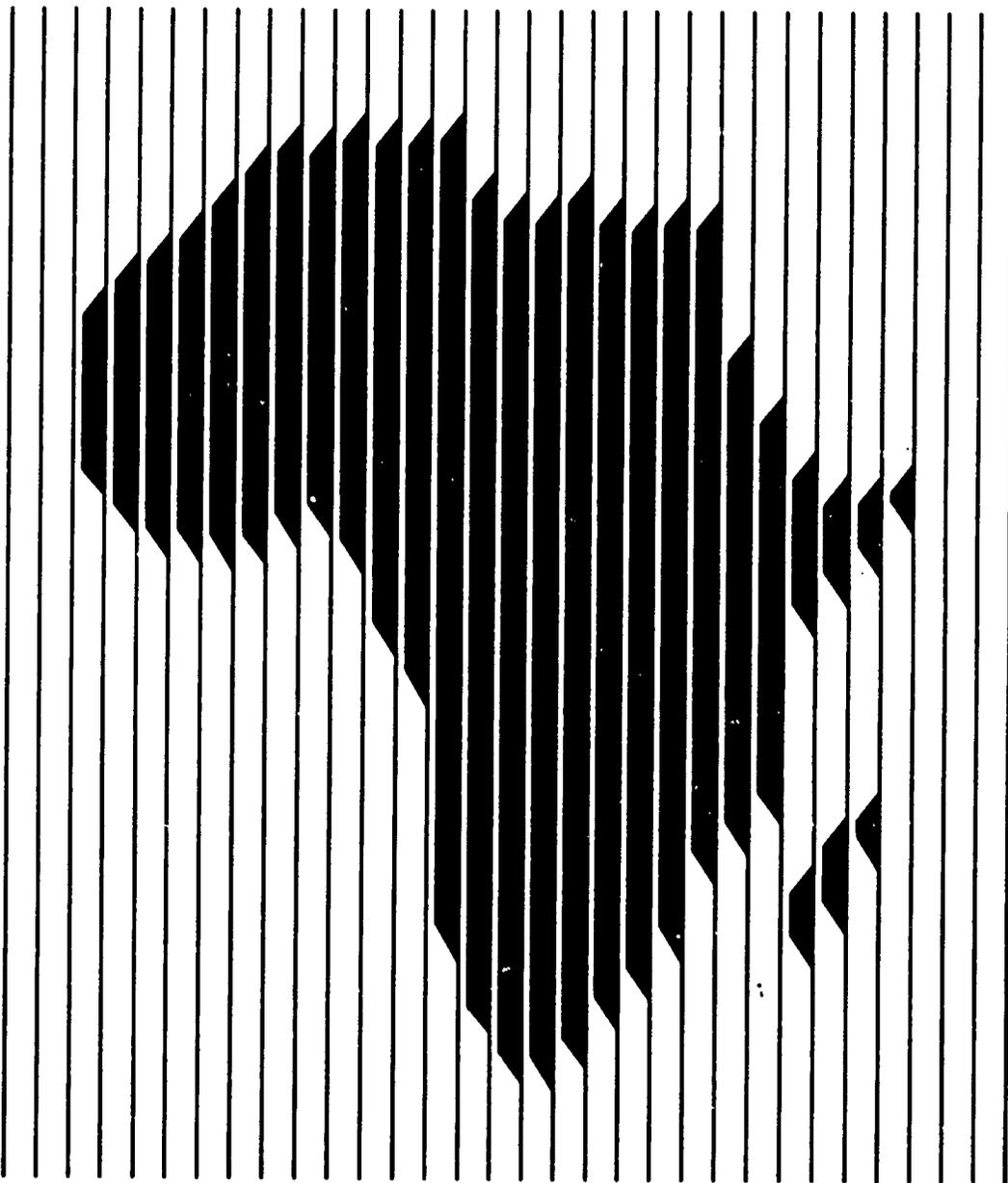


Development Fund for Africa

Impact Evaluation of the Lesotho Credit
Union League Development Project



Agency for International Development
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**IMPACT EVALUATION OF THE
LESOTHO CREDIT UNION LEAGUE DEVELOPMENT PROJECT**

Prepared for the U.S. Agency for International Development under contract number PDC-5315-I-05-8101-00 by Development Alternatives, Inc. (DAI) and the Institute for Development Anthropology (IDA), under a joint venture agreement between DAI, IDA, and Research Triangle Institute (RTI).

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February 1989

FOREWORD

In September 1988, the U.S. Agency for International Development's Africa Bureau (A.I.D./AFR) launched a three-stage exercise to assess the impact of assistance in the area of rural credit. This effort was carried out in collaboration with Development Alternatives, Inc. (DAI) and the Institute for Development Anthropology (IDA), under a contract to provide technical assistance to the Agency.

The exercise was undertaken for three principal reasons:

- o First, A.I.D. is responsible for ensuring that its assistance to governments in Africa is as effective as possible. This implies looking not only at the efficiency with which A.I.D. funds are channelled to recipients but also at the impact these expenditures have on the lives of people over time.
- o Second, as a problem-solving organization with limited resources, A.I.D. must constantly be searching for better ideas. This implies periodic re-examination of experience to look for ways in which performance could have been improved.
- o Third, in any particular sector such as that of rural credit, there are lessons to be learned from experience: theories to be disproved or refined, implementation alternatives to be tested, and unwanted effects to be avoided.

The first stage of this impact evaluation exercise was a review of project documentation and other pertinent literature. The results of this review are laid out in the document, "An Impact Evaluation of Rural Credit Projects in Africa: A Summary Review of the Literature."

The second stage of the exercise was a series of field assessments conducted by multidisciplinary teams in Cameroon, Malawi, Kenya, Lesotho, and Liberia in late 1988. Each team prepared a report of its findings, conclusions, and recommendations. These individual country reports form the basis of the final synthesis.

The last stage was the preparation of a final synthesis report, which has been issued as a separate document entitled "Credit for the Rural Poor: The Experience in Six African Countries."

February 1989

PREFACE

Research for this impact evaluation was conducted on both an institutional and individual level. Officials interviewed included those from the Lesotho Cooperative Credit Union League (LCCUL), the Lesotho Agricultural Development Bank, the United Nations Development Program, the Food and Agricultural Organization of the United Nations, USAID/Lesotho, Co-op Lesotho, and managers and clerks of each credit union visited. Individual credit union members as well as non-members in nine different communities were interviewed to ascertain agricultural and social information pertinent to this analysis. An interview schedule was generated and administered at each of these sites. Both prior to and at the conclusion of field research, a literature and document review was conducted.

The analysis that follows would not have been possible without the integral assistance of Mr. A. P. Bohloa, General Manager of LCCUL and Mr. Murray Gardiner, World Council of Credit Unions (WOCCU) Advisor to LCCUL. A special note of gratitude is extended to Alice, Secretary, Switchboard Operator, and All-around Indispensable Person at the LCCUL, who acted as our interpreter on our field site visits.

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SUMMARY

Lesotho is a landlocked country surrounded by the Republic of South Africa (RSA). It is comprised of 30,589 sq. km. that can be divided into three topographical regions: the lowlands, including the Orange (Senqu) River Valley (20 percent of total) where most cropping activities occur; the foothills (15 percent of total); and the mountains (65 percent of total) -- (Wilken, 1978). Seventy percent of the country's people live in the lowlands at a population density of over 200 people per sq.km. Average population density for the country as a whole is only 40 people per sq.km. Overpopulation in the lowlands has pushed farming into the foothills and this is compounding already existing erosion problems. Cultivation of steeply graded land along with overgrazing and poor range management practices has adversely affected the ability of the Basotho people to generate incomes from cropping. This is reflected in the GDP where, in 1985, agriculture accounted for 24 percent of total and remittances from migrant laborers in the RSA constituted 48 percent. Lesotho's economic dependence on RSA, its precarious geographic and meteorologic endowment, the availability of lower cost agricultural commodities from RSA, limited agricultural extension services and social institutions that inhibit the ability of women to perform their role as farm managers all contribute to poor agricultural development.

In Lesotho, an estimated 226,000 families farm an estimated 615,000 acres. According to FAO estimates, over 70 percent of agricultural production and 90 percent of cereals produced are retained for home consumption. Approximately 17 percent of total household income in the rural areas derives from agriculture. Among poorer households, however, agricultural income is a much higher portion of total income. Farming practices are fairly advanced with about 60 percent of the farmers using improved seeds, fertilizer, and insecticides. These inputs are typically available and are usually purchased with cash. Crop purchase prices through the government marketing agency are tied to RSA commodity prices and are approximately one half to one fifth alternative trading values in Lesotho. Approximately half of the nation's cereal needs are met through imports.

The purpose of the Lesotho Credit Union League Development (LCULD) Project was to expand the availability of cooperative financial services in Lesotho. This was to be done by means of a three-year project that would improve the technical, financial and administrative capabilities of the Lesotho Cooperative Credit Union League (LCCUL) and its member credit unions. Up to the time of project proposal (June 1980), 52 credit unions representing 22,000 members with a total savings of \$862,000 and loans outstanding of \$745,000 had affiliated under LCCUL. The project proposal noted that these accomplishments had been achieved with very limited external resources. It also noted, however, that in 1978 donor support covered an institutional deficit that amounted to well

over 50 percent of LCCUL's total expenses.

The project objectives were that by its completion LCCUL be capable of providing essential technical and financial services to its member unions; that LCCUL be self-sufficient within five years from project completion; and that the membership, savings and production lending of member unions would be significantly increased. Budget support from the project was to be used to train, hire, and otherwise upgrade LCCUL staff. Emphasis was to be given to a Small Farmer Production Credit (SFPC) effort. Additional emphasis was to be given to expanding the credit union league into urban areas.

The direct beneficiaries of the original project were to be LCCUL's member credit unions. Through the improvement of LCCUL's capabilities it was hoped that member credit unions and their member farmers would receive improved financial intermediation services. During the course of the project, the broader goal of improved financial services came to be replaced with the more limited goal of improving credit union members' access to production credit. By improving access to credit for this group, it was felt that capital constraints could be overcome and investment in improved agricultural practices would result.

The evaluations of the Lesotho Credit Union League Development Project lend strong support to the conclusion that there was a serious divide between the nominal "institutional development" objective proclaimed in both the original proposal and the extension -- and the actual "shadow" objective. Small farmer lending was encouraged and funds were provided so that such lending could increase, and the self-sufficiency of the institution declined. The conclusion of the USAID agricultural economist in regard to project impact was that credit availability has not had a great impact on agricultural production practices. Indeed, it was assessed that credit unions have best served their members by providing savings services to them. The project was assessed as not having had a significant impact on either income distribution or upon employment opportunities. It is likely that the economic rate of return to USAID's investments in this project has been negative.

Independent of the LCULD Project, a broad ranging agricultural development project budgeted at 26 million dollars was started in Lesotho in 1986. The project was designed to identify and develop production-increasing agricultural activities. Since agricultural credit availability was deemed essential for the success of the project, it included a component targeting the credit unions and LCCUL as a channel for this lending. While the LAPIS project differed in size and scope from the LCULD project, both possessed a common and important misperception about the effect of directed credit on institutions that provide it. The focus on providing finance for investments that development planners have decided

must be undertaken leads them to the conclusion that this finance can be provided through existing intermediaries at little cost to these institutions. Generally, this is not the case.

It is often assumed that there is unmet demand for credit on the part of the rural poor. Yet time and again, rural small holders throughout the world have shown themselves to be reluctant to incur debt (when they perceive the loan agreement to be binding). When this is discovered by development planners responsible for directed credit projects, their response is often to propose educating the rural poor to create loan demand. This often and unsurprisingly results in lending programs with high default rates. Satisfying demand that exists but is unmet due to market or institutional imperfections is entirely different from creating demand for a good or service.

In regard to the institution building objective of the LCULD project, several lessons are apparent.

- o While training programs were undertaken and efforts were made to improve the administrative procedures of LCCUL and its member credit unions, these were not sufficient to achieve project goals.
- o The failure of the project to expand the size of the credit union movement can be attributed to the fact that it ceased to be a grassroots movement when it accepted the managerial and financial support of external agents.
- o The failure of the project to achieve improved loan collection can be attributed to the production lending imperative that dogged the project, especially after 1983.
- o The failure of the project to increase agricultural production is most directly attributable to the fact that capital constraints were not the limiting factor vis-a-vis agricultural production in the first place.
- o Increasing the amount of credit available to small rural producers should be removed from between the lines of institutional development projects to a prominent place elsewhere. If providing increased credit is necessary under a rural development scheme -- know that there is no complementarity between provision of such credit and the development of viable rural financial institutions. Provide the credit through the project directly to the ultimate borrowers or set up a project based entity, but do not put the savings of poor rural producers at risk by channeling massive amounts of external funds through their institutions.

