



## **HOW DEVELOPMENT PROJECTS CAN PROMOTE SUSTAINABLE AND VIABLE FINANCIAL SERVICES**

EXPERIENCES WITH INTEGRATED RURAL DEVELOPMENT PROJECTS  
EXECUTED BY FAO IN FOUTA DJALLON, GUINEA  
1990-1993

Marketing and Rural Finance Service (AGSM)

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## PREFACE

The need for a sustainable lending system geared to the socio-economic conditions of the rural environment has always been one of the main thrusts of development policy for the developing countries. Rural credit, integrated with other financial and non-financial services for the benefit of small-holders, is often a necessary support tool for rural advancement efforts in the pre- and post-production phases.

All kinds of institutional and non-institutional lending systems, such as commercial banks, specialised rural credit banks (CNCA, BNDA), NGOs, credit components of development projects, and public and private structures have been established in many countries to deliver credit. But, for a variety of different reasons, the results have often fallen short of expectations.

This is a problem with which FAO is constantly confronted in its work in the field, both when resorting to financial institutions as partners and when executing direct rural credit operations that are often imposed upon these projects.

This document takes stock of the experience gained with four rural development projects that FAO executed between 1989 and 1993 in the Fouta Djallon region of Guinea, where the problem of credit and savings was rather more acute than in other countries. The document has been prepared with the assistance of Mr B. Sawadogo, the FAO expert on these projects and a specialist in rural savings and credit, with vast experience in this area in many African countries.

Even though facile comparisons for application elsewhere must be avoided, this document emphasises the need for sound lending systems and the conditions under which to put them in place, and addresses a number of useful credit and savings policy elements.

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## TABLE OF CONTENTS

<b>I</b>	<b>INTRODUCTION .....</b>	<b>1</b>
<b>II</b>	<b>SHORT PRESENTATION OF SAVINGS AND CREDIT EXPERIENCES IN AFRICA</b>	<b>2</b>
<b>III</b>	<b>DEVELOPMENT PROJECTS WITH A CREDIT COMPONENT .....</b>	<b>4</b>
3.1	General objectives of development projects .....	4
3.2	The objectives of the credit component in terms of the general objectives set by projects .....	4
3.3	The different ways of executing the credit component .....	5
3.4	What are the overall results that projects have attained in their credit activities? ....	6
<b>IV</b>	<b>THE EXPERIENCE OF UNCDF / UNDP / FAO PROJECTS IN FOUTA DJALLON...</b>	<b>8</b>
4.1	Presentation of the Fouta Djallon region and its development projects.....	8
4.1.1	Projects in the United Nations system .....	9
4.1.2	Other projects and NGOs .....	10
4.2	The banking environment in Guinea.....	10
4.3	The demand for credit in the project zone .....	11
4.4	Meeting the credit demand when formulating FAO projects.....	12
4.4.1	Initial provisions .....	12
4.4.2	The general results attained at the end of the projects in July 1994.....	13
4.4.3	The need for change.....	14
4.4.4	Actions completed .....	14
4.5	Description of the credit activity of UNCDF/UNDP/FAO projects in Fouta Djallon .	15
4.5.1.	The local situation at project take-off .....	15
4.5.2	The need for regional harmonisation .....	15
4.5.3.	Establishing revolving funds .....	16
4.5.3.1	Strategy and Methodology .....	16
4.5.3.2	The contractual framework .....	18
4.5.3.3	Fund management structure.....	18
4.5.3.4	Lending procedures and conditions .....	20
4.6	The transfer of lending operations to a specialised institution .....	22
4.6.1	Cooperation with Crédit Mutuel .....	23
4.6.2	The results obtained and improvements envisaged within the framework of a regional programme.....	24
<b>V</b>	<b>CONCLUSIONS AND RECOMMENDATIONS.....</b>	<b>25</b>

# I INTRODUCTION

One of the many problems that hamper rural development in Africa, and one of the constant concerns of governments, donors and supervising agencies is the difficulty encountered by small farmers seeking loans tailored to meet their needs. Agricultural and rural credit is often an indispensable support for technical progress in every area of the rural economy and remains a powerful lever for pre- and post- production activities: in the pre-production phase it makes it possible to finance agricultural inputs and rural facilities, and in the post-production phase it contributes towards solving the crucial problem of marketing.

No differently from anyone else running a business, farmers cannot manage without credit to improve their activities, because they are poorer, more under-resourced and less well-organised than any other section of society. Since they are dislocated over their region and do not have a strong purchasing power they find it hard to qualify for loans from traditional financial institutions such as the commercial banks because of the high risk and the high cost of lending to them, and the low returns to the lender on these loans.

Credit policies for a long time failed to give responsibilities to the small farmers in many developing countries: the tendency was to provide direct or concealed subsidies not only for basic infrastructure loans (irrigation, access roads, processing and storage facilities ....) but also for income-generating activities (purchasing agricultural inputs, equipment, etc.). Similarly, governments generally organised rural financial services at the institutional level, without any private intervention whatsoever.

Both in the drafting and the implementation phase, these policies also revealed shortcomings, often giving the impression that rural credit was an uncomplicated activity that would very soon remove the constraints on increased production. It was often forgotten that before credit can be beneficial and liberating, it also has to be fully incorporated into the global environment, in the local socio-economic context of the rural world, and dovetail with all the other levels at which development themes are extended to be able to play its proper role.

This tendency to be easily mistaken and hastily extrapolate experiences (let us not forget the Grameen Bank syndrome) based on the notion that credit is generally one of the primary needs of poor small-holders, has helped to bring about the failure of many development projects, credit structures and rural economic operators.

Credit must therefore be provided under the institutional and non-institutional minimum conditions for success, because it is not a panacea for all ills and it is not always credit which the small farmers most need. They may need better organisation, simple subsidies, reconversion, or all kinds of other preliminary forms of help before banking activities.

Particularly in the matter of credit provided through development projects, the designers have often been content with budgeting for revolving loan funds or other loan facilities, without clearly setting out the modalities for implementing them.

Many development projects, particularly those designed to raise the productivity and incomes of small-holders, almost automatically have a credit component nowadays among the services provided to rural people. Credit is a short-term component like the projects which supply it, taking a variety of forms depending on the possibilities open to them in the project area: either a direct operation through the project or through recourse to small farmers' grassroots organisations, or by appealing to some financial institution or specialised NGO.

Today, after the many experiences of the past three decades, there is a move towards setting up fully-fledged banks to provide rural credit, as a result of activities by private entities, the improved organisation of the rural world, and the development of a cooperative, mutual benefit-minded attitude to credit.

FAO's experience, between 1989 and 1993 in Fouta Djallon, although still unfinished, has been based on a phased-in combination of all these three types of intervention. The purpose of this document is to analyse that experience and to draw a number of lessons from it with regard to drafting and running credit operations through projects in a clearly defined context.

