

*The financing of family farming  
in the context of liberalisation  
What can be the contribution  
of microfinance?*

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THEME SYNTHESIS

**Thème 5 :**

**Microfinance and producers' organisations :  
Roles and partnerships in the context  
of liberalisation**

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## Introduction

In the past fifteen years, the scope of rural producers organisations and the level to which they federate together have developed greatly in most African countries. This has been accompanied by a progression in the farmers' capacity to lead economic actions and to get their voice heard in the debates on agricultural policy. In a very short space of time and in many African countries, the rural producers' organisations (RPOs) have imposed themselves as actors and full partners, and it is becoming difficult for the other stakeholders to ignore them or bypass them. Increasing interest is being given to them on the part of bilateral and international cooperation agencies (especially the World Bank), particularly because of the role they play in setting up and running support services for farmers.

It is clear that RPOs are confronted with the problem of financing agriculture and that they propose very varied solutions.

- ✓ The demand for credit is very strong among rural populations, as much for farming as for other para-agricultural and extra-agricultural activities. Public institutions granting or forwarding loans have more or less rapidly (sometimes suddenly) pulled out, leading to a growing scarcity of credit and its increasing cost.
- ✓ Alternative forms of credit have been introduced, sometimes within the RPOs themselves, or in partnership with them, sometimes independently from them. Often appreciated by the producers, as a general rule they give only a partial answer to the question of farm financing.
- ✓ Under the initiative of very diverse actors, various experiments have been undertaken, and certain federations of organisations have made efforts to draw lessons from them.
- ✓ Etc

Farmers organisations are also faced with the question of financing their own institutional running costs and the funding of collective economic initiatives.

Many and varied paths have been explored by the RPOs to find solutions to the question of financing agriculture, with contrasting results: from unequivocal successes to discrete or dismal failures. They fuel a debate which is still wide open on the place and role of RPOs among the institutional systems of agricultural finance:

- ✓ The dominant trend within microfinance is to recommend that the function of financing be clearly separated from the other forms of development support (technical assistance, management advice, sales organisation...), and to make this separation a condition for the viability of the financial institutions. In this approach, the farmers organisations are defined simply as potential "clients" of the financial institutions, and as such they should not intervene in the implementation of the financial services. The producers' organisations may manage institutions that are specialised in microfinance, but these latter relate more to the general topic of microfinance than to that of producers' organisations.
- ✓ Against this, some actors, particularly those from the RPOs, believe that strong links between the functions of finance and technical support in particular, strengthens the economic projects financed in this way, increasing their viability, and thus contributing to the sustainability of the financial service.
- ✓ Finally, faced with the scale of the need for funding in agriculture and the lack of specialised operators, the RPOs are very often tempted to take on the job of financing, creating ad hoc savings/loans systems. But the failure rate is high and, in some cases, motivates the RPOs to tread cautiously.
- ✓ New paths remain to be explored, in which organisations develop a role as intermediaries rather than as a direct financier...

The aim of this report is to bring some light onto this problem, drawing on observations made in West Africa and Madagascar. The basic data used come from several studies carried out on this theme by the CIRAD, in particular within the research programme on "the role of decentralised financial systems in

agricultural finance", undertaken conjointly with various different microfinance operators of the North (CERISE network, FERT) and the South (PPPCR, CVECA, FECECAM, EMT, ADRK, CECAM Madagascar ....).

The first section presents the situation of the RPOs in West Africa and their perception of agricultural financing. In the second section, an analysis is made of the various ways in which West African organisations are involved in supplying financial services, presenting the specific problems related to each of these forms of involvement and their prospects for change. To conclude, we turn our attention once again to the possible forms of partnership between microfinance and the RPOs.

## 1. Producers' organisations and agricultural financing

### 1.1. Producers' organisations, farm loans and the financing of agriculture: already a long story

#### 1.1.1. What organisations are we talking about?

The term «rural producers' organisation» covers many diverse, and constantly changing realities:

- ✓ Groups (of variable size) formed at a sub-village or village level and founded on criteria of geographical proximity (neighbourhood), social affinity (women's groups, young people's groups), socio-professional convergence (groups/associations of vegetable growers, fisherfolk, cotton producers, etc..)
- ✓ Local or regional unions which federate a very variable number of groups/associations on a territorial basis (the district, borough, county, province...) or on a sectoral basis (around a commodity chain for example);
- ✓ National federations bringing together the unions and increasingly giving rise to national "coordinations" - drawing together secondary and tertiary level organisations, with very different backgrounds, activities and modes of structure, but all animated by the shared will to speak out and to be heard by the other institutional actors and the public authorities.