PROJECT DATA SHEET

1. Country: Lesotho
2. Project Title: Lesotho Credit Union League Development Project
3. Project Number: 632-0214
4. Grant Number: AID/AFR-G-1687, August 1, 1980
632-0214-G-00-4001-00, February 29, 1984
5. Project Implementation:
 - a. Project Proposal May 1979
 - b. Evaluation March 1982
 - c. Project Paper Amendment December 1983
 - d. Lesotho Project Managing Report (WOCCU) April 1984
 - e. Evaluation June, 1984
 - f. Evaluation June 1987
6. Project Funding: (to 2/86)

a. USAID	\$989,421
b. Government of Lesotho	\$ 28,851
c. Contractor -- WOCCU	\$ 33,640

ACRONYMS

FAO	Food and Agricultural Organization of the United Nations
FSSP	Food Self Sufficiency Program
GNP	Gross National Product
GDP	Gross Domestic Product
IMF	International Monetary Fund
LADB	Lesotho Agricultural Development Bank
LAPIS	Lesotho Agricultural Production and Institutional Support Program
LCCUL	Lesotho Cooperative Credit Union League
LCULD	Lesotho Credit Union League Development Project
PP	Project Paper
RSA	Republic of South Africa
SFPC	Small Farmer Production Credit
USAID	United States Agency for International Development
WOCCU	World Council of Credit Unions

1 \$	2.43 Maloti (M)
1 M	1 South African Rand (R)
1 acre	0.405 ha
1 ton	1,000 kg
1 kg	2.2 lbs

I. PROJECT HISTORY

The purpose of the Lesotho Credit Union League Development (LCULD) Project was to expand the availability of cooperative financial services in Lesotho. This was to be done by means of a three-year project that would improve the technical, financial and administrative capabilities of the Lesotho Cooperative Credit Union League (LCCUL) and its member credit unions. Up to the time of project proposal (June 1980), 52 credit unions representing 22,000 members with a total savings of \$862,000 and loans outstanding of \$745,000 had affiliated under LCCUL. The project proposal noted that these accomplishments had been achieved with very limited external resources. It also noted, however, that in 1978 donor support covered an institutional deficit that amounted to well over 50 percent of LCCUL's total expenses.

The project objectives were that by its completion LCCUL be capable of providing essential technical and financial services to its member unions; that LCCUL be self-sufficient within five years from project completion; and that the membership, savings and production lending of member unions would be significantly increased. Budget support from the project was to be used to train, hire, and otherwise upgrade LCCUL staff. Emphasis was to be given to a Small Farmer Production Credit (SFPC) effort. Additional emphasis was to be given to expanding the credit union league into urban areas.

A September 1983 evaluation of the project found that its basic objectives were being achieved. Among the specific findings of that evaluation were that:

- o Project staffing and position description had been adequately achieved;
- o LCCUL procedures were being defined on paper;
- o Training programs were being conducted;
- o Credit union development was getting attention from donors;
- o Credit unions were employing clerks (whose salary was being paid by an external donor);
- o Credit union offices were being constructed with external funds;
- o Loan volumes were not up to project projections, loan delinquency was "serious," interest collection was poor, and project projections for credit union

growth were overly optimistic;

- o LCCUL self-sufficiency measures were not meeting project projections;
- o LCCUL loan collection efforts were unsatisfactory;
- o The SFPC program was growing; and
- o Expected support from an important donor was not received.

These successes were achieved with just under \$600,000, excluding the salaries paid by Catholic Relief Services (CRS) and the construction undertaken by MISERIOR & German Assistance (GTZ). On the basis of this evaluation, a proposal was made by USAID/Lesotho (and subsequently approved by USAID/W) to extend the project for another two years and to increase the life-of-project funding by \$398,400.

Whereas the original project design had aimed at improving the capability of LCCUL to provide financial and other support services to its member unions, the project extension shifted emphasis to support for the member credit unions. The extension sought to "...[correct] institutional deficiencies at the credit union member level and to expand their capabilities to enable them to provide a locally available and reasonable resources (sic) to the small farmer for agricultural credit." Subsidiary goals were that mechanisms be put in place that would help local unions "meet the more complex requirements of production credit," and "[channel] external credit through the league to member credit unions." These objectives were to be achieved through the appointment of a full-time advisor, training of credit union staff, budget support for LCCUL staff and the funding of office expenses.

In the Management Advisors Final Report, July, 1988, the training objectives and the increased lending from LCCUL to member unions objectives were reported to have been achieved. On the other hand, no external audit of credit unions had been undertaken, serious loan delinquency (farmers to credit unions) was estimated at 30 percent (on an interest rate spread of 2 percent), reporting practices between credit unions and LCCUL were not being observed, and loan management and collection procedures were not being implemented. The project extension was judged to have been largely successful in achieving its objectives.

Project Beneficiaries

The direct beneficiaries of the original project were to be LCCUL's member credit

unions. Through the improvement of LCCUL's capabilities it was hoped that member credit unions and their member farmers would receive improved financial intermediation services. During the course of the project, the broader goal of improved financial services came to be replaced with the more limited goal of improving credit union members' access to production credit. By improving access to credit for this group, it was felt that capital constraints could be overcome and investment in improved agricultural practices would result. Application of improved agricultural practices would then improve small farmer welfare by providing increased production and increased income. The evolution of the project from its original focus on the apex institution -- LCCUL -- to its later emphasis on member credit unions and production credit for their farmer/members makes a clear description of project beneficiaries somewhat difficult. Ultimately, members of the individual credit unions were always intended to benefit from the project, but they were, at various stages of project implementation, several steps removed from project impacts, which focused on institutional and financial development of the credit unions. The point is that it makes little sense to appraise the effect of a project on beneficiaries several stages removed from the planned project impact if the latter did not materialize as planned. Given the foregoing caveat, a brief profile of credit union members and economic conditions in rural Lesotho (summarizing Appendix D) follows.

Lesotho is a landlocked country surrounded by the Republic of South Africa (RSA). It is comprised of 30,589 sq. km. which can be divided into three topographical regions: the lowlands, including the Orange (Senqu) River Valley (20 percent of total) where most cropping activities occur; the foothills (15 percent of total); and the mountains (65 percent of total) -- (Wilken, 1978). Seventy percent of the country's people live in the lowlands at a population density of over 200 people per sq.km. Average population density for the country as a whole is only 40 people per sq.km. Overpopulation in the lowlands has pushed farming into the foothills and this is compounding already existing erosion problems. Cultivation of steeply graded land along with overgrazing and poor range management practices has adversely affected the ability of the Basotho people to generate incomes from cropping. This is reflected in the GDP where, in 1985, agriculture accounted for 24 percent of total and remittances from migrant laborers in RSA constituted 48 percent. Lesotho's economic dependence on RSA, its precarious geographic and meteorologic endowment, the availability of lower cost agricultural commodities from RSA, limited agricultural extension services and social institutions that inhibit the ability of women to perform their role as farm managers all contribute to poor agricultural development.

As most agricultural enterprises are managed by women, it is important to note that women have not traditionally had access to many of the resources required to increase agricultural production. Women cannot typically obtain loans from a bank without the signatures of their husbands as the principal borrower; they cannot work with oxen; they are

not given training in tractor use and maintenance; and they are, during the major portion of the year, single heads of households in addition to being farm managers. Women constitute 65 percent of the credit union movement membership. They occupy many decision-making positions in the movement both at the League level and at the level of the individual credit unions. Because of the division of labor in Basotho society, women tend to be better educated than men there.

From a sample of 17 member households it was found that the average size of a credit union member's holding was 8.6 acres. This is over twice the size of the national average for land holdings (3.8 acres). Nine of the 17 households had oxen while eight did not. Twelve of the households reported growing sorghum -- the principal money crop in Lesotho -- half of these used the crop for brewing beer and the other half used at least a portion of the crop for economic trade. Other agricultural income generating activities included egg and poultry production, and large animal husbandry. The latter activity is not widely attempted by credit union members. Non-agricultural income generating activities include production and sale of brooms, trade in clothing, beer brewing, knitting and sewing, and shop ownership. Many of these non-agricultural enterprises have used credit union funds to cover start-up costs. Comparative returns to investment for agricultural versus non-agricultural enterprises could not be ascertained from the available data, but it seems likely, given the comparative advantages of RSA producers in agricultural goods, that non-agricultural investments are the more viable of the two.

II. PROJECT ASSESSMENT

Given the experience of credit unions in many other developing countries, the emphasis of the original project -- strengthening the capabilities of the apex institution -- was well placed. The objective of helping LCCUL better provide technical and financial services to member credit unions through training and improved procedures cannot be faulted. But the approach taken to achieving these objectives, which included budgetary support for additional personnel and the appointment of an expatriate management advisor, put one of the credit unions' most valuable assets at risk. This asset was the accountability that existed among credit union members for the independent viability of their institution. The credit unions traded in a large measure of their independence when they permitted outside agents to pay their staff, build their buildings and even manage their business affairs. It is not clear whether or not decision makers within the movement who accepted this outside assistance were aware that the management advisor would be pushing the institution towards expansion of small farmer production credit (SFPC), but it is clear from the original project proposal that this would be the case. It is the conclusion of this review that, while institution building was the nominal objective of the project, the presumption that production credit must be increased overshadowed that nominal objective, and ultimately helped keep it from being realized.

The original project proposal selected seven institutional variables as indicators of project achievement and these are presented in Table 1. It should be noted that the Start of Project figures are not precisely comparable with the Estimated Achievement figures. The Start of Project numbers were taken from LCCUL documents and therefore represent nominal (or "paper") levels of activity. The Estimated Achievement figures were developed by the Evaluation Team under more rigorous criteria. While LCCUL listed 68 credit unions as belonging to the system in 1988, 32 of those institutions were either closed or did not report their activity to LCCUL. While the number 36 gives a more accurate picture of the system's status in 1988, it is not clear how many of the 52 credit unions that existed on paper at the start of the project were actively operating. This caveat notwithstanding, it is apparent that the project targets were not met. If one assumes that the project planners did an adequate job of assessing the reliability of the figures on which they based their project proposal, then it is obvious that the system has not expanded through the project but has in fact contracted. If one assumes that the project planners did not assess the reliability of LCCUL's figures, then one has a different problem.

The one figure for which the estimated achievement was greater than the Project Target is LCCUL revenues. As is discussed in detail in an Appendix B, however, it is difficult to attribute these higher revenues to project activities. Indeed, these revenues were

largely the result of interest on deposits placed by LCCUL with commercial banks and income from the rental of unused space at the League headquarters, rather than the result of increased lending activity. Both the March 1982 and the September 1983 project evaluations contained recommendations that credit unions relax their overly restrictive

TABLE 1
INDICATORS OF PROJECT PERFORMANCE

Indicator	Start of Project	Target Year 8	Estimated Achievement	% Target* Achieved
No. of Credit Unions	52	90	36	<40>
No. of Members	22,000	49,740	17,750	<35>
No. of SFPC Members	100	12,445	???	??
Total Savings	750,000	3,304,317	805,737**	24
Total loans	540,401	3,117,456	644,105**	<21>
LCCUL Revenues	24,401	148,772	231,311***	155
% Self Sufficiency	46.7	98.2		

* Brackets <> indicate that the estimated value of the indicator is less than the start of project value. In these cases, it is not clear what quantity should be used in the denominator. A decision was made to use the target value in all cases.

** Using the latest figures available (December, 1987), adjusted for inflation.

*** Using figures as at 30.09.88, adjusted for inflation.

lending policies. These recommendations do not seem to be based so much on evidence that viable investment opportunities were being missed as that increased lending targets were not being achieved. Had the credit unions done more lending to members, they would not have been able to deposit funds with the Central Finance fund and the increased revenues from interest on these deposits would not have been achieved. The expatriate managers did not catch up with their counterparts until the March 1986 end of project evaluation by which time the recommendation had changed to "induce credit unions to place more of their idle funds with Central Finance." In that same report, it was recognized that "Lack of loan demand is the problem."

Whereas project designers had desired the League to channel funds through its central finance department to member credit unions as part of the SFPC program, funds in fact flowed in the opposite direction, from rural credit unions to the central finance department to commercial banks. This is neither unhealthy nor unusual. It is, however, problematic when institutional viability is not a concern but moving money to small farmer investments is. This provides an example of the disjunction between the objectives of the donor agency (provide funds for small holder agricultural investments) and their stated goals (institutional development) and the objectives of the apex institution (protect the investments of its member credit unions). The flow of funds from the periphery to the center is observable in most healthy financial institutions operating a network of rural branches. It is less common among government institutions such as agricultural development banks that often tend to channel external funds through branch outlets to farmers for uneconomic investments. As regards the flow of funds issue, the league's management seemed to take seriously its responsibility to its members, but its external supporters appear to have had other priorities.

The last indicator of project achievement listed in Table 1, Percent of League Self-Sufficiency, was estimated to be NIL. By the end of eight years, the designers of the original three-year project had planned that LCCUL would be largely self-sufficient. By the time of the project extension, this objective had been moderated to a self-sufficiency ratio of 36 percent. The self-sufficiency ratio of LCCUL obtained by dividing their income net of infusions from donors by their total annual income (as given in their 1987 Income Statement) is 36 percent. If, on the other hand, the self-sufficiency ratio is taken as the share of income net of donor infusions in total expenditures for the year, the figure is 34.7 percent. But such differences are trivial compared with the considerable confusion that arises in attempting to allocate income as "own" and "donor contributed." For example, are the vehicles that GTZ provides LCCUL for their transfer to set credit unions earning rent as "own" assets or is that donor contributed? Do the salaries that CRS paid count against either salary expenditures or contributions? Are the capital infusions that LCCUL receives callable?

The evaluations of the Lesotho Credit Union League Development Project lend strong support to the conclusion that there was a serious divide between the nominal "institutional development" objective proclaimed in both the original proposal and the extension -- and the actual "shadow" objective. Perhaps this situation can be usefully conceptualized as an optimization problem where the objective function is: maximize X (where X = some measure of institutional self-sufficiency and is a function of various inputs) subject to the constraint that L (where L = some measure of small farmer lending) is greater than or equal to "Y" (which is how much credit some person or group thinks should flow to the sector), and X is some diminishing function of L. This is essentially a definition of command

credit, where amounts loaned are determined by something other than market demand, and it has not worked any better in Africa than it has in Eastern Europe. By this definition of the problem, the greater is "Y" -- or the faster "Y" grows -- the smaller the measure of self-sufficiency that can be attained. X could be defined as an increasing function of L, but it would not represent what has happened in the case of this project. Small farmer lending was encouraged and funds were provided so that such lending could increase, and the self-sufficiency of the institution declined.