## **II SHORT PRESENTATION OF SAVINGS AND CREDIT EXPERIENCES IN AFRICA**

In Sub-Saharan Africa rural credit has been provided in the following ways:

- at the institutional level: development banks with an agricultural department, specific agricultural development banks, national agricultural credit funds, and commercial banks have been, and in some countries still are, the first attempts at institutionalising financial services to the rural sector;
- Specific savings and credit organisations (generally private) such as "caisses populaires", savings and credit banks (CREC), the "caisses mutuelle d'épargne et de crédit" (assisted by Crédit Mutuel), savings and credit cooperatives (COOPEC), etc. ... are becoming increasingly more powerful in the rural banking environment;
- at the informal and traditional level: the "tontines" (traditional forms of savings and borrowing at the level of small groups that collect the savings of their members and allocate them to each member's on a rotation basis) are very widespread in the African countries. They are based on total trust and cast-iron solidarity, and make it possible to meet the small socio-economic needs of the membership;
- private lenders, such as traders and local money lenders, operating in the towns and the countryside to "help" communities in difficulty, but charging exorbitant interest rates (sometimes over 500% per year);

- the NGOs, of which there are a great many in the field, are increasingly including credit services for the communities they serve;
- rural development projects that are also faced with the problem of small farmer access to credit facilities are often obliged to set up credit lines in the form of revolving loan or renewable funds in their budgets, to create the conditions needed to attain their immediate objectives.

In development projects, this type of credit service is not strictly speaking a banking service in practice. The resources normally used for the revolving funds are subsidies or grants made to the government (like the rest of the project budget) and are managed without the obligation to re-discount them through other banks, concealing the actual management costs which are covered free of charge by the project. This naturally makes for flexibility (non-positive moderate interest rates in terms of inflation, non-coercive management of arrears ...), abuse of which borders on disguised subsidies, judged quite rightly to be "polluting" by the banking profession. A banking approach to project credit provision should place the small-farmers in a position to negotiate more effectively with the financial market when the project comes to an end.

There is no doubt that as far as appropriate and sustainable financial services for the rural environment are concerned, the overall results of the various credit systems have not been very satisfactory: the financial institutions (BND, BNDA, CNCA, commercial banks...) have mostly failed to meet their targets, with the result that they have either been wound up altogether or made so selective that they are no longer within reach of the poor small-holders.

We might quote the case of the CNCA in Niger by way of example. This was wound up in 1987, after having only allocated 15% of its resources to the small-holders, with the bulk having been used to finance insolvent government agencies. The Burkina Faso CNCA, one of the very few that still exist in the sub-region, has such tight eligibility conditions that the small farmers view it as just one more commercial bank among so many others. The commercial banks have always frowned on lending to the rural world because of high risks and negligible returns, showing little interest even in lending to large farmers, even by way of exception.

On the whole, the private initiatives (COOPEC, Crédit Mutuel, Caisses Populaires...) have been able to meet the expectations of their target groups, namely the poor small farmers, better than the traditional financial institutions. Their approach, making the borrowers more self-reliant (linking savings and credit, being close to the places where decisions are taken, encouraging solidarity ...), brings them closer to the small farmers than the institutional banks in which rural people have little faith (and often do not even know that they exist). Crédit Mutuel in Guinea, the Caisses populaires and USECB in Burkina Faso, FUSEC in Togo ... are firmly implanted in their operational areas, with good results. It should be noted, nevertheless, that these banks find it difficult to become established because the poorest small farmers have absolutely no assets, and are forced to wait because they have nothing to save.

Although the NGOs and the development projects with a credit component have achieved a great deal in terms of the volume of their credit operations, they have done (and are still doing) too little to set up sustainable financial systems. Development

projects, particularly those supervised by FAO, have realised that they are simply not in a position to provide credit directly themselves. Even when they are obliged to, in the absence of any other possibilities in their area of operation, they have to do everything possible to disengage and transfer their activities to successful permanent structures, such as village savings and credit unions, banks, specialised NGOs, etc.

All these experiences have shown that rural credit is a rural development tool that must be handled with great care and professionalism.

### **III DEVELOPMENT PROJECTS WITH A CREDIT COMPONENT**

#### **3.1 General objectives of development projects**

By definition, the objectives of all development projects are set within a limited timeframe, and even though they form part of the major objectives of all development work, such as raising agricultural production, attaining food self-sufficiency, and defining a national, regional or local development strategy, they are geared to immediate goals and targets to be obtained during the life of the project. Depending upon the nature of the project, these immediate goals and targets are defined in terms of measurable criteria such as tonnages of agricultural production, kilometres of roads, acreages developed, the number of teams for animal-drawn cultivation, the number of supervisors or small-holders that have been trained, etc. ...

Projects generally have a short life: less than 5 years as a rule.

Since these development projects must achieve immediate results for subsequent evaluation, they are either executed directly (under State supervision) or they are given some institutional anchorage by strengthening State structures or through non-governmental organisations.

#### **3.2 The objectives of the credit component in terms of the general objectives set by projects**

Not having any alternatives to attain their general objectives, development projects are increasingly tending to earmark specific financial resources of their own to be distributed in the form of repayable loans to small farmers who have no other financial services available to them.

Under these conditions the objectives of the credit component form part of the overall objectives of the project and are a means of attaining its immediate results: input credits to raise agricultural production, revolving funds to promote small economic units, specific loans for women, etc. In this way, a provision is generously allocated in the project budget, often without sufficient concern regarding the conditions for its implementation.

Project designers very often greatly over-estimate the small farmers' credit absorption capacity: they confuse the requirements of the "beneficiaries" seeking subsidies with the resource requirements to finance profitable operations by "customers", whose creditworthiness and repayment capacity is poorly understood.

In Fouta Djallon, for example, this confusion, compounded by the late take-off of the credit activities, meant that only about 50% of the initial budgetary resources could be absorbed. Some projects set over-ambitious objectives for the credit component with the fanciful idea of turning it into a financial institution, when they have neither the time nor the expertise to do so. It is more reasonable for projects, by their very nature, to be content to carefully train the small farmers to work out, economically manage and improve their own organisational structures so that they become capable of negotiating with the institutional financial structures that can provide them with self-sustaining services.

### **3.3 The different ways of executing the credit component**

There are three ways of implementing credit lines available to development projects with a credit component, depending upon the local situation:

- i. The project subcontracts out the management of the credit line to a specialised rural financial structure (a bank, a specialised NGO or some other financial institution) to take responsibility for implementing the component on conditions drawn up in advance, covering the spread of the risk, modalities for implementation, the areas of intervention and the size of the loans. The sub-contractor applies strict banking rules, particularly with regard to ensuring real interest rates, carefully calculating the rate of return on the loans requested and dealing severely with arrears.

From the banking point of view, and to ensure the durability of the lending activities, this procedure seems to be the best approach for projects which, as has already been pointed out, are not intended to be lending institutions. However, the structure providing the credit must be able to adapt to the problems of the small farmers, and the technical supervision provided by the project must be effective. In Burkina Faso, for example, the Centre-East Development Project executed by FAO subcontracted out the whole of its credit line to a banking institution, in this case, Caisse Nationale de Crédit Agricole (CNCA). The results were rather poor, mainly because of a lack of a clear strategy on the part of the two partners which were often concerned more with endeavouring to distribute as much credit as possible and less about applying strict banking principles.

- ii. The second possibility is to on-lend the resources of the credit line of the project in the form of a revolving fund to be managed by well-established and successful small farmers' organisations, who then borrow and repay them, with the technical support of the project which defines the lending, repayment and monitoring conditions, and provides the technical assistance and the training required. The advantage of this approach is that it lays responsibility at the door of the rural operators, while solving the problem of proximity. The main drawback is that the small farmers' organisations lack any real capacity to properly manage the funds allocated to them on a sustainable basis, and more often than not the fund very quickly collapses when the project comes to an end, because of laxity in lending which leads to a poor repayment record.

The UNDP/UNCDF/FAO Rural Development Project in the N'Guigui Region of Niger is one example of this approach, having the resources of its "Community Initiatives Development Fund" (FDIC) managed by "cooperatives", which are grassroots rural structures.