While the naming of these groups does not pose a problem in English-speaking countries, with "farmer's organisation" being the most usual, it is a subject of debate in French-speaking countries, though more among experts than among the organisations themselves. Thus the generic term of farmer's organisation, "organisation paysanne" in French (assumed by the French agricultural unions for several years) may be interpreted in several ways.:

- ✓ The precision "organisations paysanne et rurale" (farmers and rural people's organisation) is aimed at underlining that the organisation is interested in all the various activities of the rural world (agriculture, fisheries, husbandry, food processing, crafts etc.)
- ✓ The denomination «organisation de producteurs ruraux » (rural producers' organisation) is often used to accentuate the economic functions of the organisation ;
- ✓ The term "organisation professionnelle agricole" (professional farming organisation<sup>1</sup>), stemming from the French agricultural experience often has a double edge to it: on one side, a desire to get the agricultural profession organised so that it can move forward to a position from which it is capable of defending the producers' interests, and on the other, the aim of involving the farmers in becoming more qualified (technical, economic..etc).
- ✓ Etc

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<sup>1</sup> A notion that poses problems when translated into English, since "professional" is often taken as meaning "not farmer".

The term "producers' organisation" is considered here as including very different organisations - differing in size, activities, specialised or generalised and multisectoral, as long as they have the following two features in common::

- ✓ The members of the organisation are country dwellers for whom agriculture (in a broad sense) is not only an economic activity but a "way of life", whatever their activities or their technical and economic performance. These are farmers working on family farms, which, in addition to being units of production and consumption, are also social, cultural and educational units.
- ✓ Implicitly or explicitly, the organisation aims are to defend and promote family farming in the face of other the types of agricultural production, especially "agri-business".

### **1.1.2. Rapid changes in the dynamics of RPOs**

Without going into the history of the dynamics of RPOs, it would be useful to recall the main changes that have occurred in recent years and the ways in which they have been permanently assimilated into agricultural financing.

#### **1.1.2.1. The situation of farmers' organisations in the early 1980s**

When the first structural readjustment programmes began, farmers' organisations were generally very weak in most African countries. However, many organisations existed, particularly at local and village levels, and can briefly be classed into three general categories: cooperatives, associations/groups related to big projects, and the associative movement.

- Cooperatives

Much hope was placed in the cooperatives at the time of Independence; they were the object of sustained interest from the public authorities (Niger, Senegal, etc) and carried out economic functions that were appreciated by the farmers, such as agricultural equipment, the creation of storage infrastructure, the marketing of produce etc. In various countries they were the means through which public funds were channelled to agriculture for several years. However, they ran into many operational problems which brought discredit to them: very few organisation members actively participated; their field of action generally remained limited to what interested the State government, i.e. mostly the promotion of export crops; excessive levies were often made by the public authorities, limiting farmers' incomes and making it difficult for loans to be repaid; faced with the aggravation of the credit situation and the erosion of incomes, they were often counterproductive, etc..

- Associations/groups related to big development projects

The most significant examples concern the cotton growers organisations and the associations or groups situated in the areas under the influence of water management schemes. Created at the initiative of societies, or governmental or para-governmental development projects, they were often the result of compromise or convergent interests between the farmers and the support organisations.. The general rules being that the RPOs took charge of well defined economic functions (management of the water distribution network, rice threshers at the Niger Office for example, primary marketing, input supply, etc.). These organisations usually played a central role in the management of credit at the local and village level; repayments being assured by the fact that the support institution had the monopoly of marketing the produce. It should be noted however, that the joint guarantee within the grassroots organisations sometimes led to a process of internal indebtedness that, as it got worse, weakened some of them.

The importance given to strengthening skills within the organisations has been very variable. For example, the CMDT has heavily invested in literacy and management training for the village associations in southern Mali, but this is in strong contrast with the situation in many other countries.

- Organisations initiated independently of the State: the associative movement

In the 1970s a dynamic associative movement began in the rural areas of certain countries (Senegal and Burkina Faso in particular) that was independent of the State. Its importance increased progressively and later led it to play a major role in the construction of the African farmer's movement.

The pioneer organisations are well known (in Senegal, l'Entente de Bamba-Thialène, l'Amicale Socio-Educative des Agriculteurs du Walo, l'Association des jeunes Agriculteurs de Casamance, etc... ; in Burkina Faso, the groups of Naam, etc..)

From local initiatives, affirming their autonomy from the State, these organisations at first grew up at the inter-village level and led very diverse actions, often with support from the NGOs of Northern countries.