Extensive efforts were made to improve both LCCUL's and its member credit unions' accounting, reporting and loan collection procedures -- but these do not appear to have been sufficient to bring the institutions to self-sufficiency. The earlier evaluations, while quite clear on the ranking of objectives, failed to come to grips with the issue. The 1983 evaluation cited above states that "basic objectives are being achieved;" it also notes, however, that indicators of institutional viability such as loan collection rates, expansion of services, and self-sufficiency measures were not progressing as projected. They were, in fact, not very good at all. But the SFPC part of the project was growing. Statistics on the number of managers trained were cited by the project evaluators as one of the measures of project success. Unfortunately, success in supplying the input did not result in the achievement of the desired output. This provides an example of the muddying effect of having nominal or stated project objectives that are quite different from actual objectives. Had the evaluators only addressed the SFPC component to the project, the evaluation could have been more direct and considerably shorter.

The authors of the June 1984 project evaluation are also fairly explicit about the objective of increasing lending rates (by finding that current lending rates were unduly low), but they understood that "a blank recommendation for credit unions to change their credit policy would not, most likely, produce the desired results", due to the fact that credit unions already had serious collection problems and that there was in fact an apparent dearth of viable investments. The result of increased lending, given poor loan recovery experience and a shortage of viable investments, was very likely to be diminished institutional viability. Yet, as was evidenced by the fact of and the form of the project extension, the constraint (increase small farmer lending) again dominated the nominal objective (increase institutional viability).

A Case in Point

The 1984 evaluation recommended that "a greater effort [be made] to assist credit unions become more creditworthy and to develop viable loan requests." This might be taken to indicate that the project was determined to move production credit through the system

whether the credit unions -- cautious with concern for their members' savings -- wanted it or not. It is not clear what steps were taken to induce a change in the credit unions' lending policies, but the effort was a success. During the fourth year of the project the League made a number of loans to the credit unions in support of the SFPC program. Some of the results of this increased and targeted lending activity can be adduced from Table 2. The calculations presented in Table 2 are based on an analysis of a random sample of individual ledger cards at the Makesi Credit Union that comprised twenty percent of the membership. For a detailed discussion of the methodology used, as well as a more complete discussion of the findings, the reader is referred to Appendix B to this report.

The last column for the year 1984 in Table 2 provides an interesting statistic. It shows that over 58 percent of the loans outstanding at this credit union were made in 1984. This was the year that this credit union received a loan from the League under the SFPC program. Since SFPC loans are short-term production loans, designed to be repaid after a single cropping season, balances outstanding four years later must be considered doubtful debts. It is also interesting to note that, assuming a random sample was obtained and that the distribution of member transactions was standard-normal, the predicted loan balances are 19,165, as against the amount of the loan from the League in that year, which is 19,007. The League loan was 168 percent of the total savings mobilized by this credit union by the beginning of 1984.

TABLE 2
ANALYSIS OF LOANS BY DATE OF LOAN
MAKESI CREDIT UNION
(Every Fifth Individual Ledger)

Period	No.	Shares	Loan Amount	Loan Balance	%
<1980	1	10	5	0	0.0
1980	0	0	0	0	0.0
1981	1	7	7	7	0.1
1982	3	48	139	0	0.0
1983	9	483	1,175	224	3.4
1984	26	2,663	7,101	3,833	58.4
1985	6	265	2,066	624	9.5
1986	3	474	1,400	1,270	19.4
1987	2	430	466	400	6.1
1988	2	174	255	200	3.0
TOTALS	53	4244	12,614	6,558	100.0

Note: 1984 Loan from League = R19,007
(As per Quarterly Loan Report, May, 1988)

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There is, arguably, some question whether taking on this level of borrowing -- at a 100 percent margin, with a 2 percent spread, with uncertain investment opportunities and high administrative and commercial risk costs -- was a wise decision. If the League loan was supposed to rotate, it did not get very far. But if one assumes that the margin on SFPC funds was not 100 percent but instead zero, then the credit union is not bankrupt, but is instead only out of its grant money. The unknown parameter in this calculation is the extent of liability on the part of the credit union for repayment of the loan to the League. If the credit union was liable for the League loan, then the project manager (under the institution building objective) should be faulted for allowing such unwise decisions to be made. If the credit union was not liable for the loan, then the actual "shadow" objective of the project was met. Proper "lending" levels to the sector were achieved.

One of the ways in which an institution's self-sufficiency can be undercut is by supplying it with liabilities which it is not free to allocate as it sees fit but which must be invested with a certain type of client for certain uses. This undercuts self-sufficiency in several ways. It does so directly, by lowering the share of the institution's "own funds" in annual transactions in the year it is loaned, and it does so indirectly, by restricting investment to a single sector which may or may not be able to generate a sufficient return to repay the individual loans and allow the institution to cover its operating costs, its risk costs and the cost of funds. The institution can also be undercut by programs that provide funds at no liability to the lender. The institution is still required to pay the costs (unless they are donated too) of processing and granting the loans.

What sort of lessons are being taught? The funneling of grant funds under the rubric of lending can have a deleterious effect on future attempts to intermediate profitably between savers and borrowers. The only conceivable scenario under which this credit union could retain financial viability is one in which its managers and members recognize the distinction between external funds and local savings. If they understand that their treatment of the latter must be cautious and that the former only represent the redistribution of donor capital, then they might avoid the long term problems that result from training a generation of bank managers and farmers that loans are free money. It would clarify things greatly if funds provided from external donor sources which carried no repayment liability for the channelling institution were called something other than "loans." Then evaluators of this project would know what the managers of these institutions know and their evaluations could

focus on other issues. As it was, the assessment team was unable to determine what, if any, agreements had been reached between A.I.D., WOCCU and LCCUL on the repayment liability for SFPC funds.

If the credit union managers were taught useful loan tracking procedures and if they believe they are accountable to LCCUL for 100 percent repayment of the SFPC funds, then they should already be considering setting aside provisions against these loans. If they know that the union is not likely to be held liable for repayment by LCCUL (who in turn will not be held liable by WOCCU or A.I.D.), then perhaps they are correct in not wasting a lot of administrative resources tracking or following up on these targeted loans. When credit union managers are not willing to make SFPC loans with their own funds, then the possibility must be considered that they have a deeper understanding of the repayment risks than do outside experts, and on the basis of this do not choose to spend credit union resources hopelessly pursuing overdue SFPC loans -- if they do not have to. This does not justify, but only helps to explain some of the institutional reasons why one might expect a 30 percent loan delinquency rate within the reporting LCCUL member credit unions.

Project Impacts at the Farm Level

The above assessment focuses on the institutional impacts of the project. Although this was the nominal objective of the project, the ultimate result of the institution building and loan targeting was to be better financial services for small agricultural producers. Through these improved financial services, agricultural production and agricultural incomes would both rise. While the scope of this project did not permit the development of convincing measures of the production effects of credit delivered through LCCUL or its member unions, some measures of the economic impacts of the project are given in the Appendix, and summarized below.

In Lesotho, an estimated 226,000 families farm an estimated 615,000 acres. According to FAO estimates, over 70 percent of agricultural production and 90 percent of cereals produced are retained for home consumption. Approximately 17 percent of total household income in the rural areas derives from agriculture. Among poorer households, however, agricultural income is a much higher portion of total income. Farming practices are fairly advanced with about 60 percent of the farmers using improved seeds, fertilizer, and insecticides. These inputs are typically available and are usually purchased with cash. Crop purchase prices through the government marketing agency are tied to RSA commodity prices and are approximately one half to one fifth alternative trading values in Lesotho. Approximately half of the nation's cereal needs are met through imports.

Credit union membership comprises about 4.4 percent of the total farm population. Of the small group of credit union members surveyed for this study, all used improved seeds and other modern inputs. In the production budget for one acre of maize given in Appendix C, net sale value at market prices was just under 130 percent of input costs. For sorghum the net value of output when transformed to beer or traded for sheep was 104 percent of input costs. These costs do not, however, account for returns to either land or family labor. The production figures for credit union members when compared with production figures for other farmers using other credit sources were roughly similar for maize and somewhat lower for sorghum. Due to the lack of baseline data, it is not possible to compare this situation with the conditions before the project started.

The conclusions of the USAID agricultural economist in regard to project impact was that credit availability has not had a great impact on agricultural production practices. Indeed, it was assessed that credit unions have best served their members by providing savings services to them. The project was assessed as not having had a significant impact on either income distribution or upon employment opportunities. It is likely that the economic rate of return to USAID's investments in this project has been negative.

III. THE LAPIS PROJECT

Independent of the LCULD Project, a broad ranging agricultural development project budgeted at 26 million dollars was started in Lesotho in 1986. The project was designed to identify and develop production-increasing agricultural activities. Since agricultural credit availability was deemed essential for the success of the project, it included a component targeting the credit unions and LCCUL as a channel for this lending. Once again, through dependence on donor largesse, LCCUL was to become a self-sufficient institution. Institutional viability was not, however, a primary goal of the credit component. The goal was that 25 credit unions provide "...credit, input supplies, technical and educational assistance, equipment rental, and assist with input supply and marketing services." A Credit Management Advisor would assist LCCUL in achieving the targets set for these activities. With this project, LCCUL was to pass from being a purportedly independent supplier of financial services to its members -- an already questionable assumption -- and become instead a development agency.

In the 1986 Benchmark study for the project, no potential borrowers had yet been identified. By the end of the second year of the project, a total of 28 borrowers had been found. Despite this small number of loans, lending from LCCUL to its member unions increased over 300 percent from the start of the LAPIS project to its second year. As indicated in Table 13, Appendix B, this rate of increase presented problems for the League in keeping track of their loan funds. It also presented the targeted credit unions with some rather extraordinary risks. These loans were so out of proportion to the capacity of the credit unions to intermediate them that the default of a single borrower in some instances would be sufficient to destroy the savings of an entire credit union with hundreds of savers. It is extremely difficult to square these practices with any sort of concern for LCCUL's or its member credit unions' institutional viability.

While the LAPIS project differed in size and scope from the LCULD project, both possessed a common and important misperception about the effect of directed credit on institutions that provide it. The focus on providing finance for investments that development planners have decided must be undertaken leads them to the conclusion that this finance can be provided through existing intermediaries at little cost to these institutions. Generally, this is not the case. Examples of institutions that have been seriously undermined by allowing themselves to be used to move money in predetermined directions are fairly abundant in Africa and elsewhere. A brief discussion of some of the incorrect assumptions that lead to this misperception is given below.

It is frequently assumed that a resource constraint operates on the development of rural areas. These areas are slow to develop, it is argued, because rural people are too poor to save and invest. Credit projects are seen as ways to overcome these perceived resource constraints. In fact, however, idle resources (which have a negative real marginal physical product) can be observed in the rural areas of even the poorest African countries. In Lesotho, for example, these idle resources take the form of steel window and door frames, frequently stored on the tin roofs of partially finished houses, bags of cement curiously out of place in rural kitchens, and a well documented over-supply of grazing animals.

The over-supply of grazing animals, which contributes to environmental problems in Lesotho, can be attributed in part to the lack of adequate savings opportunities. Failing the ready availability of attractive financial forms of holding wealth, savings are held in the form of grazing animals. This thesis is supported by the household survey data gathered by the team: Credit union members, who do have access to savings facilities, held far fewer grazing animals (58) than non-credit union members (423). There is little doubt that the availability of more attractive savings instruments than the relatively illiquid credit union shares would cause many rural people who currently hold their wealth in real forms -- window frames, cement blocks, tin sheets, as well as grazing animals -- to hold more of their savings in financial form, making a greater portion of these savings available for investment in productive enterprises.

Attractive savings schemes could be implemented by the credit unions with proper guidance and technical support from LCCUL and their long-term advisor. At the Lesotho Agricultural Development Bank (LADB), a recent savings mobilization campaign based on the expansion of a network of small-deposit accepting branches and agencies in rural areas has produced explosive results. Savings deposits reportedly increased almost 1,700 percent in a two year period, going from R600,000 to R10,000,000. Finding profitable investments for these funds would require cautious and thoughtful analysis of economic conditions -- in other words, something quite different from the ex ante decision that what is needed is directed production credit. Financial institutions in developing countries must be allowed to develop using the same conservative principles governing the acquisition of assets that guided the growth of financial institutions in the developed world.

It is often assumed that there is unmet demand for credit on the part of the rural poor. Yet time and again, rural small holders throughout the world have shown themselves to be reluctant to incur debt (when they perceive the loan agreement to be binding). When this is discovered by development planners responsible for directed credit projects, their response is often to propose educating the rural poor to create loan demand. This often and unsurprisingly results in lending programs with high default rates. Satisfying demand that exists but is unmet due to market or institutional imperfections is entirely different from

creating demand for a good or service.

The authors of the 1986 LCULD project evaluation pointed out that "Lack of loan demand is the problem." "Restrictive lending policies" had in previous evaluations been "the problem." In either case, the problem that both conditions lead to is that the aim of the development agency to increase investment in a sector that it feels requires more investment cannot be met. When this is recognized, the real problem in Lesotho can then be seen as one of providing the kind of rural financial services for which effective demand already exists. As is pointed out above, demand for financial services in these areas tends to be for savings and deposit opportunities.

It is frequently assumed that it is possible to build rural financial institutions with a network of branches serving the rural poor on the basis of providing small credit facilities to large numbers of people, which involves moving funds from the center of a financial system towards the periphery. To date, to the authors' knowledge, no viable financial institution has been built on such a premise or with such a strategy. Successful financial institutions are built by providing financial services for which there is demand at a price which is consistent with institutional viability. In rural areas, when prices reflect the full costs of providing financial services, there is greater demand for deposit facilities than for credit, both in terms of the number of individuals served and in terms of the value of claims and obligations. In other words, when prices are set to reflect the cost of providing financial services in rural areas, there tends to be a net flow of funds from rural areas to urban centers.