- iii. The third possibility for development projects, when the conditions are not favourable to the first two approaches, is to act directly, as their own bank. In this case the project has to set up a complete credit structure, involving financial and bank management and the post-project aspects to ensure that the action will be self-sustaining in the future.

This approach often causes the technical and banking activities to be dangerously confused, as a result of the concern to provide comprehensive assistance to the rural population. FAO-executed development projects in Fouta Djallon adopted this solution initially, but they also incorporated a disengagement strategy to hand over to a specialised institution, which was being set up in the region: Crédit Mutuel.

The main difficulty with this approach is time (the time needed to create banking skills, under the pressure of projects that want immediate results within the project life-span), and often there is a shortage of specialised manpower. Another difficulty is the fact that projects have no legal possibilities of bringing pressure to bear on delinquent debtors acting in bad faith (having them arrested, for example), which the banks are only too happy to apply. They have to be content with joint and several liability on the part of the members of the groups, which does not always work. At this stage it becomes necessary to separate the roles of the supervisor (seen as a friend) and the credit agent, who is required to take action and issue any threats that may be necessary to improve the debt recovery rates. Furthermore, the projects cannot mobilise savings, which is indispensable for any effective lending system.

When credit is delivered directly by the project itself there is also the problem, as far as FAO is concerned, of financial management. As a rule, the management of revolving funds should not be the responsibility of projects, but experience has shown that it is necessary for the projects to be involved in order to attain their objectives.

Throughout the period in which assistance is provided, arrangements should be made to enable the projects to monitor the management of the resources, preferably through an expert. This should be very clearly set out in the project design in the form of a specific protocol on the credit component, for example, setting out the details of all the procedures and conditions for the management of that component, particularly in relation to ploughing back the returns on the loans and follow-up measures to the project operations after its termination.

### **3.4 What are the overall results that projects have attained in their credit activities?**

On the whole, projects have failed in their attempt to distribute credit to small farmers, mainly in terms of the following criteria, even though the volume of the resources they have loaned has often been substantial:

- a) *the repayment rate*, which is the main criterion for gauging the effectiveness of any credit activity: development projects have generally had a very poor repayment rate - less than 50% - due to poor loan design, inadequate monitoring, lax financial management, ... particularly when the projects have provided the credit directly;
- b) *the sustainability of the lending system*: projects' credit activities have rarely survived for very long after project termination, because the post-project arrangements are often poorly defined and poorly implemented. This failure is particularly noticeable in cases where the projects that have provided loans directly have failed to find an appropriate solution for the credit component to be taken over by a permanent institution.

In some cases, because loans have been distributed ill-advisedly as if they were grants, the projects have even led the small farmers into bad habits: rushing into debt, refusing to repay their loans, and a lack of any sound economic and financial reasoning. When this is compounded by wilful mismanagement of credit on the part of the projects themselves (embezzlement of funds by supervisors with impunity, granting loans on the basis of subjective judgements ...) the rural people become convinced that a loan is a "government grant". This is why traditional bankers say that development projects "pollute the field" when they become involved in banking activities.

Results have also been fairly mediocre as a whole with regard to the establishment and/or strengthening of rural financial systems, particularly when the projects have taken responsibility for it themselves (the project life is too short in terms of the time needed to set up a sustainable and durable financial system). While cooperation with rural financial structures would seem to be the best solution, this is not always possible because very often they do not exist (CNCA/BNDA have been wound up, the commercial banks are not interested in the rural environment ...) and sometimes they impose draconian terms and conditions, such as the principle that real collateral must be put up, or that loans will only be granted on condition that the borrower already has a savings deposit, etc.

Since the projects have budgetary resources to implement their credit activities, they too often ignore one vital aspect of banking: the need to encourage savings. They are right, of course, to say that collecting rural savings involves demands that are inconsistent with the transitory nature of a development project, the need for structures to guarantee the security of the deposits, making investment in financial institutions, remuneration, etc.

But in addition to sensitising and encouraging the small farmers to place their savings with appropriate financial institutions, where these exist, projects that directly provide credit should more often use other forms of savings, such as requiring people to put down an initial contribution of their own, encouraging self-financing, taking out membership of mutual loan association or credit union when this is possible, becoming familiar with and using traditional systems (tontines ...) which are far more effective than many might believe. Savings collected and redistributed, or used to partly self-finance loans or to be used as a loan guarantee, helps to reduce the automatic demand for external funds that tends to create a mentality amongst the small farmers of living perpetually on outside assistance.

Obviously, it is much better for the borrower to be able to choose between several alternative lenders or financial services in his region or village, in order to get the best possible comprehensive assistance (loan plus supervision) to be able to optimise the return on the loan.

In all, then, not only do the rural populations have no choice regarding the institutions offering them financial services, but the very few that do exist fail to meet the demand satisfactorily. It is becoming increasingly clear today that the most popular approach is lending coupled with a cooperative and mutual approach, more in line with the needs of small farmers.

## **IV THE EXPERIENCE OF UNCDF / UNDP / FAO PROJECTS IN FOUTA DJALLON**

After the change in the regime in 1984, the new government of Guinea began implementing a liberal policy, encouraging the implementation of a large number of development projects through the United Nations system and other agencies, in four natural regions of the country. Fisheries, seeds, environmental protection, rural communications, integrated rural development, the advancement of women, health care, agricultural statistics, etc. have all formed the subject-matter of projects now being executed.

### **4.1 Presentation of the Fouta Djallon region and its development projects**

Fouta Djallon, which is often equated with Moyenne Guinée with which it virtually coincides, occupies about one-fifth of the whole country and its name comes from the Fouta Djallon massif which runs from Guinea Bissau to Côte d'Ivoire. The population is around 1,600,000 (90% of them are Foulani) and it covers an area of 55,000 km<sup>2</sup>.

Farming and livestock constitute the main economic activities in Fouta Djallon, largely for domestic consumption, but also for trading. Handicrafts and the repatriated wages of emigrants are major complementary sources of income. Extensive cattle farming (accounting for over half the cattle population of the whole country) is a major source of capital formation. Women play a particularly important role: farming the 'tapades'<sup>1</sup>, market gardening in the lowlands, processing and marketing agricultural products and selling handicrafts.

Communications problems and lack of access outside the area are major constraints to the development of the region. Fouta Djallon has only one metalled road linking Labé, the regional capital, to Conakry, passing through the towns of Pita, Dalaba and Mamou on the central plateau. Many development projects have been, or are currently being executed or are taking off in Moyenne Guinée.

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<sup>1</sup> A production system on land which is under permanent cultivation around the dwellings and protected from damage by wild animals using hedges; the 'tapades' are farmed by the women who are free to use the produce at their discretion.