During the 1970s, the usual rule was that they fixed themselves general objectives (improving the quality of life, self-sufficiency in food production...), with a motivating general project that they worked at by bringing into play very diverse human and financial resources. Until the 1980s, the activities of these independent organisations could be distinguished from government-initiated organisations by the by three essential characteristics:

- a very strong tendency to undertake several different functions
- close inter-linkage between economic and social actions
- economic initiatives, especially in those sectors that had been ignored by the official development agencies.

In most cases, organisations linked to the associative movement began to federate together very early on, at a regional level in Burkina Faso and on a national scale in Senegal, (as in the case of the federation of Senegali NGOs, FONGS).

Not having access to public funding, the organisations of the associative movement often came up with original (more or less successful) initiatives for finding credit in the 1970s and 1980s. These included: for example "flexible funds", "revolving funds" set up with outside help and aimed at funding various types of rural activities.

- Savings and loans cooperatives

These grew rapidly in English speaking countries (Ghana), then from the 1970s onwards in certain French speaking countries. They were almost exclusively started without State assistance and benefited from outside support (churches, French, Swiss or Quebecan mutual loans, etc). In the 1980s they spread due to the decline in centralised credit systems ("caisses" or national agricultural credit banks) and to the interest given by the donors to alternative ways of channelling savings and loans. Many of them may be considered as farmers' organisations given the status of the majority of their members, the origin of the savings collected, etc. Some of them having acquired significant economical weight, in the 1980s they considered themselves as specialised financial structures, with very little institutional contact with the other producers' organisations.

### **1.1.2.2. The turning point in the 1990s and the identification of new strategic issues**

The 1990s marked an important turning point for the RPOs in most African countries. The combined effects of the withdrawal of governments and the opportunities accompanying the democratisation of public life allowed more space for economic and political initiative for the organised farmers. Faced with the concrete effects of economic reform, the organisations began to move into new spheres, often at first on a regional level.

The federative dynamic was of variable importance in different countries, the political context being variously favourable. They were often at first regional and sectoral, and structured around a single key motivating issue (price of cotton, access to inputs, etc...).

In a relatively short time, they gave rise to broad based national unions or confederations of organisations in most countries. The initiative came from the RPOs themselves: for example, in 1993 in Senegal it was the FONGS that organised a national forum which gave rise two months later to the creation of the Comité National de Concertation des Ruraux (CNCR), which continues to increase its audience on a national scale and which has had an undeniable influence at the sub-regional level.

The unification movement gradually affected many countries in which the drawing together of groups on a national scale occurred in different ways, in some cases with the help of specific support programmes such as those for the "professionalisation" of agriculture financed by the French Ministry of Foreign Affairs (MAE). It should be noted that this national dynamic is well advanced in certain countries (CNCR in Senegal, Fédération des Unions de Producteurs/Fupro in Benin, Association nationale des organisations professionnelles agricoles/ANOPACI in Côte d'Ivoire, etc...). Elsewhere, the consultation committees are still in their early days, for example in Cameroon and Equatorial Guinea.

Finally, and this is a considerable advance, the Réseau des Organisations Paysannes et des Producteurs Agricoles (ROPPA, Network of Farmers and Agricultural Producers Organisations) came into being on a sub-continental scale in 2000, after the first meeting of national confederative organisations held in Cotonou.

### **1.1.2.3. Key issues and challenges**

In the space of 15 years, the environment has changed profoundly for African farmers due to the adoption of liberal policies:

- ✓ The structural adjustment policies have profoundly modified the rules of the game at national levels, depriving the farmers of many of the supports from which they had benefited previously; they have led to the disorganisation of the agricultural services, and the rate at which they are being reorganised is very variable.
- ✓ Market liberalisation has modified the way farmers can get access to markets, whether it concerns the export market or the local inputs market (increased competition, priority to improving competitiveness etc.)

In an economic and institutional context that has become more complex, more unstable and more competitive, and faced with the many new challenges this presents for small farmers, the RPOs, however they may be labelled (committee, association, federation, union), shape themselves around two key issues, that are inseparable for them:

- ✓ The creation/management of services for farmers: economic and technical services, but also information, training and advice, etc...most often in collaboration with other public and private actors.
- ✓ The representation and defence of producers' interests vis à vis other economic and institutional actors and the State.

## **2. How do RPOs address the question agricultural funding?**

### **2.1. The need for finance**

In the liberalisation programmes underway at present in West Africa, the participation of RPOs is frequently solicited on many aspects of agricultural financing. They contribute to funding the support services and financing rural infrastructures; as well as having their own needs of finance...