This again brings us back to the experience in Lesotho with directed production credit. The mobilization and allocation of resources to alternative uses -- which is the prime function of financial systems and of the intermediaries that comprise them -- raises the productivity of capital. This is made possible by the fact that savers are willing to invest in savings at a lower rate of return than borrowers believe they can achieve with their investments. When donor intervention entails channeling foreign capital through existing institutions this intermediating function is undermined. This is especially so when efforts need to be made to convince the intermediary that their predisposition towards safe investments, i.e., something other than unproven agricultural practices, is unwarranted. This predisposition is not unwarranted from the standpoint of the institutional viability of the intermediary.

IV. LESSONS LEARNED

In regard to the institution building objective of the LCULD project, several lessons are apparent. While training programs were undertaken and efforts were made to improve the administrative procedures of LCCUL and its member credit unions, these were not sufficient to achieve project goals. One cannot say with certainty whether these efforts would have been sufficient to raise the movement's institutional viability without the undermining effect of the SFPC component, but it certainly was insufficient given the total program. The contradiction inherent in directing the investment decisions of a financial institution which is being encouraged to be more self-sufficient cannot be over emphasized. If institution building was a true primary objective of this project, then this is an important lesson. If, on the other hand, institution building was only a nominal objective -- given to satisfy the increasingly large and ardent segment of the development community which has been documenting the deleterious effects of directed credit programs over the years -- then this is a superfluous lesson.

The failure of the project to expand the size of the credit union movement can be attributed to the fact that it ceased to be a grassroots movement when it accepted the managerial and financial support of external agents. Once again, one cannot predict the performance of LCCUL had the League not accepted donor support, but examples of successful and independent credit unions which have prospered without such support are available from Togo, and, in an earlier time, Lesotho itself. The performance of LCCUL and its member credit unions before 1976 is in sharp contrast to its performance since the start of the project. It had been growing both in number of members and in terms of total assets. With the start of donor support in 1980 this growth stopped and, quite likely, the movement began to contract. The earlier evaluations do not tell what sorts of efforts were made to expand the number of credit unions, but they do state that such efforts were underway. It seems likely, however, and given management constraints not unreasonable, that a choice was made to put the existing house in order before trying to expand operations. This would help to explain the lack of greater effort in this area up to 1988.

The failure of the project to achieve improved loan collection can be attributed to the production lending imperative that dogged the project, especially after 1983. All of the evaluations fault the credit unions for having overly restrictive lending policies, but all of them also note that the movement had a loan collection problem. Increased lending was not being held out as a solution to the loan collection problem -- it was merely a solution to the project lending targets problem. Increasing small farmer lending dominated the loan recovery improvement efforts and, therefore, the institutional self-sufficiency objective.

The failure of the project to increase agricultural production is most directly attributable to the fact that capital constraints were not the limiting factor vis-a-vis agricultural production in the first place. The absence of markets, government pricing policies, superior income generating opportunities and the comparative advantage of foreign suppliers of agricultural products were more significant constraints to agricultural production increases. When 60 percent of the farm population are already using modern inputs without ready access to credit, this might be taken to indicate that access to credit is not constraining adoption of modern farming practices.

The project did not reach the ultimate beneficiaries by strengthening "the chain of services from the League to the credit union to the member" as the project paper proposed to do. Under no plausible analysis can the project be seen as having strengthened that chain. It is argued throughout this paper that instead the project seriously undermined this chain of services. It is further argued that the reason why it undermined these services is because it sought to impose a lending program that had no connection with the members' demand for services, nor with the institutions' business needs. Credit union members do not, as a rule, seem to look to their credit unions as a source of credit, but rather as a repository for savings that can be called upon when necessary to smooth the uneven cash flow associated with irregular agricultural incomes and the sometimes uncertain remittances from family members in the RSA. The lesson here is that institutional development projects must pay close attention to objective conditions if they are to succeed in their objectives.

Recommendations

Well-run rural financial institutions tend to be highly liquid surplus units. The problem facing such institutions is not where to get funds, but how to profitably invest funds already under their control. Attempting to benefit such institutions by placing additional funds under their control invariably harms them, especially when restrictions are placed on how these funds can be invested. Efforts to direct funds into less secure and less liquid investments can often reduce the total funds available to institutions by raising concerns among its depositors about the security of their savings. By assisting natural financial flows between rural financial institutions -- by introducing central liquidity funds to help handle surpluses of individual units, by introducing risk-reducing reporting systems, management information systems and otherwise facilitating information flows necessary to provident intermediation, and by helping these often provincial institutions to navigate through big city financial markets -- outside supporters of these institutions can play a role in their growth and development.

LCCUI, and perhaps many of its member credit unions, would collapse if foreign

donors suddenly withdrew their financial support for the institution. On the other hand, if the institution is ever to regain a high degree of self-sufficiency, this support will have to change. One short-run change that could contribute to the long-range goal of independent institutional viability for LCCUL would be to budget financial assistance to the institution over a multiple year period. In this way, phased reductions in external funding could be implemented without driving the institution into immediate bankruptcy. Such a plan would require stipulations on the institution's access to grant funds from other quarters, however. One can easily imagine a situation where funding for the institution stops under project A only to be increased threefold under project B or through instrument C.

Increasing the amount of credit available to small rural producers should be removed from between the lines of institutional development projects to a prominent place elsewhere. If providing increased credit is necessary under a rural development scheme -- know that there is no complementarity between provision of such credit and the development of viable rural financial institutions. Provide the credit through the project directly to the ultimate borrowers or set up a project based entity, but do not put the savings of poor rural producers at risk by channeling massive amounts of external funds through their institutions.

APPENDIX A
FIELD METHODS

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FIELD METHODS

Several meetings were conducted with individuals representing institutions involved in or related to credit and credit unions in Lesotho. Institutions visited included: the Lesotho Cooperative Credit Union League, USAID/Lesotho, LAPIS officials involved in the production aspects of the project, the Lesotho Bank, the Lesotho Agricultural Development Bank, and Coop Lesotho.

To conduct field research, a list of credit unions to be visited was drawn up upon the advice of the General Manager, the GTZ advisor, and the WOCCU advisor. A total of nine credit unions were visited: Mazenod (October 25), Rhamothamo and Lioli (October 27), Phallang and Makoala (Phallang Annex) (October 28), Mekaling (October 29), Khomokhoana (October 31), Pela Ts'oeu (November 1), and Makesi (November 2).

At each credit union, the credit specialist spent several hours with either the general manager or the clerk. After a general discussion of the business of the union, a random sample of every card was chosen. Data on each member collected from each card included: account number, age, gender, occupation, shares, number of transactions, date of loans, loan amount, and loan balance. The analysis of this data is presented in the Appendix. A computer analysis was undertaken with D-Base III Plus.

While the credit specialist worked with the administration of each union, the agricultural economist and anthropologist identified several farmers and interviewed them. The agricultural economist, owing to logistical problems with transport, interviewed 12 individuals, while the anthropologist interviewed 17.

The agricultural economist sought to identify the impact of credit unions on agricultural production by ascertaining production costs, yield information, and the ways in which loans from the credit unions were utilized. In interviewing non-members, information on the origin of financial resources for agricultural production was ascertained.

The anthropologist sought to determine how credit unions and their activities affected households. An interview schedule was drawn up, composed of 60 questions, and administered with a selected sample of member farmers and non-member farmers. An attempt was made to identify individuals who had various resource bases and occupied different socio-economic statuses within the community.

Since Development Alternatives, Inc., AID, and the Institute for Development Anthropology sponsored a team planning meeting several weeks prior to the team's departure, time was available to conduct a brief literature review. These materials have been incorporated in the bibliography of this document. While in Lesotho, several other documents were gathered and reviewed, each of which is also listed in the bibliography.

APPENDIX B

PROJECT IMPACT ON THE IMPLEMENTING INSTITUTIONS

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In this chapter the impact of the project on the domestic implementing institution, the Lesotho Co-operative Credit Union League (LCCUL) is assessed and evaluated. In making this assessment, data was collected from a number of different sources, beginning with a review of the ample documentation available on this project. A list of the documents consulted are presented in a separate appendix to this report.

Statistical and financial reports available at the League headquarters constituted the second important source of information. These primary documents included quarterly statistical reports on the member credit unions, quarterly loan reports giving the status of the League's loans to its affiliates, various financial reports such as monthly cash reports, trial balances, and various notes to the different income and expenditure, asset and liability accounts, as well as the monthly financial statements from a sample of the affiliated credit unions. Information from this source was poorly organized, however, and somewhat out of date. The international accounting firm, Coopers and Lybrand, which had been hired to conduct an audit of the League in the Spring of 1988, prior to the departure of the previous long term advisor, had not produced their report by the time of the team's visit in November. A representative of that firm reported in an interview that the books of the League were in such poor state that they were unable, at that point -- many months after having accepted the assignment -- to give an opinion on the state of the various accounts, except one qualified to the point of uselessness.

The third source of information on the project impact came from a random sample of 578 individual member ledger cards collected at seven rural credit unions during the course of the field work. Because only a small sample of credit unions could be visited in the limited time available for field work, the process used to select the institutions to be included in the sample was not strictly random. Instead, an effort was made to insure representativeness of the sample by consulting with the WOCCU long term advisor, the GTZ advisor, the General Manager and the Field Service Manager concerning the essential characteristics of individual institutions, such as size, location, viability and participation or non-participation in the various donor-funded League projects. In the end, seven institutions were selected, with an eighth used for a brief field test of the methodology. Counting the branch office maintained by one of the credit unions, a total of nine sites were visited by the evaluation team.

Various statistics on the credit unions visited in the course of this field work are presented in Table B-2, below.

TABLE B-1
INDICATORS OF PROJECT PERFORMANCE

Indicator	Start of Project	Target Year 8	Estimated Achievement	% Target* Achieved
No. of Credit Unions	52	90	36	<40>
No. of Members	22,000	49,740	17,750	<35>
No. of SFPC Members	100	12,445	??	??
Total Savings	750,000	3,304,317	805,737**	24
Total Loans	540,401	3,117,456	644,105**	<21>
LCCUL Revenues	24,401	148,772	231,311***	155
% Self Sufficiency	46.7	98.2	NIL	NIL

* Brackets <> indicate that the estimated value of the indicator is less than the start of project value. In these cases, it is not clear what quantity should be used in the denominator. A decision was made to use the target value in all cases.

** Using the latest figures available (December 1987), adjusted for inflation.

*** Using figures as at 30.09.88, adjusted for inflation.

A glance at the above table reveals that, measured by five of the seven indicators, the project fell far short of expectations. Only one of the indicator is above the target value, whereas three assume negative values, that is, they are lower than start of project. In fact,

The task of determining the impact of this eight year intervention on the League and its member credit unions was facilitated by the fact that the project had a strong institutional development component. According to the original proposal dated October 1, 1979, the project proposed to strengthen the "chain of services from the League, to the credit union, to the member" (page 1). The institutional focus of this project permitted the identification of a number of indicators of project success. Table B-1 presents the seven indicators selected in the original project proposal (page 8), along with the start of the project values for these indicators and the target values for Year 8. The final two columns in this table present estimated current values for these indicators, along with a calculation of the percent of the target achieved.

the values of the indicators given in the last column of this table -- with the possible exception of the seventh item -- probably overstate the success of this intervention. In sections that follow, the data and the reasoning behind the estimated values of these indicators are presented.

It is of considerable significance that the only indicator to attain a value greater than the end of project target value, or even a value significantly greater than the start of project, was League revenues. It may be argued that this value was achieved *in spite of* the intervention, *not because of* it, since the sources of these revenues represents a movement and a placement of funds contrary to the direction foreseen in the Project Paper and contrary to the project's efforts to move funds in the opposite direction. (See the discussion of Indicators 6 and 7, below).

INDICATOR 1: NUMBER OF CREDIT UNIONS

Table B-2 presents a number of statistics on the seven credit unions visited in the course of the field work. The first column presents the rating assigned to the credit union by Mr. Dale Magers, the former long term advisor to the League in the draft of his final report. The rating system used by Mr. Magers is analogous -- with an important caveat -- to the grading system popular in American schools. That is, credit unions judged to be among the best in the LCCUL system are assigned the rating "A", with subsequent letters designating weaker institutions. The caveat concerns the fact that the rating "A" should not be construed to designate an excellent or strong credit union, nor should a rating "B" be construed to mean good

**TABLE B-2
CREDIT UNIONS SAMPLED**

Name	Rating	Shares*	Loans*	Members*	Sample Size
Ramothamo	B	53,992	38,702	687	107
Lioli	B	34,998	41,232	375	45
Phallang	B	64,716	55,565	784	150
Mekaling	C	28,032	31,712	329	68
Khomokhoana	C	229,509	196,376	1,002	82
Pea Ts'oegu	A	11,698	32,586	210	40
Makesi	C	20,789	39,900	388	86
Total Sample**		443,734	436,073	3,775	578
Total All CUs		2,243,648	1,793,569	29,655	
Sample as %		19.8	24.3	12.7	

- * Source: Quarterly Statistical Report, LCCUL, Dec., 1987
- ** Number of Individual Ledger cards sampled.

or even satisfactory. The ratings are essentially rankings, with the highest ranking being used to indicate mere "adequate performance." The third classification, "C," refers to credit unions judged to suffer from "high loan delinquency and low interest collection." The fourth rating, "D," designates credit unions with "Poor overall performance or not reporting," while the fifth, "F," indicates credit unions that are closed. (Emphasis added.)