#### **4.1.1 Projects in the United Nations system**

- i. The UNDP/FAO-GUI/86/004 project for the "Rural Development of Fouta Djallon" based in Labé covers four prefectures: Labé, Pita, Dalaba and Mamou. It was executed between 1987 and 1993, with the main aim of setting up a development strategy and providing the necessary tools for its implementation: familiarity with the environment, research and development, training and the promotion of small-farmer organisations, micro projects ... The main results have been not only the definition of a rural development strategy specifically for Fouta Djallon, but also the development of 600 ha of irrigation schemes, the organisation of large numbers of economic interest groups, research and development activities of various kinds, which have done a great deal towards helping to re-establish the confidence of the local people in the new policy being implemented by the government, and to motivate the supervisors at the Ministry of Agriculture. The project ended in 1993, and had a credit line of US\$ 600,000 of which only about 50% had been used, for a variety of reasons. We shall be returning to this shortly.
- ii. The UNCDF/UNDP/FAO - GUI/87/015 project "Production and Promotion of Small Farm Organisations on the South-east slopes of Fouta Djallon", based in Dalaba. Most of the initiatives under this project related to agricultural water management schemes (about 500 ha), organising the rural world (pre-cooperative groups) and promoting them (credit, marketing, input supplies ...). This project had a line of credit of US\$ 650,000, of which once again about 60% was mobilised.
- iii. The UNDP/FAO - GUI/87/017 "Small scale mechanised farming" project based at Conakry, with a regional branch at Labé. It trains and provides loans to equip the village blacksmiths. Jointly with project GUI/86/004, a large group of rural craftsmen at Labé (Galama), representing five different trades (mechanical-welders, blacksmiths, carpenters, painters and small toolmakers) has been set up and promises well. The loans have been financed from the line of credit of the GUI/86/004 project.
- iv. The UNDP/FAO - GUI/86/012 "Guetoia Watershed Management Project" based at Pita, which has implemented a reforestation programme, designed to set up a system of village cropland management. No line of credit was provided.
- v. The IFAD project for the rehabilitation of Fouta Djallon, also based at Labé, has sought to organise rural people into groups at village level (village associations, AVs) to strengthen their solidarity and independence. Following evaluation in 1992, the approach was redirected towards a smaller economic interest group system to cater for their real specific interests.
- vi. The GCP/GUI/007/BEL project financed by Belgium and executed by FAO is designed for the production of market gardening seeds and fruit trees. No credit line.
- vii. The ILO project to support the women of Dalaba, which was financed by the Kingdom of Denmark, set up 10 women's groups, mainly for market gardening. Line of credit: US\$ 50,000.

#### **4.1.2 Other projects and NGOs**

- i. The Timbi Madina project financed by French cooperation: to support village groups and marketing.
- ii. The GERF (Rural Areas and Forests Management) project, financed by French cooperation.
- iii. The NGO ESSOR: planting quickset hedges and constructing buildings using improved techniques.
- iv. The NGO ACT: supporting producer groups and making agricultural equipment.
- v. Specific credit projects: the Crédit Mutuel project and the agricultural and rural credit (PCAR) project to which we shall return shortly.

#### **4.2 The banking environment in Guinea**

The Guinean monetary system was reorganised in 1985 under the supervision of the BCRG (the Central Bank of the Republic of Guinea); it replaced the Guinean sily with the new Guinean franc<sup>2</sup> and all the existing banks were wound up.

New banks were created such as:

- i. the BIAG: the International Bank for West Africa in Guinea, in 1984. The share capital was made up as follows:
  - Government 51%,
  - Société Financière and BIA 49%.
- ii. BICIGUI: Banque Internationale pour le Commerce et l'Industrie de Guinée, in 1986. The share capital was made up as follows:
  - Government 50%;
  - Société Financière and BNP, 20%;
  - Others (CFD, EDF, DEG, IFG) 30%.BNP manages the bank
- iii. SGBG: Société Générale de Banques Guinée. Share capital:
  - Private Guinean citizens 45%;
  - European banks (Crédit Suisse, Banca Nazionale del Lavoro ...) 55%
- iv. DMI (Dar el Alaal El Islami): Share capital: the Guinean government and DMI Suisse
- v. BPMG: Banque Populaire Maroco-Guinéenne, recently established (in 1993).

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<sup>2</sup> Exchange equivalent in August 1993: US\$ 1 = 935 NFG

All these are commercial banks and apart from BICIGUI they are rarely present outside the capital, Conakry. With the liquidation of BNDA (Banque Nationale de Développement Agricole) in 1985, there is no specialised rural credit financial institution in the country.

Rural Guineans can either acquire credit through specialised projects which are moving towards institutionalisation (the Rural Credit Project, PCAR and Crédit Mutuel), or through development projects with a credit component, or through NGOs.

At Fouta Djallon only BICIGUI has set up a branch at Labé, but it does not yet work with the small farmers because of the risks inherent in agricultural credit. The aforementioned specialised projects have begun operations at Gaoual/Koundara in the northeast for PCAR, while Crédit Mutuel is working in the rest of the region.

Most of the rural development projects being implemented in the region have lines of credit so that they can begin to meet the credit demand from small farmers.

### **4.3 The demand for credit in the project zone**

There is a demand for credit in every area of the rural economy and it is increasing under the new political environment which has instilled fresh confidence to the rural people, partly thanks to the leadership and technical supervision provided by the various projects. Loans are in demand for the following:

- agricultural and livestock inputs: fertiliser, seed, pesticides, animal feed and animal health care, ...
- tools and processing: tools and equipment for animal traction, hulling machines, mills, small agricultural and apiculture equipment and tools such as ploughs and hives, conservation and processing equipment, etc...
- marketing: revolving funds for the primary collection of agricultural and bee products, bridging loans to support input imports and the export of agricultural and apicultural products, etc...
- handicrafts: dyeing, dressmaking, weaving, leathercraft, basketwork, etc...
- rural micro-enterprises: mechanical workshops, carpentry shops, the building trades, semi-industrial livestock farming, particularly poultry...

In all, there has been a strong demand for credit in various areas of rural development since the farmers have been assured that they are free to produce, sell and dispose of their incomes.

The women are particularly dynamic in Fouta Djallon, where there has been large-scale migration of the men (over 50% in many of the villages). These women are now asking for credit for agricultural production (there are many women's market gardening and livestock groups), but the main demand is for processing, marketing and handicrafts, making soap, buying and selling agricultural products, dyeing and embroidery.

#### **4.4 Meeting the credit demand when formulating FAO projects**

As stated earlier, from the design stage onwards the projects executed by FAO have always taken it as read that rural credit is an important factor in the advancement of the rural world. For example, projects UNDP/FAO - GUI/86/004 and UNDP/UNCDF/FAO - GUI/87/015 budgeted for substantial credit lines to meet the demand for credit which soon made itself felt.

Nevertheless, it is to be regretted that while the lending resources were made available from the very outset, loan implementation was not worked out to the same degree as the other objectives of the various projects either during the formulation phase or at take-off. This was at a time when the banking environment was not favourable either, as we have already noted. The projects had not been prepared to take on this activity, for which the implementation difficulties had obviously been grossly under-estimated by those responsible for designing the projects. As a result, no real credit operations began until the projects were half-completed, because it takes time to create the conditions for implementing the credit component, laying down procedures and conditions and setting up a management structure.

##### **4.4.1 Initial provisions**

Since the UNDP/FAO projects in Fouta Djallon were unable to sub-contract their credit lines through specialised structures (no banking institution was interested, and in the beginning there was no mutual credit association and no PCAR), and since the grassroots village organisations could not handle them directly themselves, they were forced to act themselves to provide credit to the local people: in other words, they had to play the role of bankers. This meant:

- drafting a letter of agreement between FAO and the government to manage the credit lines;
- drafting an implementation strategy to make up for the institutional void;
- defining procedures for implementing the strategy;
- defining mechanisms for delivering funds, as well as the procedures, terms and amounts of the loans to be granted;
- creating management structures (credit units) within projects, and training the personnel;
- creating the conditions under which they could begin to hand over their activities to specialised structures (in this case Crédit Mutuel, which was then being installed).