These demands are greatly in excess of their real capacities in terms of resources, but also in terms of their management skills. Their financial sources are limited: members subscriptions, registered capital, members savings, grants, loans, economic activities, and, in some cases, payment for undertaking development activities...

In general, the RPOs have low capital resources. They lack the basic means of carrying out their training, public awareness, organisation of members, and economic functions, and often find themselves caught in a vicious circle that stops them from developing their capacities. Their low level of capital resources gives them little capacity to ensure the economic and organisational functions for potential members, and this diminishes their credibility both in the eyes of the members and in those of the banks. Because they lack the ability to demonstrate the interest of their work, the producers show little motivation to get involved, and this in turn limits the capital resources and the general scope of action for the RPO.;

RPOs need finance to cover three types of concern:

- to make the financial services more accessible to farmers
- to finance collective economic initiatives
- to generate sufficient resources to
  - ✓ cover the running costs of the RPO
  - ✓ participate in co-financing services...

## **2.2. Different needs for funding call for different modes of finance**

These needs for funding are dissimilar and cannot all be met by the same system of finance.

- ✓ Loans (at market rate/subsidised)
- ✓ Infrastructure-basic equipment (subsidies)
- ✓ Mechanisms for taking levies (para-fiscal taxes)

The links with microfinance are related to the setting up financial services (savings, loans, insurance) accessible to small-holders, but also to the RPOs themselves for funding their economic activities. The remainder of this document is therefore dedicated to the field of financial services.

## **II – What strategies do RPOs develop to meet their need of credit?**

To meet the needs of the financial services, the RPOs have four main strategies, not mutually exclusive :

- 1.) Use existing financial services
- 2) Create their own financial tools (savings and loans system, maybe even insurance)

- 3) Develop a role as intermediary between the farms and the existing financial services in order to provide loan security and to make the service more accessible to the small-holders
- 4) Get involved in the elaboration of a macro-economic and political set up that makes it easy for small-holders to access the financial services

These different “strategies” are not at the same stage of development: while the first two have been used for many years, the strategies of mediation and of political involvement are more recent and reflect a new degree of maturity in the RPOs. It is therefore too early to evaluate the full effects of these latter strategies.

These options lead on to different types of institutional set up and forms of coordination, but which all imply links with microfinance.

### **1. First type of RPO "strategy": Use the existing financial services**

To rely on the existing financial services (public, banks, microfinance) may appear to be the quickest and the least demanding for the RPO. Its limits are however very quickly reached in face of the poor offer of financial services adapted to farming and to the needs of the RPOs.

#### **11. Public funding**

Even though diminishing, public funds still represent a large part of the formal finance of agriculture.

The RPOs have often been associated in the management of these public funds. This "co-management" takes several forms: RPO associated with the management of lines of public credit (for example in Benin in box 1), participation in the management of the funds of the integrated sectors, participation in the management of lines of credit of the development projects....

The systems of co-management can give the RPOs the opportunity of improving their management skills. But the observed results are often mixed: poor grasp of the modes of funding by the RPOs, lack of transparency in the procedures of loan attribution favouring all kinds of malversation; lack of follow-up for loans, unprofessional management of credit, poor coordination between different financial services, no links between savings and loans, and therefore no impetus to increase the farms' capacities of self-finance.... The consequences can be serious: outstanding payments, indebtedness, credit held in low esteem.



### **The co-management of public funding by RPOs in Benin**

*1999 : Benin offers an example of the situation in which lines of public credit are "co-managed" by the RPOs. The government of Benin grants several types of credit to farming, from the state budget, but also from lines of spot credits offered by outside donors (e.g. in 1998: a "Japanese loan", intended for poultry production, processing farm produce and village water supplies, at a rate of 5%/year; a "food crop loan" at a rate of 7%/year, a PISEA credit for the reinsertion of unemployed farm workers, a loan linked to a "young entrepreneur" project...).*

*These loans are transferred through the Administration to the "Comités Sous Préfectoraux de Crédit" (CSPC) which allocates them to the village associations (VA), in return for a joint guarantee on the cotton production.. The loans are attributed to individuals by the VA.. The president of the CSPC is the president of the local cotton RPO, which, by a type of co-management between the State and the RPO, should guarantee that the system works properly. Technical follow-up of the credits granted is to be carried out by the CARDER. These credits encounter big problems of non-payment of arrears.*

