

Breakout 10: **Agricultural Lending Practices: Methodologies and Programs**

“CECAM: A Cooperative Agricultural Financial Institution Providing Credit Adapted to Farmers’ Demand in Madagascar”

Author

Jean-Herve Fraslin, International Association for Agricultural and Rural Credit (ICAR)

Summary and Key Findings

This paper provides an overview of the CECAM network, which has approximately 47,000 individual members, more than 400 farmer associations/agricultural cooperatives, and over 5,000 member households. There are three unique features of the CECAM network that contribute to its success: credit that is adapted to the needs of farmers; a cooperative design that is based on shared capital and collateral; and a strong management role for farmers aimed at building the institution and strengthening the financial structure of the network.

“CLUSA Zambia Rural Group Business Program”

Author

Susan Parker, Cooperative League of the United States of America (CLUSA)

Summary and Key Findings

CLUSA has been managing the rural group business program in Zambia since 1996. The main objective of the program is to increase rural farm income through promotion of sustainable farming technologies. The paper provides an overview of CLUSA’s activities in Zambia.

In order to assist small scale farmers access inputs and credit, CLUSA established village-based groups called regional group businesses (RGBs). In order to overcome problems associated with non-payment of debt, CLUSA introduced the distributor model which gives distributors responsibility for repayment of credit.

“Financing Term Investments in Agriculture: A Review of International Experiences”

Author

Frank Hollinger, FAO

Summary and Key Findings

This paper discusses the results of research conducted by FAO on term finance for agriculture. It summarizes the main lessons learned from a number of case studies on term finance such as term loans and leasing, equity instruments such as term savings, third party equity and venture capital, and combined instruments such as savings-cum-loan products. Case studies were conducted in Bolivia, Ghana, India, Indonesia, Madagascar, the Philippines, South Africa and Thailand.

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Question from Stephanie Charitinenko from Chemonics, Does all of the lending require collateral and is it cost effective to reposes land and other assets that are pledged? Are measures taken to protect the institution against covariant risk?

Answer CECAM Jean- Herve Frasin: Not all loans require collateral. Often personal security and the storage of the product itself acts as collateral. There is no protection against covariant risk. With rice there is insurance, and they are working to expand it to cotton protection.

Question: Regarding Slide show you assume self sufficiency by 2005, what percentage of that is savings deposits?

Answer CECAM Jean- Herve Frasin: Savings are not assumed to increase more then 50% of the funds. There is a commitment by the EU to long term resources. Also they are planning on receiving some financing from commercial banks. They are also trying to diversify to other commercial banks and postal savings banks.

Question by someone from CARE to CECAM and CLUSA: What has been the 3effect of HIV/ AIDS?

Answer: Susan Parker stated that it has been a major problem in Zambia. The people that were trained in banking are no longer around. It hasn't had a detrimental effect on production because people generally have large families. Jean- Herve Fraslin said it is not a problem in Madagascar.

Question from someone from Ohoi State: It is not a good idea to link credit to prior savings because people can buy the right to get a loan.

Answer: Jean- Herve Fraslin agreed, 98% of repayment was achieved when there was no link to savings, when saving were I linked to loans the repayment rate fell to 70%.

Question: What have you done in Madagascar to encourage farmers to save in regards to a safety net?

Answer: Jean- Herve Fraslin: We are working on that right now. Now CECAM is becoming competitive with other institutions. The central bank offers an interest rate of 7%, with an inflation rate of 12%, Treasury Bills of 14%. This year CECAM will borrow from commercial banks at a rate of 11%.

Question: What are the differences between the two approaches in Zambia and Madagascar?

Answer: Susan Parker, In Zambia there wasn't enough time because it was a USAID project and they only had 5 years. At first they made the loans through a credit company, which was not efficient. When they changed their policy they only had two years left. Now they are beginning to plan their exist and trying to make a lasting difference.

Jean- Herve Frasin: It takes 10-15 years to set up a network to build effective microfinance institution and the markets linked to the MFI. In Madagascar they began as a French NGO, and after 5 years received increase funds from Germany, France and eventually the EU. Non financial services are fully externalized. CECAM provides farmers with commercial support, training and tries to reinforces the linkages between different institutions.

Question to Frank Hollinger: What is the implication to shifting to long term finance?

Answer: The condition of a company moving to term finance requires a change in staffing and portfolio management. Depending on the different approaches, many institutions use loan officers from prior organization. For example BRAC started with seasonal loans and gradually introduced longer term loans.