, AFD, GTZ, UNCDF*
- *Information sheet n13: Quelles stratégies d'intervention des bailleurs de fonds en matière de financement de l'agriculture ? (What are the strategies used by donors to intervene in farm financing?)*

Executive recommendations

Recommendations on the mode of intervention:

- *Long-term assistance to help the MFI achieve economic equilibrium, but also to encourage their expansion, improving their rate of penetration into the rural environment. To do this, the types of intervention such as the 'Flexible financing mechanism' developed by the IFAD appear particularly appropriate for assisting the MFI during which it works towards attaining financial and structural autonomy (7 to 12 years).*

- *Finance the creation of a second generation of MFI. These are required to respond to the need for financing in the distant rural zones, to unsecured food crop production, that the existing networks are tending to shun.*

- *Develop frameworks of consultation that are more flexible, functioning between the donors and partners in development (farmers' organisations, research, MFI) working in the same zone or country. These frameworks should facilitate the coordination of actions and encourage the production and exchange of information so that the offer can be better adapted to the demand.*

- *Clarify the conditions of partnership between the donors and governments, specifying the modalities in which the donors will intervene.*

- *Facilitate the capitalisation and the refinancing of MFI with mechanisms for according them long-term resources (subsidies, debt conversion, local savings mobilisation) to compensate for the cost of access to the financial market, which is still heavy for rural MFI undergoing consolidation. Problems related to the management and the durability of these mechanisms were emphasised however (exchange risk, risk related to collecting savings which discourages some of the donors).*

- *Strengthen the capacities of the structures which could act as intermediaries between the populations and the MFI in rural areas, including farmers' organisations but also local NGOs.*

- *Improve the viability of the MFI by increasing the solvability of target groups. Individual and collective management advice came through as an appropriate way of consolidating the relationship between loan applicants and the financing institution.*

6. Strengthen the alliance between the farmers' organisations and the MFI

The farmers' organisations represented at the seminar reiterated their strong voluntarist motivation on the question of agricultural financing.

Within an economic and institutional context that has become more complex, more unstable and more competitive, many new challenges are arising to which family agriculture must respond. Most of the farmers' organisations, whatever they are known as (committee, association, federation, union) are concentrating on two key functions, that they consider inseparable:
- creating/managing services to farmers in the economic, financial and technical sectors, including information, training, and advisory services, etc…usually in collaboration with other public and private actors
- representing and defending the interests of farmers *vis à vis* other economic and institutional actors and the government.

The financial needs of farmers' organisations for these activities are considerable and of different types. They include: running costs, equipment, capacity-building, economic activities, contributing to the agricultural support services, and financing members farms.

The financing needs of farmers' organisations
- *Papers presented by ROPPA, CNCR (Sénégal), ANOPACI (Ivory Coast), FUPRO (Benin), SEXAGON (Mali), FIFATA (Madagascar), Mviwata (Tanzania), Fédération des producteurs du Fouta Djallon (Guinea)*
- *Information sheet n°14: les besoins de financement des organisations paysannes (Financing needs of farmers' organisations)*

Relations between the farmers' organisations and the MFI vary considerably according to the situation, the history of each institution, their respective origins… The dialogue between these two parties during the seminar brought to light several important facts:
- the present financing mechanisms are vastly inadequate for supplying the needs of the farmers' organisations ;

- apart from the specific situations of MFI originating from the agricultural world (FECECAM Benin, Kafo Jiginew Mali, CECAM Madagascar), microfinance is according very little finance to farmers' organisations;
- dialogue between these two types of institution is often difficult, subject to tensions arising from two different rationales, which are especially crystallised in the debate about interest rates;
- dialogue is often rendered difficult by the heavy weight of credit history borne by some farmers' organisations (arrears, indebtedness, frequent failures of farmers' organisations which develop an activity on their own …) ;
- even when they are ready to use microfinance services, the farmers' organisations find that these are poorly developed (zones lacking a MFI, MFI too shaky to take strides into financing agriculture, or without the financial capacity to respond adequately to the extent of financing needed by the farmers' organisations ; …).