*This credit scheme poses serious problems: the allocation procedures are not transparent and encourage all kinds of malpractice; in reality, very little follow up is done on the loans, neither the CARDER nor the RPOs having the means or the skills to do it; there is no coordination between the different financial services. The result is serious arrears in repayment, which compromises the viability of the credit system; since they are never really reclaimed, they contribute to reinforcing the negative attitude of impunity regarding credit repayment and jeopardising the credibility of the RPOs associated in the scheme; finally, this surge of poorly controlled credit adds to the general and worrying movement of household indebtedness in the zones of cotton production.*

## **12. Financial services provided by banks**

Outside the integrated production sectors within which credit mechanisms have been relatively sure until now, the commercial banks lend very little to farms and the RPOs in West Africa.. Farming appears to them as a high risk sector, in which the demand for credit is not very adapted to their own resources and for which savings seem difficult to mobilise. The degree of organisation in the agricultural sector and the maturity of the RPOs have not yet reached a level that will reassure the commercial banks.

The mechanism of guarantee funds aimed at improving these partnerships is not very effective: the partners are not sufficiently made aware of their responsibilities, the bank does not progressively take on the risk, the guarantee fund is frequently eroded and is extremely difficult to reconstitute...

In the few West African countries where public banks operate, they are developing partnerships with RPOs, but most often confining themselves to more or less secure areas: organised sectors in which it is possible to guarantee the harvest, such as irrigated zones.

The success and the sustainability of these partnerships varies according to the ability of the RPO to prove its maturity in management and governance, on the importance of this for the bank, but also more generally, on the vitality of the agricultural economy.

## **13. Microfinance institutions**

The microfinance institutions (MFI) have shown strong development in West Africa over the past 15 years, in various institutional forms (mutual savings and loans societies, local community funds, joint liability credit projects...). They have developed in urban areas, but also in the countryside. Their establishment has been very variable in different countries (less than 10% of the rural population has access to MFI in Niger, whereas nearly 40% of the population has access to them in some parts of Benin where the FECECAM is present), but is still generally low. Over the whole of the WAEMU zone, less than 20% of the rural population has access to financial services.

The usual statement that the MFI provide very little funding to agriculture should be qualified. Of total investments of about 70 billion CFA francs credit distributed in 1997 by all of the MFI in the WAEMU, an estimated 20 billion CFA went to agriculture (WAEMU study 1999/2000), that is over 25% of the global investments. The importance of this contribution must obviously be considered in relation to the scale of the need of funding (in Benin for example, where the contribution of MFI to agriculture was about 6 billion CFA credit in 1997, the needs of the cotton sector alone were in the order of 30 to 40 billion, of which about 10 billion were for production). This contribution is largely due to the big mutualist networks, distributing credit in the framework of the, until recently, secure integrated sectors (cotton, coffee, cocoa), but is added to by small regional or local mutuals and certain village savings and loans funds that are independently managed in profitable and secure production zones... (cf. introduction). On the other hand, even if MFI do fund agriculture to a certain extent, very few of them fund the RPOs outside the organised sectors of production. The often close proximity of the RPOs and the IMF on the ground is not sufficient to give the RPOs any significant access to the MFI funding. Several reasons may be put forward for this: the imbalance between the needs of the RPOs and the resources of the MFI, medium and long term needs of the RPOs against the short term resources of the MFI, insufficient maturity of the RPOs...

Several different categories of MFI have been created in the rural areas, among them:

- MFI stemming from the farming world, created specifically to finance farming and the rural way of life (Savings and loans cooperatives, agricultural mutuals,...) and managed by the agricultural populations trying to preserve their agricultural vocation (cf.2)
- rural MFI, managed by the local populations, but without a specifically agricultural vocation
- MFI developed with a view to creating a financial service, in form that is more entrepreneurial than participatory (ex : PPPCR in Burkina Faso), with limited involvement of the population in their management

By combining these different characteristics it is possible to outline the typology of situations that confront the RPOs looking for funding.:

- an MFI exists and develops an agricultural vocation, the RPO can discuss with it and try to use its services
- there is no MFI present in the RPO's zone
- one or more MFI are present, but have vocations that are clearly not agricultural(targeted towards women, certain categories of craftsmen, traders, ...)

In order for the RPO to be able rely on the services provided by microfinance, several conditions must be met:

- a service of microfinance must be present in the zone
- this institution must have, or accept to start, an agricultural vocation
- it must have sufficient means at its disposal

The example of the ATT Association in Burkina Faso illustrates how problematic the quest for solutions to the question of finance can be for an RPO in a zone where IMF have developed.