Mr. Mager's report containing the ratings of 63 of the 68 credit unions officially listed as belonging to the system was not available to the team until after they had identified the credit unions to be visited and had completed their field work. The sample was thus found, *ex post*, to be strongly biased in favor of the League's stronger affiliates. The fact that this sample was found to be made up, for the most part, of extremely weak institutions, many apparently having obligations and liabilities exceeding the value of their assets by a wide margin, credit unions receiving lower rankings than the ones in the sample should probably not be counted as viable institutions.

Counting only the credit unions that were assigned a ranking of A, B, or C by Mr. Magers gives the total of 36 presented in Table B-1.

In fact, the number 36 may overstate the actual situation if reasonable standards are applied. The credit union Makesi for example, assigned the ranking "C", has had a significant negative net worth on the order of magnitude of its total member savings for a number of years. According to an inventory of overdue loans supplied by the manager, this credit union has doubtful loans of approximately R18,000. These questionable assets compromise the savings of R20,789 contributed by the credit union's 388 members.

The Phallang credit union, given a rating of "B," does not appear to be in much better shape. The League's Quarterly Loan Report for August, 1988 shows loans to this institution totaling R55,307.31 -- R24,754.44 having been carried on the League's statements since November, 1987 -- yet the latest financial statement available from Phallang acknowledges obligations vis a vis the League of only R88.60. (see Table B-12, below) If these hidden obligations are not backed by a like amount of solid assets -- which, likewise, do not appear on the credit union's balance sheet -- they place the R64,716 shares purchased by this institution's 784 members in jeopardy.

Even the single credit union given a rating of "A" in the sample appears to have serious problems. A discrepancy of R21,890 between Pea Ts'oeu's statement of its liabilities vis a vis the League and the League's statement of claims on this credit union obliterates the R11,698 of savings deposited in this institution by its 210 members. Moreover, Project-sponsored loans are so concentrated in this tiny institution that the default of a single borrower participating in the irrigation loan program could have a similarly devastating effect.

It would appear that if realistic standards are used, the number of credit unions belonging to the League functioning at anything approaching a normal level and having a positive net worth may be half the 36 counted in Table B-1, or even less. In other words, in the course of the eight-year project, the number of credit unions belonging to the League may have been reduced by more than half.

INDICATOR 2: NUMBER OF MEMBERS

Data collected from the sample of 578 individual ledger cards included information on the member's current saving balance, the number of transactions within the past 12 months, a loan amount, if any was granted, date of the loan, as well as any loan balance outstanding. Analysis of this data permits an estimate of active membership.

Various criteria can be used to arrive at widely varying estimates of active membership. One approach would be to classify all members who fail to visit their credit union a single time in twelve months time as inactive. An analysis based on this variable, that is, on the number of transactions in the past twelve months per individual credit union member in the random sample, is presented in Table B-3.

This table contains some striking statistics. On the one hand, 65.4 percent of the credit union members sampled failed to visit their institution during the past year. Of even greater significance is the fact that these inactive members held 43.4 percent of all loans outstanding in the sample. Since most credit union loans are short-term -- from six months to a year -- this figure suggest that the quality of the system's portfolio is poor, at best.

TABLE B-3
ANALYSIS BY NO. OF TRANSACTIONS IN PAST 12 MONTHS

No. Trans.	No.	Cum.%	Shares	(%)	Loan	(%)
0	378	65.4	18,935	23.3	29,136	43.4
1	47	73.5	7,127	8.8	866	1.3
2	21	77.1	3,042	3.7	1,036	1.5
3	18	80.2	4,111	5.1	1,254	1.9
4	17	83.1	5,495	6.8	1,388	2.1
5	15	85.7	2,999	3.7	1,898	2.8
6	16	88.5	4,922	6.1	2,277	3.4
7	10	90.2	2,227	2.7	482	0.7
8	6	91.2	1,090	1.3	392	0.6
9	5	92.1	1,362	1.7	570	0.8
10	8	93.5	11,347	14.0	1,628	2.4
11	5	94.4	871	1.1	8,857	13.2
12	4	95.1	866	1.1	484	0.7
12-18	15	97.7	6,301	7.8	4,150	6.2
19-24	6	98.7	7,017	8.6	11,462	17.1
25+	<u>7</u>	<u>99.9</u>	<u>3,502</u>	<u>4.3</u>	<u>1,180</u>	<u>1.8</u>
Totals:	578	100%	81,214	100%	67,066	100%

Source: Random Sample of Individual Ledger Cards at the seven credit unions visited.

The fact that, in this sample, there is such a striking difference in value of loans outstanding owed by the members who visited their cooperative *zero* times during the past twelve months (43.4 percent) and those who visited it once (1.3 percent) suggests that the difference between visiting the credit union one time and not at all may be significant. If this statistic is significant, then 65.4 percent of the credit union members carried on the books would be classified as inactive (and the 43.4 percent of loans outstanding held by these members would be classified as doubtful). If the remaining 34.6 percent of the members were to be classified as active, then the figure of 29,655 credit union members given on the last available quarterly statistical report would have to be reduced by a factor of 34.6 percent, to approximately M10,260.

The disaggregation of the figures for zero transactions in the past 12 months by credit union in the sample, presented in Table C-4, suggests that 34.6 percent is not a bad estimate for active membership in individual institutions, and hence that it may be relevant to credit unions not included in the survey.

**TABLE B-4
NUMBER OF MEMBERS WITH NO TRANSACTIONS IN PAST YEAR
BY CREDIT UNION**

	Sample Size	Number w/ No Transactions	%
Ramothamo	107	74	69.2
Lioli	45	27	60.0
Phallang	150	98	65.3
Mekaling	68	40	58.8
Khomohkoana	82	43	52.4
Pea Ts'oeu	40	29	72.5
Makesi	86	67	77.9
Totals:	578	378	65.4

The figure of 10,260 active credit union members is significantly less than the estimate of 17,750 given in Table B-1. To arrive at this higher estimate of total credit union membership, it was necessary to use a stricter definition of inactivity than merely failing to visit the credit union within a year, or, conversely, to accept a less strict definition of what constitutes, in a statistical senses, active membership.

One stricter definition of inactivity would be to impose the condition that, in addition to failing to visit the credit union within twelve consecutive months, the inactive member must also have net shares, after subtracting outstanding loans, of less than R10.00. Applying this criteria, 249 members in the sample of 578 must be classified as inactive, as may be seen in the accompanying Table B-5.

TABLE B-5
NUMBER OF MEMBERS WITH NO TRANSACTIONS 12 MONTHS
AND SHARES - LOANS < R10.00
BY CREDIT UNION

	Sample Size	No. of Observations	(%)
Ramothamo	107	62	57.9
Lioli	45	18	40.9
Phallang	150	72	48.0
Mekaling	68	27	39.7
Khomokhoana	82	16	19.5
Pea Ts'oeu	40	12	30.0
Makesi	86	42	48.8
TOTALS:	578	249	43.1

According to this measure, 43.1 percent of credit union members are inactive, which causes a downward adjustment of the League's figure of 29,655 by a factor of 0.569, to approximately 16,880. This figure, it will be noted, is still less than the optimistic estimate of 17,750 given in Table B-1. Considering the fact that the credit union member sampled belong to credit unions ranked in the top three classifications, even this figure is probably too high. A realistic figure for active credit union membership may be as low as 10,000.

INDICATOR 3: NUMBER OF SFPC MEMBERS

Hard data relating to the number of small farmers eventually reached by the Small Farmer Production Credit component of this project were difficult to obtain. Certainly, far fewer than the originally hoped-for 12,445 small farmers were reached. The Project Evaluation Summary (PES) dated September 16, 1983, dispensed with the subject in two short sentences: "During the project years, 25 credit unions received SFPC loans amounting to a total of M97,953. The number of members receiving the loans was 2,292" (p. 16). Since many credit unions maintain substantial deposits with the League, it is not possible to tell from this meager data the extent to which the M97,953 represented a genuine extension of credit to the SFPC credit unions, above and beyond their own resources already on deposit with LCCUL, and the extent to which it merely recycled resources already under their control. It is probable that the SFPC program increased the resources at the disposal of the participating small farmers during the early years of the project only marginally, if at all.

By the end of 1986, the reason for the poor performance of the SFPC component of the project had become apparent to the authors of the third Project Evaluation Summary, dated November 25, 1986. Their observation on the disappointing dimensions of the SFPC component of the project, despite repeated efforts to promote less restrictive policies for crop production loans, is so significant that it deserves to be quoted in full:

On an overall basis, the demand for legitimate agricultural production loans beyond the amount of the members savings has been very weak. This weak demand is also reflected in the very nominal number and amount of loans to finance crop production the LCCUL has made to the credit unions. Criticism of restrictive credit policies at each level for legitimate loan purposes no longer appears to be valid. *Lack of demand for loans is the problem.* (Emphasis added.)

It should be pointed out that the weak loan demand for production credit is probably the most important albeit over-looked explanation for the poor recovery rates associated with this program and others like it throughout the developing world. Individuals with a genuine demand for credit -- as opposed to individuals seeking a grant or a subsidy, or individuals merely seeking to withdraw their own savings -- will be observed protecting their access to *good* credit facilities by strict performance with the terms of their loans.

By 1988, the early SFPC program appeared to have been completely supplanted by an ambitious credit-supported technology package targeting a smaller number of farmers for larger credit lines and substantial technical and logistical assistance. The LAPIS Project's

irrigation loan scheme, aimed at reducing Lesotho's dependence on South Africa for high value garden crops, had reached a total of just 28 farmers by the end of its second year of operation. While the LAPIS project is not strictly comparable with the original projects, it is nevertheless of some significance that the planned number of beneficiaries of this follow-on production credit scheme *is less than one third* of the number of SFPC members targetted by the LCCUL Project in 1980, and *less than one quarter of one percent* of the 12,445 SFPC participants targeted for credit by the eighth year.

INDICATOR 4: TOTAL SAVINGS

The figure for total shares reported Table B-1 has been adjusted for inflation, using the Retail Price Index for Low Income Houses available from the Bank of Lesotho, (Bank of Lesotho, *Quarterly Review*, March 1988, Volume VII, No.1, Table 21A, page 52). In January, 1988, this index stood at 184.3, versus 513.2 for January, 1980. The League's most recent calculation of member shares (Quarterly Statistical Report, December, 1987) is R2,243,648. This figure was also used by Mr. Magers in his draft report. Note: $184.3/513.2 * 2,243,648 = 805,737$, a figure that is slightly higher than the 750,000 shares at start of project. However, this figure contains substantial balances that should be written off against uncollectible loans. When consideration is given for the fact that most credit unions do not write off shares against bad loans, it appears that *the value of the member savings in 1988 may be less than the value at start of project in 1980.*

INDICATOR 5: TOTAL LOANS

The only figures on total loans available to the consultant came from the same Quarterly Statistical Report from which the data on total savings was obtained, December 1987. The total given in Table B-1 of R644,105 was obtained by deflating the League's figure of R1,793,569 in outstanding loans by the same factor used above for converting shares to constant 1980 units. This figure would be somewhat higher if the substantial sums advanced to credit union members under the LAPIS project during 1988 were included. This one dimensional indicator of project achievement is of questionable value, however, because no adjustment is made for the quality of these assets. A meaningful indicator would not be total loans outstanding, but rather, total good or collectable loans outstanding.

An idea for the quality of the loan portfolio held by the credit unions may be obtained from the data presented in the following three tables. Table B-6, based on an analysis of the 578 ledger cards, permits some very clear inferences as to the quality of loan portfolio held by these tiny institutions.

According to these figures, at least one-third of the loans outstanding would have to be considered of doubtful quality due to the fact that were made two years ago and more. Since most credit union loans are short-term of three to six months and occasionally up to one year, much of the balance outstanding from 1987 would have to be considered of doubtful quality as well.

That the poor quality of the credit union loan portfolio should be viewed as a direct consequence of the intervention may be seen by contrasting the post-1980 years with the prior periods. Blank lines have been inserted in this table after 1980 and before 1986 to demarcate the period of time during which project impact on loan balances would be most readily observable. A blank line has also been left between the years 1987 and 1988, to indicate that a goodly portion of the outstanding balances from 1987 should probably be judged of doubtful quality as well.

Given the clear pattern that is observable since 1981 for loan balances to constitute a substantial percentage of loan amounts, it is reasonable to assume that many of the loans made in 1988 will also be classified as doubtful in the future. The data in this table suggests that perhaps as much as 50 percent or more of the outstanding credit union loans are of doubtful quality.

It should be noted that 98.8 percent of loan balances outstanding derive from loans made after 1980, that is, after the project was under way.

**TABLE B-6
ANALYSIS OF LOANS BY DATE OF LOAN**

Period	No.	Shares	Loan Amount	Loan Balance	(%)
<1970	6	74	124	94	0.1
1970	2	12	35	8	0.0
1971	6	64	56	49	0.1
1972	3	47	34	21	0.0
1973	9	171	160	72	0.1
1974	3	35	51	32	0.0
1975	10	335	370	226	0.4
1976	4	159	229	226	0.4
1977	4	273	297	80	0.1
1978	2	16	410	0	0.0
1979	1	33	40	40	0.0
1980	3	623	298	8	0.0
1981	10	531	1,114	92	0.2
1982	13	645	1,713	685	1.2
1983	20	2,558	7,084	4,171	7.2
1984	48	5,833	12,081	7,708	13.3
1985	22	1,376	4,050	1,048	1.8
1986	35	5,109	6,497	4,345	7.5
1987	63	12,603	21,688	15,318	26.4
1988	73	37,422	28,719	23,779	41.0

The implications of these figures are so far reaching that they deserve further elaboration. If just under 100 percent of outstanding loans date from project years, and 50 percent or more of all outstanding loans are of doubtful quality, then the institutions with substantial portions of their assets tied up in these loans have, to all appearances, been bankrupt by the project, and the savings of the thousands of credit union members that were invested in these institutions at start of project have been destroyed.