The methodology used was developed in three stages:

- i. an immediate response to the urgent demand for credit, while testing out the approach and the procedures and bearing in mind the technical and organisational level of the small farmers and their structures.
- ii. a consolidation phase, through cooperative training and management, sensitising the people to the importance of saving, and getting them to join the newly emerging mutual savings associations (with the Crédit Mutuel project).
- iii. a third stage, which has only just begun and consists of shedding the credit activities and handing them over to Crédit Mutuel in order to concentrate solely on technical supervision and training.

We shall examine this strategy in greater depth below.

#### ***4.4.2 The general results attained at the end of the projects in July 1994***

With regard to the financial services supplied, the results were:

- US\$ 650 000 allocated in the form of loans in various fields: agricultural production, livestock and apiculture, equipment and tools, processing, handicrafts, marketing and agricultural micro-enterprises;
- US\$ 250 000 in repayments paid into Crédit Mutuel, which when added to the other outstanding loans will constitute the resources available to pursue the activities now that the projects have come to an end;
- 71% average repayment rate on due dates.

As far as setting up and/or strengthening a rural financial system is concerned, work has begun jointly with Crédit Mutuel to make credit a permanent feature in the region. As stated earlier, the projects had to provide credit because it was impossible to delegate this activity to a specialised institution but now that Crédit Mutuel has been established, a three-stage collaboration process has been implemented by joint agreement. These stages are:

1. sensitising the project beneficiaries to the benefits of membership in the new mutual credit associations and how to form them with the help of this new institution;
2. setting up a guarantee fund for the small farmers who are still unable to meet the eligibility conditions laid down by Crédit Mutuel, mainly in respect of having prior savings;
3. pulling out of credit operations in areas in which the small farmers have been able to set up their own mutual credit and savings associations or credit unions on a viable basis.

This strategy was applied as far as the second stage, when the projects terminated, and it is still in progress. It has enabled Crédit Mutuel to hasten the establishment of savings and credit banks very successfully (2 billion Guinean francs have been collected in savings and 700 million issued in the form of loans), We shall return to this below.

The results can be summed up in general terms as follows: the small farmers have acquired a real awareness of the problems of savings and credit; the conditions for implementing lines of credit in projects in this region have now been identified, as has the advisability of setting up a proper financial institution; and above all, this institution holds out great promise of being enhanced and of rapidly extending.

From an analysis of the arrears it is clear that most of them are from the initial credit operations carried out experimentally by the projects before they had set in place the mechanisms and credit units which followed the provision of continuing assistance by the executing agency. This means, once again, that it is essential to emphasise the need for a very clear strategy and for the resources to implement it before projects take off. A great deal of time and money would have been saved if this had been done in the past, because it is better not to provide credit at all than to do so before the minimum conditions for success have been put in place.

Once again, the projects were not supposed to become rural credit institutions or systems, but were designed to provide training to the small farmers and some initial funding, so that they would be able to negotiate with the credit institutions that would subsequently be set up, and organise themselves in order to set up their own savings and credit unions. This has been largely set in motion and has produced sound results.

#### **4.4.3 *The need for change***

The projects in the Fouta Djallon region had very little choice, as we have seen, in the ways and means they adopted to set up their line of credit. While the results obtained in the areas of activity have been positive on the whole, there is still a need for change, drawing on past experience. The weaknesses included:

- an inadequate appreciation of the credit problem by the projects themselves. They seemed to minimise the difficulties of implementation while wanting a sound performance to put into their progress reports;
- a lack of banking skills on the part of the credit unit personnel; it proved difficult to convert extension engineers into hard-headed bankers.

#### **4.4.4 *Actions completed***

Faced with these difficulties, a number of actions were undertaken to focus on credit, mainly by stepping up training at three levels:

- i. training the personnel of the credit units: the unit heads, accountants and credit agents. This training in banking techniques and management became a day-to-day activity through workshops and study visits to countries neighbouring on Guinea with interesting rural credit experiences (Burkina Faso, Benin) and also courses run by specialised training institutions: CESAO (Centre d'études économiques et sociales de l'Afrique de l'Ouest) at Bobo-Dioulasso, Burkina Faso, and FINAFRICA in Italy;
- ii. training other agents and project managers on their credit role with small farmers. This included much closer integration of the credit component into all the other project activities (credit committees were given most of the technical responsibilities of the projects), while safeguarding the management autonomy of the credit units;
- iii. training small farmers in cooperative management and organisation, encouraging a spirit of enterprise, initiating studies into small project profitability, and helping to set up autonomous mutual credit and savings associations and unions.

#### **4.5 Description of the credit activity of UNCDF/UNDP/FAO projects in Fouta Djallon**

##### ***4.5.1. The local situation at project take-off***

The four UNDP/UNCDF/FAO projects in Fouta Djallon started up on different dates between 1986 and 1987, as did a number of other United Nations or bilateral cooperation projects (cf chapter 4.1), making the Moyenne Guinée the region with the highest density of project activities in the country.

In the absence of a national rural credit policy and of any private regional rural financing structures interested in such credit, each project developed their own credit activities to meet their own immediate needs and objectives without any coordination with other projects and without any government guidance. This explains why the intervention strategies, the credit procedures and terms applied at the time varied from one project to another, even though they were all designed for the same target group. Some projects offered as subsidies what others proposed as loans, particularly for agricultural inputs; those who offered loans applied a range of interest rates from zero to 36%, with or without a personal contribution, on selling prices that were sometimes up to twice those charged by other projects.

##### ***4.5.2 The need for regional harmonisation***

It was to deal with all this confusion and contradiction that FAO took the initiative, under the aegis of the Ministry of Agriculture and Livestock Resources (MARA) and the Central Bank of the Republic of Guinea, to organise the first Regional Round Table on Credit and Savings in the Rural Environment in May 1989. This round table had the merit of bringing together all the projects in the region to debate the issue with the participation of both BICIGUI and Crédit Mutuel which had by then arrived in Guinea, and the following decisions were adopted by consensus:

- subsidies for income-generating activities would cease;
- the selling price of inputs and agricultural implements were to be harmonised;
- an 11% interest rate would be applied to loans, and would rapidly move towards a real positive interest rate taking account of inflation;
- credit activities would be transferred from projects to a specialised permanent structure as soon as possible.

### **4.5.3. Establishing revolving funds**

Setting an example in applying the resolutions of the round table, FAO-executed projects rapidly harmonised their interest rates and their selling prices for inputs to small farmers through bulk ordering. They also defined and adopted the same credit procedures:

- drafting, channelling and scrutinising loan applications,
- making the credit units independent, and in particular keeping the cash flow accounts for their lending transactions separate from the project account,
- providing basic and specialist training for credit unit personnel,
- introducing computerised management and monitoring modules,
- sensitising the small farmers to the need to save and to join the first mutual credit associations on a massive scale.

This work was facilitated by the provision of an expert in rural credit to work with all four projects. There were regular contacts and exchanges with the other projects in the region, and relations were particularly close with Crédit Mutuel to define areas of cooperation, establishing revolving funds with Crédit Mutuel and beginning exchange training schemes.

#### **4.5.3.1 Strategy and Methodology**

In view of the technical and economic level of the small farmers in the project areas, the weakness of their organisations, the banking environment and the national agricultural credit situation, the strategy was developed in three phases to keep pace with the capacity of the borrowers to take over themselves. The constant concern was to be as realistic as possible in terms of the local conditions, to evolve flexibly so that the hand-over of responsibilities to the local people through their own organisations would be effective, and the system would survive after project termination. The strategy took account of the need to make an immediate response to the strong demand for credit, to strengthen pre-cooperative groups to be used to underpin the whole system, and eventually to set up an integrated national or regional rural financing structure of which the small farmers themselves would be the "craftsmen".