### ***The Tin Tua Association in the Gulmu (Burkina Faso)***

*Created in 1989, association TIN TUA is a federation of village associations ("groupements TIN TUA") on the Gulmu zone. The association aims to "accompany the process of self-promotion of the populations, with particular attention to women and children". Begun on the basis of literacy activities, the ATT gradually expanded its field of work to support economic development in the zone of Gulmu. Its present activities concern basic literacy and schooling, cultural development, supporting agri-pastoral development, grain banks, loans, soil conservation and protection from desertification. Its zone of intervention covers five provinces of Gulmu. Gulmu can be characterised as having a low level of economic development, greatly inadequate infrastructures and acute isolation. People have only recently started using animal traction, and this is limited and concentrated in a few heavily populated zones (Botou, Diapaga...). The lack of mechanisation is an important obstacle to agricultural intensification and to attaining self-sufficiency in food production.*

*The ATT is confronted with a strong demand from the RPOs for overall support for productive agricultural activities in particular for the development of animal traction in particular. This demand is expressed in terms of access to equipment, finance and training in the use animal traction.*

*Financial services are very poorly developed in the zone of Gulmu.*

- *The Caisse Nationale de Crédit Agricole is present in the regional administrative centre; it grants four types of credit to agriculture (short term "production factor" loans, medium term "animal traction" loans, "marketing of agricultural produce" and credit for fattening stock). These loans are granted to producer groups which then redistribute them to individuals and stand as joint guarantor for the repayment.*
- *The Réseau des Caisses Populaires of Burkina Faso is also present in the administrative centre and mostly works with the traders and civil servants of the zone.*
- *Several small systems of microfinance have worked in the zone, or are still present, with activities targeted towards women's groups, but also with local communities.*

*The Tin Tua Association has entered into negotiations with several financing systems but considers that none of them has the capacity at present to fully meet the financial needs of the RPOs (offers of finance too small related to the scale of the needs, inappropriate financial conditions,...).*

The example of the Niger Office zone illustrates another type of situation, a priori more favourable: there are many MFI financing agriculture, the RPOs recognise their interest, but none the less much reluctance to collaborate persists on the part of both structures.

### ***RPOs and MFI in the Niger Office zone (Mali)***

*The systems of microfinance started developing in the Niger Office zone in the early 1990s. Firstly with the Fonds de Développement Villageois (FDV), formed from the transformation of the finance structure of the Niger Office, which took the shape of a savings and loans mutual trust that became part of the Fédération des Caisses Rurales Mutualistes du Delta, present in the zone today. The mutualist network Nyessyegesso, supported by the Desjardins network established itself in the zone in 1992. The Caisses villageoises d'Épargne et de Crédit Autogérées (independent village savings and loans funds) were started by the CIDR in 1994, upon the request of the BND.A.*

*Today, the higher level organisations (unions, regional chambers of agriculture) express their esteem for the MFI: they are seen as "serious and professional" financial utilities that have contributed to making the credit situation more healthy and have opened up new possibilities of funding for the zone. The MFI respond to the main concern for finance in the zone: rice production, but have shown flexibility by offering other services too. But from there to the first level of recognition a profound*

*ignorance persists concerning the MFI and the way they work, even though many members and leaders of the RPOs are also members of an MFI in their village, and sometimes borrow from it.*

*More generally, we see a lack of understanding of the basic economic principles that govern the financial market and the reasoning behind the development of the MFI. The RPOs reproach the IMF for being tools invented by bankers and for not having a "social action". The principal criticism is about the interest rate. "The loans should help the people; with a rate of 25%, you can't help people". Another criticism concerns the partial response given by the MFI to financing farms:*

*- diversification loans for vegetable growing, women's activities, the necessary assets are inadequately developed (the "Caisses" lack the necessary resources and too often refuse to accord these loans)  
the credit is too exclusively concentrated on rice production and has little impact on those populations have no possibility of producing rice (women, dependants).*

*- the needs of finance for agricultural equipment are not taken into consideration  
- the MFI do not respond to the financial needs of RPOs (marketing, processing equipment, ...)*

*Finally, questions about guarantees and governance are raised:*

*- the system of joint guarantee is not adapted and discourages potential borrowers  
- a large gap is created between the elected leaders of the "Caisses", and the Unions and the grassroots members; information is poorly distributed throughout the network, the rules are insufficiently discussed, power is concentrated in the hands of a few people ...*

*On the side of the wage-earning structures of the MFI, the internal dynamics, the development and the reasoning behind the RPOs are all inadequately understood.*

*A clear separation can often be observed between the "developers" and the "financiers", two different types of reasoning that converge but that do not mix. This presents the obvious risk in a difficult zone such as the Niger Office zone where the RPOs wield considerable power and maintain (despite earlier failures) a desire to create their own independent credit system which will "really correspond to the needs of the farmers"*

These examples illustrate the difficulties encountered in the collaboration between the RPOs and the institutions of microfinance. Faced with all these constraints, the RPOs are often tempted to take over this function, creating their own financial services.