The data presented in Table B-7, which analyses the loans outstanding by size of loan outstanding, give more cause for concern. While almost 60 percent of credit union members have no loan balance outstanding, 1.4 percent account for more than half of the total loan balance outstanding.

TABLE B-7
ANALYSIS BY LEVEL OF OUTSTANDING LOAN BALANCE

Loan Balance	No.	%	Shares		Outstanding Balance	
0	345	59.7	28,035	34.5	0	0.0
1 - 50	105	18.2	5,961	7.3	2,950	3.4
51 - 100	39	6.7	4,763	5.9	2,950	4.4
101 - 250	51	8.8	7,865	9.7	9,065	13.5
251 - 500	18	3.1	10,834	13.3	6,901	10.3
501 - 1000	12	2.1	10,242	12.6	9,853	14.7
1001 - 5000	5	0.9	8,686	10.7	10,743	16.0
5001 - 9000	2*	0.3	385	4.7	15,771	23.3
9000 +	1	0.2	4,443	5.5	9,492	14.2
TOTALS:	578	100	81,214	100	67,060	100

* Both are irrigation loans in the LAPIS Project.

TABLE B-8
ANALYSIS BY DATE OF LOAN
MAKESI
 (every 5th card)

Period	No.	Shares	Loan Amount	Loan Balance	%
<1980	1	10	5	0	0.0
1980	0	0	0	0	0.0
1981	1	7	7	7	0.1
1982	3	48	139	0	0.0
1983	9	483	1,175	224	3.4
1984	26	2,663	7,101	3,833	58.4
1985	6	265	2,066	624	9.5
1986	3	474	1,400	1,270	19.4
1987	2	430	466	400	6.1
1988	2	174	255	200	3.0
TOTALS	53	4,244	12,614	6,558	100.0

Note: Loan from League 1984, 15,409*
 Due 4/86, Bal. outstanding 14,601
 + accrued interest (8/88) 7,749

- There are several conflicting statements as to the original amount of this 1984 loan. The May 1988 statement gives the amount as shown above, but the August statement gives 19,006.99 as the "AMT. OF LOAN."

This concentration of credit union assets in the hands of the few members exposes the savings of the many to unacceptable risk. That the risk is real is underlined by the fact that only among larger borrowers do we find loans significantly in excess of shares. The leverage -- ratio of loan to own shares in the CU -- becomes excessive in the case of the two LAPIS irrigation loans, 15,771 to 385, or approximately 41 to 1.

The fact that credit unions appear to be making loans without regard to sound principles of credit management might seem to indicate a failure of the project in the course of its eight years to raise the level of management in these tiny institutions significantly. Such a view, however, would constitute a too generous assessment of the project's impact on these institutions. As should be clear from this example, the poor quality of the typical credit union's loan portfolio reflects not so much a failure of the project to teach good credit management as its success in sowing confusion, conflicting information and poor advice based on a complete misappraisal of the system's limitations as well as of its potential.

The data presented in Table B-8, which is a case study of a single credit union, sharpens the focus on project intervention as an explanation for the poor quality of credit union assets. According to the random sample, which reached 20 percent of the credit union membership in this institution, almost 60 percent of loans outstanding derive from loans made during 1984, the year this institution "benefitted" from a League loan sponsored by the project. The outstanding balances for the subsequent years of 1985 and 1986, which are extremely high in percentage terms compared with the pre-1984 situation, apparently reflect loans made from repayments from this initial tranche, and thus may fairly be considered a secondary result of the 1984 loan. These balances, which stem from loans that are now two, three, and for the most part four years old, amount to 87.3 percent of total loans outstanding for this institution, and must be considered of doubtful quality.

To put these numbers in perspective, as a direct result of the project intervention, this credit union acquired doubtful assets with a nominal value considerably in excess of its share capital. If the League loan to Makesi is a real obligation for this institution, then the credit union is bankrupt, and the savings of its 250 members have been destroyed.

If, on the other hand, these obligations are not real -- if they are forgivable, and if what we are really talking about here is not credit, but grants -- then the project will have taught the credit union management and the credit union membership a powerful lesson about the nature of "Production Credit" that will be hard to contradict with mere courses and seminars at Farm Training Centers. Indeed, it appears that the credit unions understood the true nature of this strange commodity all along, and that it is they who are teaching the donor organizations about it, not the other way around.

INDICATORS 6 AND 7: LCCUL REVENUES AND SELF-SUFFICIENCY

According to the original project proposal, the League would eventually gain most of its income from the provision of services to its member credit unions. By the end of 1986, however, only 36.8 percent of its expenses were covered by earned income, the balance being made up by donor contributions -- an actual decline from 1984 and 1985. (See Ndofofor, p. 37.)

Although the trend for LCCUL deposits in commercial banks to become an increasingly important source of income might be looked upon as a negative development from the point of view of someone who sees the League chiefly as a means for channeling funds to rural credit unions, in fact, this development should be interpreted as welcome evidence that the League takes its responsibilities as a second-level, deposit accepting financial institution seriously. Apparently, as the management of the League saw their institution's asset portfolio decline in value and liquidity as a result of the loans to member credit unions made under the various donor-financed projects, it took steps to acquire counter-balancing assets of greater quality and liquidity. Such assets are necessary to back League liabilities vis a vis its affiliates, who, as part of their asset portfolio, hold claims on the umbrella organization.

**TABLE B-9
EARNED INCOME AS A PERCENT OF TOTAL EXPENSES**

Year	Earned Income	Expenses	%
1982	28,262	108,806	26.0
1983	38,520	141,461	27.2
1984	65,592	145,050	45.2
1985	79,709	181,089	44.0
1986	83,995	228,262	36.8
9/88	73,057	210,987	34.6

Source: Ndofor Report on Central Finance System, and
LCCUL Balance as at 30.09.88.

Of greater interest, however, than the decline in League self sufficiency is the trend in the sources of League earned income observable from start of project up through the end of 1986. From 1982 through 1986, interest on loans to affiliates declined sharply in relative terms from 9.3 percent to 5.8 percent, while interest on savings and time deposits in commercial banks climbed dramatically from 24.2 percent to 60.8 percent. Throughout this period, rental income constituted a relatively constant portion of League income. By the end of 1986, interest from banks plus rental income -- that is, *earned income* that does *not* come directly from the provision of services to affiliates -- accounted for 81.5 percent of the League's total earned income, as may be read from Table B-10.

TABLE B-10
SOURCES OF LCCUL EARNED INCOME
(in Percents)

Item	1982	1983	1984	1985	1986
Interest:					
Loans	9.3	9.3	4.2	4.3	5.8
Savings	3.5	4.7	2.9	0.8	1.4
Deposits	24.2	41.6	50.4	59.9	60.8
Sub-Total:	37.0	55.6	57.5	65.0	68.0
Non-Interest:					
Rent	33.7	18.8	22.6	19.0	19.3
Other	29.3	25.6	16.1	14.2	12.7
Total:	100.0	100.0	100.0	100.0	100.0

Source: Table 11, Ndofor report on Central Finance System

A cursory analysis of the League's balance sheet for September 30, 1988, suggests that the LCCUL -- much like its affiliated credit unions and their individual members -- distinguishes between liabilities which it considers real or "hard," and liabilities which are "soft" or forgivable. The League has apparently been careful to back up its real liabilities with hard financial assets, despite the pressure of the donor community to get money out in loans, as may be seen in the accompanying tables.

Companion Tables B-11a and B-11b, which analyze different League assets and liabilities as per the Balance Sheet for 30 September, 1988 according to what appear to be natural groupings, show that the hard liabilities vis a vis the credit unions to be backed by equally hard assets (claims on commercial banks,) while the softer donor liabilities are backed by a portfolio of rather doubtful, donor-promoted loans to credit unions and credit union members.

**TABLE B-11a
SOLID ASSETS AND REAL LIABILITIES**

ASSETS		LIABILITIES	
Passbook Savings:	16,927.55	C.U. Savings:	241,257.07
Time Deposits:	597,854.95	C.U. Projects:	17,321.83
		Pension Fund:	20,544.26
		Risk Management:	24,544.26
		Capitalization:	103,207.75
		C.U. Fixed Deps.:	190,682.65
		Share Capital:	8,900.00
		Contractual Sav.:	12,320.35
TOTALS:	614,782.50		618,812.15

Source: LCCUL Balance Sheet as at 30.09.88

Note: The liabilities listed here are "real" or "hard" in the sense that they have been contracted with affiliates in the course of providing liquidity management and risk management services. These liabilities are backed by solid assets--claims on banks.

**TABLE B-11b
QUESTIONABLE ASSETS AND SOFT LIABILITIES**

	ASSETS		LIABILITIES
Loan:			
Agric	168,178.86	U.N.Rev.Fund	75,540.00
Mills	14,368.36	LCUP Rev.Fund	330,686.60
Knitting	3,430.20	PPP	77,732.80
Irrigation	254,966.79	VIP Latrines	15,300.00
Farm Impl.	14,419.78	Donor Reserve	7,422.00
VIP Latrines	10,300.00	Donor Pre-paid	6,463.00
PPP	93,363.89	Don.Pre-Pd,GTZ	6,741.60
Stock Parts	2,386.78	Donor Res.	18,099.70
Debtors	2,341.71	C.U.Clerk&M.L.P.	37,092.40
Stock	7,677.49		
LCCUL/FAO	2,920.25		
TOTALS:	574,354.11		575,084.16

Source: LCCUL Balance Sheet as at 30th September, 1988.

Note: The liabilities listed in this table are "soft" or "forgivable" in the sense that they have been contracted with donor agencies. They are backed by a like (nominal) amount of assets -- loans to credit unions -- the real value of which is questionable.

Before jumping to conclusions about the properness of the League's handling of donor and own funds observable in this analysis of LCCUL obligations into "soft" and "hard" liabilities, it is important to remember that in the normal course of events, the League, as a second level financial institution, would never have direct contact with individual credit union members (e.g., farmers) but rather only with its affiliates, to which it normally would supply services, not funds. By asking the League to manage and oversee production loans to individual credit union members the donors -- particularly USAID through its current LAPIS Project -- are leading the LCCUL in a direction that is not consistent with its normal growth path and which is hostile to its healthy development. There is, in fact, no way that such an activity -- which places the second level organization uncomfortably on the same operational level as the primary institutions -- can be integrated into the day-to-day operation of providing services to affiliates. Failing integration, what happens is the suppression or displacement of regular services observable between 1980 and 1988.

This differential treatment of liabilities -- which, it should be emphasized, is not explicit in the League books -- became essential to the League's strategy for survival when the pace of donor involvement took a quantum leap near the end of 1986 with the advent of the LAPIS project. The high volume of LAPIS irrigation loans have made it impossible for the LCCUL to maintain a balanced portfolio of solid assets with good liquidity and return.

The accelerated rate at which the League was asked to channel funds to credit unions participating in the irrigation loan scheme caused a dramatic and destabilizing shift in the structure of the League's assets, as may be seen in Table B-12, below. (Note: The relevant statistics are highlighted in bold print.)

**TABLE B-12:
STRUCTURE OF LEAGUE ASSETS:**

YEAR	TOTAL FUNDS AVAILABLE*	LOANS TO AFFILIATES	% of Total	BANK DEPOSITS**	%
1982	335,053	60,682	18.1	199,012	59.4
1983	389,278	64,562	16.6	273,319	70.2
1984	481,275	102,688	21.3	314,820	65.4
1985	609,259	104,221	17.1	450,933	74.0
1986	738,833	213,966	29.0	556,962	75.4
9/88*	1,310,774	559,028	42.6	614,783	46.9

* Includes equity capital, long term liabilities, and credit union savings deposits in the League.

** Savings Deposits and Time Deposits at Commercial Banks

Source: Table 12, Ndofor Report on Central Finance System and LCCUL Balance Sheet as at 30.09.88.

As may be seen in the above table, loans to affiliates increased more than fivefold between the end of 1986 and the end of the third quarter of 1988, whereas bank deposits increased by only one third. Loans to affiliates as a percent of total funds available rose in this brief time from 17.1 percent as of the end of 1985 to 42.6 percent by the third quarter of this year, whereas claims on banks fell from 74.0 percent to less 46.9 percent in this same period.

Since, as was argued above, loans to credit unions -- which, ultimately, are backed by loans to credit union members -- must be considered assets of doubtful quality, the unrestrained and unsustainable growth in this area must be a cause for alarm for anyone concerned with the health and survival of the credit union system in Lesotho. Even though credit union claims on the League are presently covered by League claims on commercial banks, (recall Table B-11a, above), the high costs and cash-flow demands associated with the administration of the donor funded projects could threaten these assets. It is probable that the League has already begun to draw upon these bank deposits to meet cash flow needs.

Time deposits owned by the League declined by approximately M30,000 between August and September of 1988, while current accounts, which are used to pay current obligations, climbed by a similar amount.

The declining trend for interest on loans as a percent of total earned income noted by Mr. Ndofor (See Table B-10, above) was reversed with the advent of the LAPIS loans to credit unions. According to the LCCUL financial statement for September 30, 1988, "Interest on Loans Received" exceeded interest income from savings and time deposits by a comfortable margin -- R26,579 vs. R17,779. This development would seem to herald a success of the project in causing the League to derive more of its income from the provision of services -- in this case, credit -- to its affiliates. It is probable, however, that the interest income reported by the League from the LAPIS advances to affiliated credit unions paint an overly optimistic picture of the quality and ultimate collectability of these loans. While the consultant was understandably not in a position to conduct a proper audit, it appears that the credit unions may be making interest payments to the League under the LAPIS far in excess of what they are collecting in interest from their irrigation loan members. It may even be the case that the credit unions are not aware of the fact that payments sent to the League are being credited (properly) first to interest instead of to principal reduction.