#### **Phase 1: Response to the demand for financing from the small farmers**

This demand was met by setting up a functional credit unit as a fund management tool for each project. Each unit was specialised, autonomous, flexible in structure, and was given the initial function of supplying inputs. This approach enabled the project to meet numerous requests from groups and individuals in its area of operation.

Lending creates an opportunity to improve the skill levels of the members, strengthen the spirit of cooperation and enterprise, in order to gradually replace the attitude that a group is set up in order to obtain assistance with the idea of the need to pool its members' efforts to solve their common problems, and to embark upon income-generating activities for the benefit of them all.

Grants for basic infrastructure (irrigated agriculture, tracks, buildings, etc.) were shrewdly combined with loans for productive activities (inputs, agricultural equipment and tools, processing and marketing) backed by effective supervision in order to generate confidence and the desire to make progress, which must always underlie the work of the promoters.

Within each group a credit committee was established. The groups were organised into local and regional unions in accordance with the spirit of Order OO5/PRG/SGG/88 on the general status of cooperative and pre-cooperative organisations. At this stage, the members were not always required to pay contributions or have a savings deposit for eligibility but, little by little, the people's minds were gradually being steered in the right direction. This phase not only made it possible to meet their credit needs but above all to create a climate of trust between the members of the groups on the one hand and these organisations and the project on the other, and to establish a situation that would make it easier to move on to the second, qualitatively higher, stage.

## Phase 2: Consolidating the small farmers' organisations

At the end of phase 1 the groups and the individual customers were sufficiently sensitised to be able to begin developing a form of mutuality, mobilising savings and providing loans to the members.

The project gradually hived off some of the tasks that could be performed by the organised small farmers: input supplies, marketing ... The groups were given more and more responsibilities.

Increased incomes and the trust that had been established made it easier to mobilise savings, which strengthened the borrowing capacity of the groups. Members' contributions increased, the groups with a firmly consolidated spirit and clear ideas about what they wanted to do, strengthened their regional and local networks and they were able to set up village savings and credit associations.

They were encouraged to set up guarantee funds which, added to their savings and the returns on their productive activities, strengthened their borrowing and repayment capacity while continually enhancing their sense of solidarity and mutual aid.

Through their delegates, the groups took part in credit management (group credit committees and unions), supplying and managing the resources themselves, and monitoring the status of the revolving fund which was first and foremost their own property.

### Phase 3:      Incorporation into a rural credit structure

The strategy was designed to make it possible to link up with or to be incorporated into a regional or national rural credit structure, for which the main agents -- namely the rural communities and their organisations -- had to be trained: networks of autonomous mutual savings and credit associations, the capacity to negotiate with any other rural credit institution that might eventually be set up.

#### *4.5.3.2      The contractual framework*

##### At general policy level

A letter of agreement, which was unfortunately drawn up long after the projects had started, lays down an FAO / government contractual framework for managing the fund. This protocol applies to all four FAO-executed projects in Fouta Djallon, taking account of the specificity of each one, and acting as the basis for coordinating all the credit activities of these projects in order to establish a harmonised framework for the management of all the various credit lines.

It sets out the purpose of the funds, the areas of activity, the management structures and procedures, the general procedures and the credit terms, procedures for payments, accounting, and the reports to be submitted to the governments, donor and executing agencies, the post-project arrangements and concerted action / cooperation with other rural credit experiences taking place at the same time.

##### At project-customer level

For every loan a simple agreement is drawn up (a credit agreement, contract ...), binding on the lender (the project) and the borrower (mainly groups). This document is signed by both parties and clearly indicates the name of the borrower, the purpose of the loan and all its components and the principal amount of the loan, the terms (repayment period, interest rate, repayment schedule and all the general terms and conditions to guarantee that the operation will be successfully completed and confidence and trust will be maintained between the contracting parties).

#### *4.5.3.3      Fund management structure*

In order to implement its credit activities, each project has set up a credit unit ('CCR') managed separately, particularly with regard to its cashflow. In addition to taking responsibility for the financial management of the loans, the unit has a temporary input supply function, because the village organisations are not yet able to satisfy their own input requirements.

The unit is supported by a number of bodies both at the project headquarters and in the field, which help it in terms of credit policy, decisions to grant loans and management supervision, involving the village organisations and other project units and activities.

The CCR has a flexible structure and at the project headquarters it is managed by a director and an accountant, while at the local level there is one credit officer per prefecture or per perimeter.

At the project headquarters, the CCR operates through:

- The Technical Committee, to examine and decide upon global credit actions, supply and marketing problems, and to lay down broad policy guidelines. For example, the judicious breakdown of activities, apportioning credit between the main areas of demand: agricultural production, marketing, storage/processing ... changing the interest rates, etc. ...
- The Credit Committee, which meets on average once a month, depending upon the number of loan applications, to decide on whether to grant or reject loan applications. It is chaired by the Directorate (the National Director, the Principal Technical Adviser), with the preparatory work being performed by the CCR which also provides the secretarial services, and comprises all the other project units in any involved in the activity for which the loan is requested.

In the prefectures and on the perimeters, the local CCR body is represented by the credit officer. As at the headquarters, it is supported by the following local entities:

- the Prefectural or perimeter Credit Committee, composed of all the supervisory personnel, who examine the applications and submit an opinion on the group loan applications before submission to headquarters for a final decision.
- The Credit Committee of the farmers' groups, which examine the application submitted by the members, in terms of their creditworthiness and their repute.

Financial management: CCR is provided with resources in cash and in kind (inputs) by the CTP. The accounts unit of the CCR manages these (loans, cash sales of inputs, repayments, managing bank accounts ....).

The CCR keeps its accounts separate from those of the project. A special account has been opened for this purpose with BICIGUI and Crédit Mutuel. Returns on cash sales and repayments are paid into this account. It requires the joint signature of the CTP and the National Project Director. All funds are ploughed back.

Management is supervised on an ongoing basis: CCR is controlled internally by regularly cross-checking the accounts, and inspections by the project management. Fund management transparency is a constant concern of all the projects, because it not only helps to prevent losses, but also and above all provides a moral guarantee for maintaining a spirit of trust between the projects and the rural communities which will eventually have to take over their management entirely.

#### 4.5.3.4 *Lending procedures and conditions*

##### Procedures

Loans are preferably granted to groups of small farmers, but also to individual borrowers. Loans can be in cash or in kind, but repayments are always in cash. The procedures have been simplified to the full, and the purpose is to strengthen trust between the lender and borrower, and to enable the rural credit unit to be able to manage the revolving fund and ensure permanent monitoring of the fund through the groups and other customers/borrowers.

The lending procedure comprises two very important phases:

- approving the loan, which is the outcome of the stage in which applications are examined,
- providing the loan, comprising a whole series of tasks for delivering the loan and monitoring it.

##### Channelling loan applications

- i. With the aid of the rural advisers or perimeter supervisors, the group, through its credit committee, assesses the members' credit requirements and draws up the credit applications. Once these applications have been correctly completed, they are submitted to the prefectural or perimeter Credit Committee. Each application is summarised in the form of an analytical record, setting out all the main information regarding:
  - the applicant: personal particulars and repute,
  - the purpose of the credit application,
  - the technical feasibility of the operation for which the loan is to be used, and the technical capacity of the applicant to carry through the operation,
  - the applicant's financial situation, and his or her borrowing and repayment capacity,
  - an evaluation of the supply and marketing constraints,
  - a financial analysis of the operation to be financed: cost analysis, examination of forecast operating account ...,
  - an analysis of the guarantees provided: the solidity of the group offering joint guarantees, an examination of the collateral in the case of loans to individuals ...,
  - the complementary technical assistance requirements of the project.