The difficult dialogue between farmers' organisations and financial systems

- *Information sheet n°16: Les problèmes de financement d'une organisation paysanne dans une zone faiblement développée : un exemple dans le Gourma au Burkina Faso (The problems of financing a farmers' organisation in a poorly developed zone : an example in the Gourma in Burkina Faso)*

Four types of involvement in financing have been analysed for the farmers' organisations:

- The farmers' organisation sets up, on its own, a credit activity for its members. This approach is very limited (insufficient technical expertise in a specialised function, large arrears frequent, difficulties in making the financing sustainable) and are gradually leading to a consensus that the financial function should be made self-financing

- The farmers' organisation turns the financial function into an autonomous structure, creating a specialised farmers' organisation (credit unions, cooperative, …) which becomes its 'financial arm'. Apart from the common and well-known problems shared by all MFI (to become more professional, seek financial equilibrium, ensure durability,..), the MFI created in this way will be confronted with the difficulty of conserving its agricultural vocation and to conciliate it with the aim of sustainable financing. The analysis of the Agricultural Credit Unions of Madagascar (CECAM) brings to light some promising innovations on this matter.

Building farmers' organisations specialised in financing: achievements and lessons?

- *Papers presented by FIFATA (Madagascar), Fédération des Producteurs du Fouta Djallon (Guinea), FECECAM (Benin), ADRK (Burkina), Kafo jiginew (Mali)*
- *Information sheet n°15 : Construire des organisations paysannes spécialisées en matière de financement : acquis et enseignements (Building farmers' organisations specialised in financing: achievements and lessons)*

- The farmers' organisation develops a function as mediator between the farms and the existing financial services (MFI, bank, …). Mediation aims at creating a relationship of confidence between the parties. It can take various forms, such as helping contacts, producing information on the farms, participating in the selection of borrowers, supplying caution through a joint guarantee (equal-share or not) placed with the financing system, supplying caution by helping to collect agricultural produce…The relationship may be strengthened by capital cross-holding and participation of the farmers' organisation in the governing board of the MFI s….

- The farmers' organisation gets involved in the development of a macro-economic and political framework to provide favourable financing conditions for farming: farm financing policies, concerted action with the stakeholders in the sector of microfinance (risk insurance centre, setting up management advice services, research, etc…).

Farmers' organisations : a body for mediation between family farming and the financing systems

- *Papers presented by CNCR (Senegal), ANOPACI (Yvory Coast), Mviwata (Tanzania), Socodevi-Mutuelle des Producteurs de café cacao (Togo)*
- *Information sheet n°17: Redéfinir un outil financier et un rôle pour les OP dans un cadre de libéralisation : l'exemple des zones cotonnières (Redefining a financial tool and a role for the farmers' organisations in a framework of liberalisation : the example of the cotton zones)*

- *Information sheet n°18: Redéfinir un outil financier et un rôle pour les OP dans un cadre de libéralisation : l'exemple des zones café cacao (Redefining a financial tool and a role for the farmers' organisations in the framework of liberalisation : the example of the coffee and cocoa zones)*

Executive recommendations

- *The farmers' organisations already play a key role in the financing of certain agricultural areas and will have a leading role in the creation of the second generation MFI necessary to respond to the needs of agricultural financing.*
- *To favour a variety of responses, the achievements and lessons of the past must be capitalised upon, information disseminated, and farmers' organisations encouraged to reflect upon the theme of financing.*
- *Even though a consensus is steadily being reached on the necessity of a clear separation between the function of financing and the other functions of agricultural development support, much work remains to be done in the farmers' organisations to increase awareness and to reflect upon this question.*
- *Time and resources will be necessary if the process of making the financing function autonomous of is to succeed.*
- *Thought should be specifically given to developing the mechanisms that would permit the MFI created in this way to retain their agricultural vocation. The experience gained by certain farmers' organisations in this matter is very valuable and should be passed on to other groups. Communication should be encouraged.*
- *The role of mediation played by the farmers' organisations and the financing system should be further developed in several directions: the search for partners, participating in the definition of the needs for financing, constituting surety….*
- *Dialogue should be established between the farmers' organisations and the MFI in order to encourage mutual understanding of reasoning, constraints and strategies. This dialogue will be more fruitful if it is tied to concrete initiatives – common training sessions, talking about experiences, creation of common tools (risk management centre), setting up common services (agricultural support, management advice, …).*
- *Joint involvement of the farmers' organisations and the MFI in the elaboration of public policies should be promoted. The professional associations of the MFI, the federative farmers' organisations, the sectorial support programmes all have major roles to play in this dynamic.*