## **2. Second type of strategy employed by the RPOs: create their own financial services**

### **21. What factors drive RPOs to start supplying credit ?**

The lack of alternative modes of finance for the smallholdings and the RPOs is the most usual reason why RPOs turn to taking on a role as credit supplier. There can be a total absence of financial services in a given zone; this may always have been the case, or it could be the result of the State having pulled out (e.g. in the irrigated zones of the Niger river), it may also concern a specific category of farmers (e.g. family farm businesses in Côte d'Ivoire, or farmers under management monitoring in Benin) who consider that the existing financial services do not correspond to their specific needs.

Even when there are local financial services, ignorance or suspicion are often given reasons by the RPOs for justifying the creation of a credit component within the RPO:

- \* the big MFI, and à fortiori the rare banks operating in the rural areas, are often seen as being far removed from the realities of agriculture, and only benefit the wealthier sections of the population
- \* many MFI are recent and have yet to prove themselves in a given environment
- \* the MFI have difficulty shaking off, in certain contexts, the reputation of being "little loans for women"

\* geographical proximity is no guarantee of information flow; often information on the different organisations (RPO, MFI...) which exist within the same area is poorly circulated due the lack of appropriate tools and networks, but also lack of common values and objectives and because, here as elsewhere, power is gained from controlling information.

\* the desire to become independent and to strengthen cohesion within the RPO can also be powerful motivations behind the creation of a financial tool integrated within the RPO :

+ helping marginalised groups become more independent :

e.g. : livestock farmers grouped together in the AREN in Niger who believe that, as stockmen, they will never have access to any existing financial service, and that therefore they need develop their own independent tools adapted to the specific needs of stockmen.

+ allowing a group which has formed an economic project the autonomy to develop at its own rhythm

e.g.: pineapple producers of the FENOPB in Benin

+ in addition, being able to use a financial tool is often seen as an important factor of empowerment and in drawing the members of the RPO more closely together.

## 22. What forms can this approach take ?

The RPOs have longstanding experience in the creation of financial services (cf. I), some of them were even formed for this very purpose. This experience is littered with setbacks and failures, but is also a witness to successes which it would be useful to examine in detail. Three ways of working can be distinguished :

1)- *grain banks* are a particular type of “finance” that the RPOs have tried to develop in disadvantaged zones

2) – an approach that is still common and shared between the RPOs and a certain number of NGOs is to *integrate a financial element to the usual activities of the RPO but without the aim of making it autonomous*

3) – a more recent approach based on applying what has been learnt from the development of microfinance, consists of *creating an independent MFI*, but linked to the RPO and targeted at its main financial concerns

The 2<sup>nd</sup> and 3<sup>rd</sup> approaches may be related, with the loan component of an RPO evolving towards an independent MFI.

### 221. Cereal banks

Although cereal banks (CB) constitute a very specific form of financing agriculture, and deserve a more detailed analysis, we have chosen to include them briefly in this typology because they are RPOs that can contribute to improving farm finance, they can be a means of financing farms in disadvantaged zones, and they can also be a disruptive element for the other financial services present in a zone.

CB are specific farmers organisations, often started by outside organisations and developed in West Africa especially as part of food security projects following the strong Sahelian droughts of the early 1980s. In the context of food shortage that led to a strong increase in rural exodus, the development of a precarious agricultural workforce, heavily indebted families, and the explosion of social groups, the aims of the CB were to improve the food situation and to help bridge the gap in supply between harvests. But they may also play a role in "economic apprenticeship" and in strengthening the organisational capacities of the populations. The CBs function in different ways, but most often several types of development activities are combined: grain storage, credit, literacy, technical training, management training... Today, generalist RPOs are still developing the CB as a tool, and have in many cases taken over from the development projects.

CB are more a form of providing finance to households than real agricultural activities. Although there have been important failures, certain actions seem to have led to sustainable development.