This review procedure therefore involves all the project officials, and shows why the loan is not an end in itself, but must form an integral part of all the other development themes which, taken together, improve the small farmers' standard of living.

- ii. The Prefectural or perimeter Credit Committee examines the applications, makes any adjustments that may be necessary by joint agreement with the groups, and then forwards the applications to the Headquarters credit unit.
- iii. The credit unit prepares the reports for submission to the Headquarters credit unit.
- iv. The Headquarters credit unit meets to decide whether or not to grant the loan. If the application is turned down, the group is notified of the decision through the perimeter credit officer.

If it is accepted, a number of other operations are set in motion leading to disbursement.

#### The delivery of the loan

- i. The CCR draws up a loan agreement with the borrower.
- ii. After the group officials or the individual borrower have signed the loan agreement, the loan is released (in cash or kind).
- iii. The groups' officers reallocate the loan between the various members of the group.

#### Loan recovery

The groups' officers are responsible for recovering the loans from their members and for paying them back to the credit agents or directly into accounts opened by each project with BICIGUI or Crédit Mutuel specifically for managing the lines of credit.

#### Lending conditions

- i. *Repayment period:* The projects grant short-term loans for less than one year, and medium-term loans for a maximum of 1 to 3 years. There are no long-term loans. The short-term loans were seasonal loans (for seeds, fertiliser, small implements, marketing ...) while medium-term loans were for processing, or animal-drawn cropping equipment, and small and medium enterprises (SME).
- ii. *Interest rates:* The lending rate rose from 11% in 1990 to 25% in 1993, for all the projects executed by FAO in Fouta Djallon, as a result of careful regional cooperation at the Round Table on Rural Credit held at Fouta Djallon in 1989, which laid down the basis for harmonising interest rates on a gradual basis to reach a positive rate. This rate is positive in terms of inflation, but it does not wholly cover the management costs that are still being covered by the projects. It is close to the rate charged by Crédit Mutuel (30%), which will probably have to be revised downwards following the recent note from the Central Bank of the Republic of Guinea. When the operations are fully transferred to Crédit Mutuel, both parties will charge the same interest rates. The rate is the same for all lending categories.

- iii. *Personal contributions*: Generally speaking, a personal contribution of at least 15% of the principal of the loan is required, either in cash or in the form of an investment in kind.
- iv. *Guarantees*: All the guarantees are moral guarantees (joint security on the part of all the members, and social pressure within the group). However individual borrowers are required to put up real guarantees, but it is very difficult for them to find them in the present economic environment in Guinea.

#### **4.6 The transfer of lending operations to a specialised institution**

The credit operations were only just beginning as the projects came to an end. Under the strategy adopted at the outset, it therefore became urgently necessary to assign them rapidly to a permanent structure in order to ensure continuity.

Few alternatives were open to the projects - only Crédit Mutuel and BICIGUI, since the Agricultural and Rural Credit Project (PCAR) does not operate in the zone covered by these projects. BICIGUI was not interested in operating in the rural environment, which left Crédit Mutuel as the sole possibility.

Crédit Mutuel: initiated by Crédit Mutuel de France, the Crédit Mutuel de Labé Project was set up at Fouta Djallon in 1989. It did not acquire banking status until July 1993, despite its praiseworthy performance: over 2 billion Guinean francs held in deposit, and over 700 million issued in loans.

This institution is based on the mutuality principle, namely, the members' savings are used to set up autonomous mutual funds, and part of the savings are then redistributed to the members in the form of loans. To qualify for the status of a Crédit Mutuel fund, there must be a minimum of 500 members with total deposits of 5 million Guinean francs. Each fund is managed by an unpaid committee, elected by the members, and a local person is appointed as manager and trained by Crédit Mutuel.

Since Crédit Mutuel only holds short-term deposits in the main, it can only provide short-term loans, guaranteed by the deposits of each borrower at a variable level depending upon the type of loan: 30% for agricultural loans, 50% to 75% for housing and commercial loans. Loans are charged an interest rate of 30%, while interest of 15% to 20% is paid on deposits, depending upon the balances. In Fouta Djallon, which is a region of large scale emigration, most of the savings collected by Crédit Mutuel are repatriated funds from emigrant workers. Since it does not have banking status, Crédit Mutuel cannot re-discount, because it is obliged to negotiate with the commercial banks at Conakry to guarantee and remunerate the savings collected from the people.

The main criticisms levelled by development projects against Crédit Mutuel are mainly the rigid nature of its banking principles ("no savings, no loans") and the fact that at Fouta Djallon it does not provide medium-term loans (for agricultural equipment and processing). It is highly significant that less than 10% of the total amount of loans in July 1993 were for agricultural production, with the bulk going to housing (40%) and small-scale trading (30%), giving the development projects the impression that Crédit

Mutuel is an excellent financial institution, but that is not sufficiently interested in agriculture.

#### **4.6.1 Cooperation with Crédit Mutuel**

When Crédit Mutuel arrived in Fouta Djallon, cooperation began under a letter of intent between the two parties, each of which saw that it was to their mutual benefit: it would enable Crédit Mutuel to develop rapidly and perform well as a bank, and it would give the projects a chance to shed an activity for which they were not properly equipped. Both parties have their strengths and their weaknesses: Crédit Mutuel is a professional in the banking world, but it is far less familiar with the socio-economic problems and constraints on small farmers; conversely, while the projects had a much better understanding of the environment and the technical needs of development, they did not have the necessary banking expertise to be good lenders.

Cooperation underpinned by a wide-ranging small farmer sensitisation programme had to be developed with three main thrusts, in line with the programme under which the projects shed the banking aspects of credit.

1. In the areas where Crédit Mutuel was not installed: the projects provided loans themselves, and sensitised the small farmers once their incomes had risen thanks to credit and technical supervision, encouraging them to save and to organise themselves so that they would be able to create the conditions under which it would then become possible to set up mutual funds, in terms of the size of the membership, the total deposits saved, etc.

The projects did their best to take a banking approach along the lines of Crédit Mutuel: interest rates charged on loans were at the inflation level, and loan applications were thoroughly scrutinised. The first generations of project loans made it possible to test the real capacities of the small farmers and to prepare the appeal to Crédit Mutuel.

2. In the zones where Crédit Mutuel had recently been established, but where the mutual funds were not performing sufficiently well to meet all the people's loan requirements because of the low level of savings: the projects set up a guarantee fund to be used so that Crédit Mutuel would agree to waive one of its cherished principles (namely "save first, borrow later") and agree to give loans to members with small savings deposits, assisted by the technical cooperation of the development projects. These were the second generation projects which consolidated the village organisations and gradually taught them how to negotiate with financial institutions.
3. In the zones where efficient autonomous mutual funds were already operating, the projects withdrew completely from all banking activities and henceforth provided only technical supervision and training. A few third generation loans were still being provided out of the resources of the projects' guarantee funds when applications exceeded the lending possibilities of the mutual funds, such as loans to meet regional input requirements, or bridging loans to the Labé-based Regional Potato Producers' Unit (URPPT) for marketing.

In practice, everything depended more on the small farmers' saving capacity (from which the borrowing and repayment capacities stem), namely, the fact that the three levels of cooperation could be used for small farmers in each of the zones.