7. Harmonise public policies

The debates of the various workshops of the seminar stressed that microfinance policies and agricultural policies should be complementary. Family farming needs financing in order to take up technical innovations, buy inputs, equipment, and its infrastructures, but it is often handicapped by the absence of adapted responses from the general systems of credit; microfinance is more accessible and flourishes if the borrowers develop profitable activities in a favourable environment.

However, important obstacles to this synergy remain:

- The division between these two dimensions of public policy is still important and leads to misunderstandings (such as : "microfinance is incapable of financing agriculture") or to conflicts (such as over interest rates).
- Liberalisation and changes in the strategies of support offered by the donors are leading to spectacular reductions in agricultural financing. It is urgent to find new mechanisms of financing; microfinance can form one of these mechanisms, among others. Debt relief, and the strategies of fighting against poverty in

general constitute new political frames of reference. How can they become mechanisms by which government can carry out its function of resource redistribution, and how can they incorporate the financing of agriculture?

- The relationship between the sectorial policies and the more recent policies on combating poverty is often difficult. One policy replaces another - the original objectives are abandoned, forgotten or ignored in favour of the new objectives.

- Too often the policies remain 'State policies', the fruit of *tête à tête* meetings between the political authorities and the donors, without consultation with the other stakeholders. To produce adapted and appropriate policies, the notion of government policies should be replaced by a notion of public policies, elaborated by the various stakeholders concerned.

An effort of comprehension should be made on both sides and analysis done in order to clearly identify the real differences and to cultivate synergies between the various actors, the frameworks for collaboration, and the emergence of policies that are veritably public.

Harmonise public policies

- *Papers presented by ROPPA, CNCR (Senegal), ANOPACI (Yvory Coast), CERUDEB (Uganda)*
- *Information sheet n°19: Améliorer la convergence des politiques publiques agricoles et de financement : l'exemple du Niger (Harmonise public policies on agriculture and financing: the example of Niger)*
- *Information sheet n°20: Améliorer la convergence des politiques publiques agricoles et de financement : l'exemple du Sénégal (Harmonise public policies on agriculture and financing: the example of Senegal)*

Executive recommendations

Various ways of exploring this area are possible:

- *Encourage collective reflection and concerted actions both within each sector (farmers' organisations and MFI) and between these two sectors since the lack of dialogue remains a handicap to the elaboration of joint policies on agriculture/microfinance in many countries today.*

- *Create forums at local, regional and national levels permitting discussion between the MFI, the farmers' organisations and the public authorities. These would serve as a melting pot for proposals and a place for the negotiation of convergent policies.*

- *Take into consideration the regional dimension of policies on agriculture and microfinance by applying economies of scale and complementarity*[14]*.*

- *Encourage the different ministries concerned (finance, agriculture, social affairs, youth, women) to concert together.*

- *Undertake research programmes, impact studies and follow-up within the MFI and the farmers' organisations, learn from experience and supply information for drafting adapted policies.*

The move away from government policies towards public policies depends particularly on:

- *building alliances between the MFI (especially those with a mutualist or participatory basis) and the other professional agricultural organisations.*
- *strengthening the capacities of the various stakeholders, especially farmers and their organisations to permit them to take an active role in negotiations.*
- *taking into account the private stakeholders (importers, tradespeople, transporters, factories, multinationals…) when drawing up public policies*
- *redefining the role of the government : the government is still indispensable and can find a new legitimacy in the necessary role of providing incentives and mediation, and in standing as the guarantor of the decisions made in common, rather than by imposing policies it has defined alone.*

14 Cf. UEMOA /IRAM. Etude de la définition des grandes orientations de la politique agricole de l'UEMOA, Avril 2001. (p. 74 à 77). (Study of the definition of the main orientations of the agricultural policies in the WEAMU)

- *The professional microfinance associations, farmers' organisations and their federations have a decisive role to play in this political mediation.*

- *Sectorial support programmes, to microfinance as to agriculture, can be the motors behind this essential political dialogue. This synergy should be encouraged by the donors, which often support both categories of institution independently from each other, without concerning themselves about establishing links between them.*

Conclusion : Summing up the executive recommendations by category of actor

The **executive recommendations** have been developed above according to theme. To conclude in a practical manner, we now attempt to resume them in the form of a short working guide for each category of actor.

1. Microfinance institutions

To improve their offer of services to agriculture, the MFI should:
- seek and develop ways of communicating with the actors in the agricultural world (producers, agricultural organisations, support services) at the different levels on which they operate (national, regional local)
- improve their understanding of the activities, constraints and financing needs of agriculture in their working zone; identify those agricultural activities that are the object of a solvent demand, while taking into account the potentials and limits of the global budget of rural households
- clarify the way they calculate their interest rates on loans and make an effort to inform and explain how the costs of the MFI are constituted
- try out new products and mechanisms to safeguard loans, in partnership with the actors in agriculture
- be careful to keep a diverse credit portfolio
- develop medium-term loans, by consolidating their long-term resources (particularly by collecting savings and bank refinancing), by proposing new formulas (hire-purchase), by analysing the possibilities of reducing interest rates and by incorporating the medium term loans into a global plan of the MFI, proposing a medium- and long-term vision of development..

The development of forums of exchange between the MFI and the bodies representing agriculture (farmers' organisations, unions…) and the support services (services offering management advice to farmers and farmers' organisations, services offering information on the agricultural markets, etc) will make it easier for the MFI to become more open towards the agricultural world. These exchanges could lead to various types of contract aimed at making the relationship durable (e.g. contributing to the running costs of a management advice service, if this will allow agricultural loans to be safeguarded).

The initiatives of the MFI will be more effective if they are backed up by federating bodies (professional associations of the IMF, sectorial support programmes, etc…) in which information is pooled and experimentation possible.

2. Banks

To improve their contribution to farm financing and fill out their portfolio of services, agricultural and commercial banks should collaborate more with the MFI. Different ways of doing this can be looked into: contacts and information exchanges, including field work, joint staff training schemes, development of forums of discussion at different levels, development of common tools (equal share guarantee funds, risk insurance centre, etc…), making joint investments…

In order to facilitate this move, concerted action should be taken by the banks (e.g. the initiatives made by the AFRACA) and the partners (MFI and farmers' organisations) should work towards becoming more professional.

3. Farmers' organisations

To rise to the challenges of financing agriculture in a context of globalisation, the farmers' organisations should:

- move closer to the existing financing institutions (MFI and banks) to open the dialogue, improve their knowledge of the problematics of supplying finance, and make known their own appreciation of the needs and constraints faced by agriculture. This dialogue will be more fruitful if it is tied to concrete actions such as common training courses, experience-sharing, creating common tools (risk management centre) and setting up common services (e.g. agricultural support, management advice for family farms).
- participate in an objective analysis of the needs of financing in agriculture and assess the solvent demand potential
- participate in defining and testing of products and safety mechanisms adapted to the specific needs of agriculture
- accept the principle that the financial function must be autonomous and professional, while retaining, by adapted institutional mechanisms, the agricultural vocation of the MFI created by farmers' organisations
- develop in its various dimensions, the role of mediator between the farms and the financing system: looking for partners, participating in the definition of financing needs, standing for caution, participating in recovering funds, constituting a storage guarantee…;
- promote the joint participation of the farmers' organisations and the MFI in drafting public policies. The professional MFI associations, the federated farmers' organisations, and the sectorial support programmes all have major roles to play in this dynamic.