That some confusion may exist on this score is suggested by the following table, which attempts to reconcile the League's statement of its claims on its affiliates with the credit unions' own balance sheets. It is probable, however, that the bulk of the discrepancies are not related to the handling of principal and interest payments to the League, but rather to more fundamental weaknesses in the accounting and control system.

As may be read from the notes to Table B-13, the bulk of the League loans to the seven credit unions in the sample -- M147,033.38, or 75 percent of the total -- were made under the LAPIS project, that is to say, relatively recently. The large League loan to the manager of the Phallang credit union is also of recent origin -- May, 1988. The three credit unions whose statements balance, at least approximately, with League records -- Ramothamo, Khomokhoana, and Makesi -- have either a small loan, an older loan, or none at all.

These facts suggest that the pace at which the League is now being asked to move money through its affiliates has outstripped its ability to keep track of these funds.

TABLE B-13

**LEAGUE LOANS TO CREDIT UNIONS VISITED
LEAGUE RECORDS COMPARED WITH CU STATEMENTS
(Dates of Statements in Parentheses)**

Name of CU	League Statement (8/88)	Credit Union Balance Sheets	Differ- ence
Ramothamo (71/88)	1,863.00	1,981.40	<118.40>
Phallang (5/88)	24,574.44(i) 30,245.52(*) <u>307.35</u> 55,127.31	88.60	55,038.71
Mekaling (7/88)	1,672.00 <u>56,229.47(i)</u> 57,901.47	1,672.00 <u>52,860.89</u> 54,532.89	3,368.58
Khomokhoana (9/88)	0.00	0.00	0.00
Pea Ts'oeu (8/88)	182.00 (5,934.00) 66,389.12(i) <u>2.25</u> 60,639.37	41,249.55	19,389.82
Makesi (7/88)	18,197.00	18,205.00	<8.00>
TOTALS:	193,728.15(**)	116,057.44	77,670.71

NOTES: i = Irrigation Loan
* = Loan to the Credit Union Manager to buy a taxi
** = Overdue 30 months (date from 1984)

AN INDICATOR NOT INCLUDED IN THE PROJECT PROPOSAL: IN LIEU OF A SUMMARY

A major problem for the League is that after years of donor intervention it is drifting without a growth plan or an adequate philosophy of intervention in the activities of its affiliates. The German technical advisor to the LCCUL referred in an interview with the evaluation team member to the habit of "project thinking" on the part of League management. Such a characterization is not without its justification. A visitor to the League headquarters in Maseru does not come away with the sense of having visited an organization committed to a long-range development plan that forges an interdependence between the central organization and its affiliates. To the contrary, the general impression is that League management is rather out of touch with the day-to-day activities of its affiliates. Neither the League General Manager nor the Field Service Officer were able, "off the top of their heads," to provide the evaluation team with any useful information on individual credit unions when they requested help in planning their field visits.

There seemed to be little understanding on the part of League management for the fact that the strength of a second level financial institution depends on the strength of its relationship with its primary institutions, and that such relationships are built on the basis of a steady flow of services from the center to the periphery.

In healthy organizations this flow of services from the center to the periphery becomes a major source of income for the second level institution, the guarantor of its viability and independence. In the case of the LCCUL, the flow of services from the center to the periphery follows not the needs and the wishes of the primary institutions, but rather those of the donor community. Credit unions not participating in a donor sponsored project are rarely visited by League personnel, whereas participating institutions are visited frequently. It is for this reason that the income that pays for this flow of services comes not from the targeted institution but rather from the instigating donor organizations.

The League has been transformed as a result of this eight year intervention from an institution that provided services to its affiliates to an institution that provides services -- however poorly -- to the international donor community. The service that the League attempts to provide to the international donor community is to put them in touch with the shifting, donor-defined target groups through its network of primary institutions. It is neither a healthy nor a sustainable undertaking. In the process of providing this service, the potential that was inherent in the League to emerge as a viable, independent -- perhaps even powerful -- second level financial institution has been completely subverted. The

growth of the movement, which must be based on responsible deposit mobilization, that is, on a conservative investment policy emphasizing the inviolability of member savings, was stunted and subverted.

This is the reality that the evaluators of this project must be willing to confront: At the present time, instead of providing services to the 80 primary institutions foreseen in the original Project Paper, the League consumes the major portion of its modest managerial talent and institutional resources providing support to a project (LAPIS) that, in 1988, appeared to be benefitting less than half that many individuals.

HOW DID THIS COME ABOUT? WHAT WENT WRONG?

The eight-year USAID-funded intervention in the Lesotho Co-operative Credit Union League presents a textbook example of the damage that may be done to a financial institution by asking it to manage substantial amounts of external funds. Institutions accepting such a challenge are invariably brought to the verge of bankruptcy by the high costs associated with the acquisition and management of assets having certain of the qualities desired by the donor agency. The crisis into which the implementing institutions are thrust by such donor interventions are aggravated by the fact that the assets the financial institutions are forced to acquire are frequently of extremely poor quality.

The donor agencies, it seems clear, do not set out to bankrupt the implementing institutions, though very few financial institutions handling significant amounts of donor money escape the need for constant recapitalization. The problem is rather that the donors tend to over-look the impact of their projects on the implementing agent in their efforts to benefit the target group served by such institutions.

In looking for the lessons learned in the course of this intervention it is useful to reexamine a number of questionable assumptions underlying donor interventions in rural financial markets.

QUESTIONABLE ASSUMPTIONS

1) It is frequently assumed that a resource constraint operates on the development of rural areas. Credit projects are seen as ways of overcoming the alleged resource constraint. In fact, idle resources (which have a negative real marginal physical product) may be observed in the rural areas of even the poorest African countries. In Lesotho these idle resources take the form of steel window and door frames, frequently stored on the gently sloped tin roofs of partially finished houses, bags of cement, concrete blocks, stored grain and an over-supply of grazing animals.

The problem is, in general, not a lack of resources, but rather the fact that idle resources are not mobilized and allocated to alternative uses. The mobilization and allocation of resources to alternative resources is the prime function of financial systems and financial institutions. Donor interventions in financial markets not attempt to use existing institutions to distribute foreign savings, but rather to should help to strengthen the capital base and the technical capability of such institutions, making them better able to perform their resource mobilization and allocative functions.

2) It is often assumed that there is an un-met demand for credit on the part of the rural poor, or, if there is not presently such an un-met demand, it can be created with education. In fact, rural small holders throughout the world are very reluctant to incur debt. As the authors of the 1986 PES wrote (p. 50), "Lack of demand for loans is the problem."

It is not immediately clear in what sense a lack of demand for credit is a "problem," except, perhaps, for an international donor organization with money to move. The real problem is how to provide financial services in a rural context for which there is an actual demand.

3) It is frequently assumed that it is possible to build rural based financial institutions with a network of branches serving the rural poor on the basis of providing small credit facilities to large numbers of people. In fact, no successful financial institution was ever built on such a premise or with such a strategy. Successful financial institutions are built on providing financial services for which there is a demand at a price consistent with institutional viability. In rural areas, there is a great demand for deposit facilities at such prices.

APPENDIX C
ECONOMIC BENEFITS

APPENDIX C

BACKGROUND

The Economy

The Kingdom of Lesotho is a landlocked mountainous country of 30,350 km² in Southern Africa, with approximately 1.6 million inhabitants. Population growth is estimated at 2.6 percent/year. The country is dependent for many of its goods and services on the Republic of South Africa (RSA). Lesotho is a member of the Rand Currency Area. Its currency the Loti (plural Maloti(M)), is equivalent to the South African Rand (R).

Of the Lesotho work force of 540,000, between 140,000 - 165,000 people work in the RSA. The remittance payments of these workers account for 50 percent of GNP.

GNP, expressed in constant terms, rose on average three percent from 81/82 - 84/85 due to increases in migrant workers' salaries. Real growth for 85/86 and 86/87 was around 0.8 percent. GDP grew by 5.8 percent in 85/86 and the estimated growth for 86/87 is 4.7 percent in real terms.

TABLE C-1

COMPOSITION OF GROSS NATIONAL PRODUCT AT 1987 PRICES

	1984	1985	1986	1987*
M million.....			
GDP at market prices	470.7	570.5	647.2	726.9
Income from abroad	487.2	514.2	583.2	635.6
<hr/>				
Gross National Product	957.9	1,084.7	1,230.5	1,362.5

Source: Central Bank of Lesotho, Annual Report for 1987
* preliminary estimates

Inflation is currently estimated to be around 15 percent. Due to the devaluation of the Rand, and consequently the Loti, as a result of international political turmoil, the costs of imports have increased substantially, which in turn fueled inflation.

On average 17 percent of total household income in the rural areas is derived from agriculture, much of the remainder being from mine wages. The incentives for the farmers, primarily women, to increase agricultural production are more social than financial.

TABLE C-2
DISTRIBUTION OF INCOME IN LESOTHO

	Millions Maloti	% of total income	% of total popul.	average annual inc/hshld
<u>Urban households</u>				
High income	215.1	22.2	5.6	11,687
Low income	47.5	4.9	9.4	1,538
<u>Rural Households</u>				
Agric. income	74.8	7.7	15.3	1,488
Migrant income	302.2	31.3	12.8	7,184
Agric.+ Migr. inc.	176.9	18.2	23.8	2,262
Self-employed + other	154.6	15.9	33.1	1,421

Source: Carvalho, Joseph W., 1988 *Agriculture and Economic Development in Lesotho. Analysis using a Social Accounting Matrix*. Ph.D Thesis.

Agriculture and Livestock

According to IMF estimates, agriculture and livestock account for 30.5 percent of GDP (1985/86), with livestock accounting for 22.9 percent and crops for 7.6 percent. Wool and mohair are the most important export commodities, and represent 25 percent of total exports. The sector as a whole accounts for 28 percent of total exports.

Almost 1 million acres (13 percent of the land) are classified as being suitable for cultivation. The FAO (Food and Agricultural Organization of the United Nations) estimates in its Crop Assessment Report of July 1986 that 715,000 acres were used for the production of staple food (maize, sorghum, wheat, beans and peas) in 1984/85. The Lesotho Statistical

Yearbook from 1987 indicates that in 1985/86 615,000 acres were under cultivation. Variations in the areas cultivated have occurred in the past. In 1973-74 840,000 acres were under cultivation, while two years later only 520,000 acres were used for food crop production. The bulk of agricultural production takes place on the western and northern plains.

The population density on arable land has been increasing from 483 persons/km² in 1982 to 560 persons/km² in 1986. Total population grew by 200,000 over that same period.

The FAO estimates that 226,000 families are involved in farming, and the average farm size is thought to be 3.2 acres. Over 70 percent of production (90 percent of cereals produced) is retained for home consumption. Most households are headed by women due to the fact that many males work in the RSA.

In comparison with most other African countries, agriculture is relatively modern. Animal traction is used for plowing, planting and transportation. The use of tractors for plowing and other farming activities has become increasingly common.

According to FAO data, approximately 60 percent of the farmers use high yielding seed varieties, particularly for maize (corn), fertilizer and insecticides. The government's input supply organization, Co-op Lesotho, has many outlets in the farming areas. Supply of inputs is not always timely however. USAID is currently financing a study which will look at the possibility of privatizing Co-op Lesotho. Presently Co-op Lesotho has a monopoly position, and imports of inputs by private traders and individuals are not allowed. Inputs are available at a lower cost in the RSA. Subsidies on inputs have been eliminated this year. Due to the monetary income from migrant workers, many farmers have ready cash at hand to pay for tractor and animal traction services, to purchase inputs and to hire labor at peak labor demand times (weeding and harvesting). However, temporary cash shortages may occur and could jeopardize timely planting.

Maize is the principal cereal cultivated, followed by sorghum and wheat. Table C-3 presents the production figures of the main crops produced.

Marketed production is low. Lesotho imports approximately 50 percent of its cereal needs. Most of the surplus production is sold directly to consumers at around twice the government gazetted price. The government fixed prices are similar to the RSA mill-gate price.

The quantity of cereals sold to Coop-Lesotho at the gazetted price is low. Farmers are free to sell their produce where they wish and at the price they can get. Cereals are also

traded for sheep. This can yield farmers up to five times as much as when sold at gazetted prices.

The main risks the farmers are faced with are drought, frost and hailstorms. Erosion is a major threat to agricultural production. This is aggravated by the ongoing overgrazing.

Vegetable and fruit production is very low and is mainly practiced around the houses. Huge quantities of fruits and vegetables are imported from the RSA. Recently efforts have been started to produce vegetables under irrigation. The USAID funded LAPIS project is the principal project dealing with this aspect and approximately 30 farmers are now benefitting from LAPIS assistance. The project is in its second year of operation. The production of asparagus, mainly for export, is increasing.

TABLE C-3
PRODUCTION OF PRINCIPAL CROPS IN LESOTHO.
(metric ton)

Crop	82/83	83/84	84/85	85/86
Maize	76,200	79,400	92,400	86,500
Sorghum	30,700	33,700	54,800	33,500
Wheat	14,800	17,100	18,400	11,000
Beans	1,600	1,300	2,500	1,500
Peas	2,400	3,600	3,300	3,800

Source; Lesotho bureau of statistics, 1987
Lesotho Statistical Yearbook

Livestock is frequently seen as an investment opportunity. Due to the lack of other investment opportunities, migrant laborers often invest in cattle. The result has been that the country has presently over one million livestock units. This is over twice the estimated carrying capacity of all grazing land. In order to deal with the problem of overgrazing the government is presently implementing programs to decrease the size of the herds. An attempt is also made to increase the quality of the herds by using better breeding techniques.