### ***The Cereal banks of Zinder***

*Looking back over 13 years, the 250 cereal banks of Zinder, in Niger, show that these organisations can have a positive impact on the food supply and strengthen the capacities of the populations to respond to economic crises:*

- *these CB contribute to improving the availability of food between harvests, thus enabling a stabilisation of the population and a limitation both of the rural exodus and, for the most vulnerable groups, the trading of labour..*
- *they enable households to regulate their cash-flow, with profitable sale prices at harvest time and a reasonable buying prices between harvests*
- *the systems of small loans associated with storage allow small profitable activities to develop*
- *the training efforts associated with these banks are viewed in a positive way by the populations, which favours not only the active participation of the people but also the spread of the process, which all contribute to improve the self-organisation capacity the technical proficiency of the villages in which there is a CB*

This example also reveals the main weak points of such organisations:

- in many CB, the grain stock is low and slow to increase for two principal reasons:
  - climatic hazards lead to big variations between years
  - the management of the CB is often directed by social considerations (high buying price at harvest time and exceptionally low inter-harvest resale price) to the detriment of economic considerations and capital growth.
    - credit arrears are frequent, particularly in poor harvest years
    - the marketing chains for cereals are often poorly understood and variations in the price of cereals can lead to sales at loss
    - the process of management by the village does not provide protection from malpractice, the internal rules are often poorly applied, and the villagers frequently complain that they are not run democratically and that customary authorities interfere.
    - the impact of the training is limited due to the low initial degree of literacy of the populations, the difficulty of motivating those sections of the population that are most in need (women...), the fact that the people chosen by the villages to participate in the courses are often old, incapable of benefiting from the training themselves or of transferring it to others
    - finally, it is still difficult to get women involved, even when this is one of the theoretical conditions for the support stated by the donor
- the CB may interfere with local systems of microfinance and have a negative effect on them.
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Cereal banks can be RPOs that allow households to regulate their cash-flow in high risk contexts, and a utility for improving their knowledge of economics, finance and organisation.

### **222. RPOs integrating a loan function into their usual activities, without giving it an independent status**

When faced with the credit needs of their members, certain RPOs develop a loan service as part of their usual activities. In this case the financial function is most often added after the establishment of the RPO and is linked to other functions of support to farms and rural households (input supply, marketing, or advice on technical or management matters...). The finance function is not an end in itself, but rather the aim is to make funding available to a given population group, mostly in the form of credit, or much more rarely in the form of savings services. The priority is not to establish sustainable rural financial services and no specific financial proficiency is developed within the RPO: it is not unusual to see credit agents who are at the same time zootechnicians, or soil conservation experts, or reading teachers.... Many

different types of RPO have adopted this approach: cooperatives, first or second generation producer groups, unions evolving towards a plurality of function, local development funds, NGOs that have been transformed into RPOs ...

These attempts often end in failure, due to a combination of factors:

- Credit is not thought of as being a financial service that is accessible within the framework of a market, but as a necessary "input" to the production process that the RPO wishes to support. The set up gives priority to injecting credit rather than to creating financial services that would be not only accessible to the population but also sustainable
- Within the RPO, the linkages between different functions can be strong; the impact of the link between the loan function and technical or health assistance may prove to be prejudicial to the reimbursement of loans, in as much as it might make the borrower feel less responsible to repay his debts (e.g. if a cow, bought on credit for fattening, dies although it is checked regularly by the veterinary service of the RPO, the borrower may be inclined to accuse the RPO veterinary service so as to avoid paying back the loan); but this is debatable – some RPOs consider that by providing technical assistance the credit is made more secure because the prior selection of the borrowers is improved, and the technical activity is also made more secure.
- The credit function is given preference, often disconnected from any savings service: the credit system is thus weakened because it is heavily dependent on outside resources; this does not stimulate interest in learning more about management or in financial autonomy for households;
- The personnel responsible for dealing with credit is not specialised and does not have the specific skills needed for managing a financial service; the RPO does not have the means, or doesn't see the interest in employing specialised personnel.
- The tools and procedures used for managing credit are not adapted: the financial service account may be combined with the RPOs own account, the system of information rudimentary, whilst control and auditing systems are usually non-existent.
- An RPO which attracts new members on the basis that it defence of its members interests does not have the means of applying rigorous credit policies. Delivering credit becomes a means of retaining members in the RPO; the RPO is forced into being "understanding" in the face of members repayment difficulties; by following a line of reasoning that puts development first ("provide the most favourable credit conditions to the people") – and if it benefits temporarily from a grant -, the RPO may be induced to develop a strategy of low interest rates, which could not only threaten its own credit activity, but be very harmful to microfinance institutions in the same zone, which, by attempting to develop sustainable financial services, apply higher interest rates.

Changes in the legal framework aimed at making the financial services institutional (in West Africa, the PARMEC law), would probably reduce the perpetuation of this type of initiative.