4. Political leaders

Changes in the liberalisation programmes, failures and troubles encountered, tend to confirm the legitimacy of the government's role to guide, induce, arbitrate, guarantee the respect of decisions made in common. Upstream of the problem of financing agriculture, governments, in partnership with representatives from the agricultural sector, should define and affirm the type of agriculture they are ready to support, and the place family agriculture has in this choice.

Concerning the financing of agriculture, governments should :

- create favourable conditions for strengthening the agricultural and financing sectors: reinforce the capacities of the stakeholders, promote collective debate and structural organisation within each sector; produce information and increase the understanding of on-going processes;
- increase the convergence of the sectorial policies, by encouraging discussions between the ministries in charge of the different sectors, and between the sectors themselves, by promoting negotiations and the emergence of new alliances between the agricultural and financial sectors. Governments are the guarantors of the coherence and compatibility of the policies engaged upon (sectorial policies, policies aimed at poverty reduction, etc.).

5. Donors

Contrary to the initial postulates of liberalisation, it now seems evident that a sustainable system for financing agriculture cannot be created by market forces alone. Long-term voluntarist assistance is needed for the emergence and consolidation of such a system, and this must be supported by the donors.

Three types of support are required:

- to strengthen the agriculture and microfinance sectors: increasing the capacities of the actors in each sector, making these structures more professional, structural organisation of the sectors; creating a second generation of microfinance institutions in the 'less profitable' zones
- to promote dialogue, negotiation and alliances between the agricultural sectors, microfinance, and support services ;

- to produce information and knowledge about on-going processes: providing assistance to research, support services (management counselling, market monitors, etc), and the innovative and experimental initiatives of the farmers' organisations and the MFI.

6. Technical support operators

The technical support brought to the MFI and the farmers' organisations by operators from the North and from the South must be compatible with the above rationale. It is therefore primordial that these operators:
- have good knowledge of both the agricultural and the financial sectors
- adhere to the principle that the function of financing must be autonomous and professional, combined to institutional mechanisms permitting the agricultural vocation of the MFI thus created to be conserved
- contribute to an objective analysis of the needs of financing in agriculture
- encourage dialogue and negotiation between the financial services, the farmers organisations and the support services
- facilitate experimentation, access to information, capitalisation and experience-sharing about innovations in the matter of agricultural financing.

This type of intervention requires long-term support.

7. Research

Research is required in several important areas: to analyse the needs of financing in agriculture, to analyse the impact of the financing institutions, to identify, analyse and capitalise the innovations in reference to fitting the supply to the demand, to safeguarding the services, etc… For all these themes, researchers should develop methods of analysis and contribute to the spread of knowledge, in partnership with the stakeholders concerned (farmers' organisations, MFI, banks, politicians, donors, etc…).

More generally, research should bring new insights on how liberalisation is operating and its impact on the agricultural economy. It should also provide information on the economic, institutional and social readjustments in this new context.

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Beyond its well-known roles as a buffer from economic shocks and as a means of smoothing household consumption, microfinance, in its diversity, is now demonstrating that it can be an effective means of financing rural economic activities, be they individual or collective. But it is a fragile tool and must be strengthened. Its expansion into rural zones where agriculture is dominated by insecure food production requires long-term assistance.

However, even reinforced and extended, microfinance will not be able to fulfil all the demands for rural financing. Within the present context of liberalisation, which implies a redefinition of the roles of the institutions and the forms of coordination, thought must now be turned towards the different facets of the problem of rural financing. This reflection should be based on an analysis of the nature of the needs of financing and appropriate types of financing (financial services, self-financing, subsidies, taxes, ..), on the linkages needed between these different systems and on the conditions needed for their establishment (rules, role of government, etc…).