#### ***4.6.2 The results obtained and improvements envisaged within the framework of a regional programme***

It is estimated that by July 1993, when the projects terminated, about one-fourth of the borrowers had reached level 3, with variations from one project to another. However, the (non-measurable) impetus that had been given gave grounds for hope in the future, and a joint Projects / Crédit Mutuel training programme was negotiated.

One of the weaknesses of this cooperation arrangement was that it was not set out in a formal written agreement or protocol. The projects hoped to be able to capitalise sufficiently on their experience before committing it to writing, hoping in particular that they would be able to continue with their activities after July 1993 with even greater integration, under a regional development programme.

The results were quite good in terms of the financial services offered to the small farmers, the encouragement to save and the incorporation into a permanent institution, despite the short time, and the experience had the merit of being pursued and capitalised particularly at level 3, and of being extended to benefit a large number of small farmers.

FAO's experience in Guinea was, all in all, extremely valuable in terms of the lessons to be drawn from it regarding the role of development projects in solving the difficult problem of access to credit in rural areas. The positive aspects were the will shown and the concrete actions implemented, not only because the small farmers who wanted credit and had no other resources available to them were able to be catered for, but above all because it established valuable cooperation ties with a financial institution, to render projects' actions sustainable and lasting. It has also provided input for the debate on the issue of rural credit, helping to lay the foundations for a national rural credit policy.

One might feel that the projects were over-ambitious in view of the complexity of the task that lay ahead and the shortage of time available (3 years). Another weakness was the fact that in the post-project period, and despite the presence of Crédit Mutuel, the problem of providing medium and long-term loans has not been sufficiently examined.

Within the framework of a regional development programme incorporating the old projects and making provision for a single credit line, there is still a great deal of work to be done, e.g:

- cross-training schemes have to be stepped up; the projects would enable Crédit Mutuel to benefit from their familiarity with the rural environment and the requirements and demands of rural development, while Crédit Mutuel would benefit the project by supplying its banking expertise, to make their cooperation arrangements as effective as possible;

- a detailed cooperation protocol must be drawn up with Crédit Mutuel;
- a solution must be found in the future for providing medium and long-term loans, cautiously sounding out the venture capital system, with the assistance of Crédit Mutuel;
- the credit units of the programme and the projects must become fully-fledged technical advisers to Crédit Mutuel, gradually shedding their purely banking tasks (accounting, cash flow management, collecting savings ...) to be able to devote themselves wholly to the profitability aspects and to training their customers in management skills, initiating ideas for profitable projects with the small farmers, and helping them to set them out in bankable loan applications. In short, they must help create or strengthen a spirit of enterprise among the small farmers. The cross-training approach should help them in this.

## V CONCLUSIONS AND RECOMMENDATIONS

FAO's experience of supplying financial services to rural people through its projects in Fouta Djallon in the West Africa sub-region and elsewhere raises a number of fundamental questions, such as:

1. Should and can development projects take on responsibility for rural credit operations and, if so, can they do it right?
2. If they are required to include a rural credit component among their objectives, how should they proceed to execute that component effectively and on a lasting basis?
3. What alternatives do projects have for attaining their objectives without a credit component?

A number of lessons have been learnt from the experience in Fouta Djallon, making it possible to draw up a number of general policy elements for FAO to apply project design and execution. The following remarks should be borne in mind with regard to the lessons learnt in relation to the three questions listed above:

- Without a credit line, not one of the four FAO projects in Fouta Djallon could have attained all their immediate objectives. Once the euphoria of routine subsidies had worn off, every project had necessarily to provide credit to make their pre- and post-rural production activities self-sustaining, and in the end this became their main activity. Credit became absolutely essential to the small farmers, and since there was no other credit service structure available to meet the expectations of the people, the development projects had no alternative but to fill the gap, creating this indispensable function / tool.

Providing credit is, naturally, a professional activity, and the projects must also make all the necessary arrangements as they tried to do in Fouta Djallon and elsewhere, to ensure that their activities are able to develop with a minimum of banking expertise.

- The implementation of credit lines took account of two main demands: to adopt a banking approach when granting loans and to create the conditions for handing over to specialised institutions subsequently.

The banking approach made it necessary to impose a minimum number of banking rules, such as the need to charge real positive interest rates to take account of inflation and management costs, strict financial management, customer monitoring ... With regard to interest rates, the specialists have always been divided on the issue as to whether or not it is necessary to subsidise them on behalf of rural development. While appreciating the arguments of both sides (the "developers" are generally in favour and the bankers against) it is also a good idea to find out who is to pay for the subsidies.

The experience of FAO and Crédit Mutuel in Fouta Djallon has shown that small farmers can live with real interest rates (on loans and deposits) once the credit activity is accompanied by a mobilisation of savings on a cooperative basis: in the space of 3 years, interest rates rose from 11% to 25%, which is the present level of inflation.

As far as possible, projects must seek cooperation with permanent financial structures, and may even have to negotiate with them to set up business in the areas of operation so that they can hand over to them before the project terminates.

Recourse to credit should not, however, be considered a matter of routine, particularly when not all the conditions are met to be able to supply credit according to acceptable banking rules. For in some situations, such as when the people live in extreme poverty and when the projects do not have the expertise to develop a credit component, it is preferable to do without one altogether, and think in terms of other possible alternatives.

Alternatives include the system of planting trees by the small farmers in exchange for the supply of fertiliser by the project, for example, or setting up a store to supply inputs and implements in exchange for vouchers certifying that the beneficiaries have performed works of community or individual interest ...

Well-targeted subsidies can also be provided for health care and/or educational purposes to help prepare the projects and the small farmers to take on future credit activities, by making the people take on responsibilities for investing, for example, in manpower, or making contributions in kind, running management committees ... .

Development projects will therefore continue to require a credit component in many cases, but it will not be sufficient to make budgetary provisions for a revolving fund or a renewable fund. It will also be necessary to lay down the conditions for their implementation, and for the provision of the necessary expertise as well, together with the terms under which this activity will subsequently be handed on to a permanent credit institution.

What credit policy should FAO therefore adopt in the rural development projects which it initiates or executes? The recommendations may be summarised as follows:

1. In terms of strategy and the general framework, the concept must be affirmed that credit in projects must consist of institutional support, because rural development projects cannot set up lasting and self-sustaining financial systems.
2. Direct credit operations managed by projects should be an exception to the rule, and should only be adopted where the institutional context is unfavourable, and provision should at all events be made to withdraw from lending operations before the end of the project.
3. As in the case of development objectives and the immediate objectives of the project, the credit component should be carefully framed from the project design stage onwards. Better still, it should form the subject-matter of a specific protocol annexed to the project document. This protocol should set out the details of the credit strategy, procedures and terms, management and supervision, and the responsibilities of the donors, the government, the executing agency, the institutional partner or partners ... and above all it must make provision for the post-project arrangements.
4. The funds allocated to the credit component must be thought out extremely carefully, after carrying out a careful evaluation of the borrowing and repayment capacities of the people concerned.
5. Credit must be accompanied by the mobilisation of savings in all its forms, and a banking approach must be adopted: interest rates, management costs, dealing with defaulters, etc.
6. If necessary, technical assistance should be provided from the moment of project take-off.
7. A management training programme should be set up for the small-farmer borrowers, and also for the project supervisors regarding their credit role.
8. Credit should not be provided as a matter of routine, and alternatives to traditional lending systems should be envisaged.

Once again it must be borne carefully in mind that credit is a development tool. If it is handled indiscriminately, in the medium to long term it could have adverse effects. Projects must take every measure possible to enhance their capacity to use this tool efficiently and effectively.