The agro-industry, large scale production of eggs, broilers, pigs, etc, is hardly developed in Lesotho, and limited to a number of enterprises near Maseru, the capital.

Agricultural extension activities are concentrated in areas benefitting from agricultural development projects. For the country as a whole, these services are rather poor.

The main supplier of institutional credit for agricultural development is the Lesotho Agricultural Development Bank (LADB). It became operational in 1980. The bank has recently expanded into the rural areas by setting up branch offices, agencies, that are open one or two days a week, and a number of small offices that only deal with loans. The expansion program is still continuing. The LADB has mobilized M 10 million in savings, up from M 600,000 two years ago. Its loan portfolio stood at M 8 - 9 million at the end of 1988.

The LADB also handles the Food Self-Sufficiency Program (FSSP) credit component. Farmers living in the FSSP area, currently covering approximately 40,000 acres, with no previous default record, qualify for in kind credit. The recovery rate of these loans stands at 80 percent and is going up. Loans are often repaid prior to the harvest of crops, which gives farmers full control over their harvests.

LADE presently charges 12 percent on its loans, which is 6 percent below the commercially applied rates.

Government policies with regard to agricultural development have recently been revised and are reflected in the Fourth National Development Plan. Key elements are the promotion of contract farming, using various land leasing and share-cropping arrangements, the promotion of production of high value crops for the domestic and foreign markets and removal of direct input subsidies.

LESOTHO CREDIT UNION LEAGUE DEVELOPMENT PROJECT

Background

In 1961 the first Credit Unions were established in Lesotho by promoters from the St. Pius X College Extension Department. The Lesotho Cooperative Credit Union League (LCCUL) was created in 1968 as a result of the rapid expansion of the Credit Unions. The league was to provide support and services to the affiliates.

The quantitative objectives of the USAID financed and World Council of Credit Unions (WOCCU) implemented project can be best summarized in the following table.

TABLE C-4
QUANTITATIVE PROJECT OBJECTIVES

Indicator	Project start '80	1983	1985	1988
No of Credit Unions	52	68	80	90
No of members	22,000	31,740	39,320	49,740
No of SFPC members	100	2,653	6,998	12,445
Savings M (,000)	750	1,214	1,729	3,305
Loans M (,000)	540	1,072	1,816	3,118
LCCUL revenues M (,000)	24	39	88	149
% Self-sufficiency of LCCUL	46	40	75	98

Source: Project Paper LCCUL Development, 1979

The objectives as stated in the Project Paper are:

Objective 1: By the end-of-project LCCUL technical capabilities will permit provision of essential technical and financial services to affiliated Credit Unions and their membership.

Objective 2: By the end-of-project conditions for achievement of financial self-sufficiency by LCCUL within eight years from start-of-project will have been created.

Objective 3: The membership, savings and productive loans of LCCUL affiliated Credit Unions will have significantly increased.

The budget for USAID finance for the first three-year phase amounted to \$ 595,412.

The Project Paper does not provide any baseline data other than the above presented quantitative data (table 4). No data are available on agricultural production in the regions where the Credit Unions were active at the start of the USAID financed LCCUL Development Project. No economic nor financial analysis was presented in the Project Paper. No analysis of the level of operations of the existing Credit Unions was provided.

Evaluations were carried out in 1983 and 1986. Both evaluations were positive about the achievements made, and recommended continued support for the LCCUL.

The 1986 evaluation lists the following more critical problems:

- a) high loan delinquency rates,
- b) LCCUL problems in collecting fees from the Credit Unions,
- c) low rates of interest collection,
- d) failure to maintain acceptable bookkeeping,
- e) failure to hold regular meetings, and
- f) failure to report.

Fifteen Credit Unions were judged to be performing at acceptable levels. The financial self-sufficiency goal of the LCCUL of 36 percent was achieved. (The original goal of self-

sufficiency, as stated in the PP, for 1986 was over 75 percent.) Partly based on the number of instructional and operational manuals produced, institution building efforts were judged to be satisfactory.

Thirteen Credit Unions were benefitting from credit-in-kind programs. No information is supplied about the number of farmers who made use of this program.

None of the original quantitative objectives (see table 4) were on target, based on the data provided by the 1986 evaluation. Assuming that financial objectives were expressed in 1980 prices no substantial improvement was recorded since the start-of-project situation. The high loan delinquency rate increased the level of loans outstanding substantially.

IMPACT EVALUATION

Scope of work and methodology

The economic analysis is primarily concerned with the effects that the Credit Unions have had on the beneficiaries' agricultural production, changes in their income and the impact on employment.

The methodology applied for this evaluation consisted of the following:

- a) Analysis of existing documentation;
- b) Field interviews with Credit Union members as well as with non credit union members;
- c) Interviews with LCCUL officials, government officials, officials of agricultural development projects and representatives of financial institutions; and
- d) Comparison of collected data with existing national data.

The mission was preceded by a two-day preparatory team planning meeting in Washington D.C.

Most of the interviews with the farmers were conducted in close cooperation with the anthropologist. This was done because of the many overlapping areas of interest and to optimize on the use of the translator.

Seven Credit Unions were visited by the team and 12 individuals were interviewed for the purpose of establishing typical crop production budgets. Two group interviews, involving 20 people, were conducted. Four of the 12 individuals interviewed did not belong to a Credit Union. Based on the interviews, typical maize and sorghum production budgets were compiled.

There were no data available about the agricultural performance of the members of the credit unions prior to the start of the USAID funded technical assistance program to the LCCUL in 1980.

Introduction

At present, the Credit Unions have approximately 15,000 active members, affecting an estimated 10,000 households. According to FAO data, approximately 226,000 rural households are involved in agricultural production. This means that 4.4 percent of the households involved in agricultural production in Lesotho are active members of a credit union.

The size of the loans taken out for agricultural production are low in comparison with the total costs of crop production. A large proportion of the loans taken out are for other than agricultural purposes. The loan policies of the Credit Unions are rather restrictive, which means that it is difficult to take out loans that exceed the borrowers share capital. Thirteen Credit Unions had benefitted from credit-in-kind through the LCCUL. No data are available as to the exact number of farmers who have made use of this initial scheme. As a result of this credit-in-kind scheme, several Credit Unions are providing credit-in-kind, primarily fertilizer, without assistance from the LCCUL.

A relatively small number -- 770 -- of member farmers have benefitted from LCCUL organized farm management training.

Crop production budget

The sample of farmers interviewed was very small, due to time constraints; however, several trends could be identified. The average farm size of the farmers interviewed was 7.8 acres, the largest farm being 22.5 acre and the smallest 2 acres.

Only two of the farmers interviewed had sheep and/or goat herds of any importance. Most farmers had a number of oxen for animal traction purposes. Only one farmer interviewed had grown wheat. Of the four non-Credit Union member farmers interviewed, two, both male, 57 years of age, performed better than average, while two female farmers, both over 70 years of age, who did not use modern inputs, performed poorly.

All of the interviewed credit union members used hybrid maize seed, fertilizer, insecticides, and had their fields plowed by a hired tractor. The sorghum seed used was always grain saved from the previous harvest. This was reflected in the low sorghum yields recorded of on average 200 kg/acre.

Maize was the primary crop grown by the farmers interviewed. Yields ranged from 1050 kg/acre to 70 kg/acre. The latter was due to rodent damage to the crop in the field.

The normal yield for farmers using hybrid seed and fertilizer was 700 kg/acre. Farmers not using hybrid seed harvested 150 kg of maize per acre.

Beans were primarily intercropped with maize, and yields were therefore at a relatively low level of approximately 90 kg/acre. The value of this production at market prices is around M 200. At official gazetted prices the value would be M 105. Maize intercropped with beans substantially increases the return per acre.

The quantity of hybrid maize seed used per acre was nearly twice as high as recommended by Co-op Lesotho. Most farmers interviewed used 10 kg of seeds per acre, although recommended use is between 4 - 7 kg, depending on the variety used. The use of fertilizer was pretty even, usually 100 kg/acre, which conformed with recommendations made by Co-op Lesotho. Recently, different kinds of fertilizer have been made available to the farmers, which allows them to select a blend more appropriate to their specific soil conditions. With the exception of one of the farmers interviewed, all the farmers used insecticides. Sprayers were often rented from the Credit Union at M 1/acre. Costs for spraying worked out at M 3-4/acre.

Most of the farmers hired labor for weeding. They are paid between M 2 and M 3 per day. The cost of weeding is around M 27.5/acre. In four cases it was noted that labor was paid in kind, and one family was large enough to do the weeding without outside help.

With the exception of one farmer who hired oxen for plowing, tractor plowing was carried out on all the fields of the farmers interviewed. Prices for tractor hire varied considerably from area to area ranging from M 46/acre to M 7/acre. The majority of farmers interviewed paid between M 30 and M 40/acre.

Oxen were in all cases used for the drilling of seed. Most of the oxen were owned by the farmers themselves, or loaned or hired from friends.

The following maize production budget was prepared:

**TABLE C-5
PRODUCTION BUDGET FOR 1 ACRE OF MAIZE**

Description	Maloti
Tractor plowing	35
Ox planting	pm
Weeding	28
Spraying	1
Transport	2
Harvest	pm
Hybrid seed	30
Fertilizer	55
Insecticides	4
Bags	10
Other	10
<u>Total costs</u>	175 M/acre
<u>Yield</u>	
10 bags of 70 kg = 700 kg	
Value at gazetted price, @ M24/bag =	240
Value at market price, @ M40/bag =	400
<u>Return for family labor</u>	
At gazetted price	65
At market price	225

Note: Return per acre can be substantially increased, when intercropping with beans is practiced, or bags of maize are traded against sheep.

Farmers who produce a surplus usually sell at market prices. After harvest they wait for prices to go up to the desired level. Only one case was recorded where surplus production was sold to a flour mill at the gazetted price. Some farmers declared that they exchanged maize, and sometimes sorghum, for sheep, at the rate of 1 sheep for 1 bag. Sheep can be sold for up to M 130/animal. This means that the value of production of 1 acre of maize can be as high as M1300, and that the return for family labor would be M1300 - M175 = M1125.

In the areas where the interviews took place, sorghum is primarily grown for social reasons and as a back-up security crop. Due to the low yields as a result of not using hybrid seed, the value of production at the gazetted price of M 21/bag is well below the cost of

production. Only when sorghum is used for beer making purposes, as is frequently the case, or traded for sheep, does the value of production cover the costs of production. The return of one bag of 70 kg of sorghum when used in beer making is 120 M, which is about the same when traded against sheep.

In the southern part of the country, where drought is a greater risk, sorghum is more important as a food crop due to its greater resistance to drought, although it is less appreciated than maize. Surplus sorghum is difficult to sell at prices above the gazetted price.

TABLE C-6
PRODUCTION BUDGET FOR 1 ACRE OF SORGHUM

Description	Maloti
Tractor plowing	35
Ox planting	pm
Weeding	28
Spraying	1
Transport	2
Harvest	pm
Seed	pm
Fertilizer	30
Insecticides	4
Bags	2
Other	2

Total costs	M 104 /acre
Yield	
2 bags of 70 kg = 140 kg	
Value at gazetted price, @ M21/bag =	42
Value when transformed to beer or when traded for sheep @ M120/bag	240

Analysis of collected data and findings

FAO reports show that 60 percent of the farmers (135,600 households) are using hybrid seeds and fertilizer. Information received from Coop-Lesotho confirmed this figure. Active Credit Union members account for 4.4 percent of the farmers in Lesotho. All the Credit Union members interviewed used hybrid seed for maize and fertilizer.

Modern inputs are at the disposal of the farmers in the main production areas of the country through Co-op Lesotho. The fact that farmers have easy access to modern technologies, and that the benefits of these improved packages are evident to the farmers, has led to the adoption of these technologies by 60 percent of the farmers.

The majority of the farmers do not have access to production credit, and have to pay cash for their inputs. Visits to Co-op Lesotho depots confirmed that the majority of purchases were paid for in cash, even in the area where the FSSP is active. Due to the fact that many households have other sources of financial income, sufficient cash appears to be available.

The Credit Union farmers have been able to save by investing in Credit Union shares. These farmers therefore have the possibility of taking out a loan, and to temporarily overcome cash shortages, at the time of soil preparation and planting. The loans taken out, often for other than agricultural purposes, are well below their costs of agricultural production, however. This means that enough cash has to be at hand to pay for at least part of the inputs without taking out a loan. Part of the inputs are taken out on a credit-in-kind basis, usually fertilizer. The fact that farmers have access to cash at a crucial time of agricultural production no doubt is positive, although the impact is difficult to quantify.

LADB experience with the FSSP credit component, where farmers can take out a "production package" as credit-in-kind, shows that a high proportion of the farmers repay their loans well before harvest time.

The strict loan procedures of most of the Credit Unions do not allow farmers to take out loans that exceed the value of their shares. Some of the Credit Unions, who benefitted from credit-in-kind programs, allowed farmers to take out loans greater than their savings. This has often resulted in non- or partial repayment since the fertilizer and seed were considered to be gifts from the LCCUL. Also the fact that the Credit Unions are not sufficiently aggressive in recuperating outstanding loans may have been a factor in the low repayment rates of loans. In reality, a very limited number of Credit Union members has had access to credit in the real meaning of the word. They only have had the opportunity to borrow against their share capital.

This means that most poor farmers, who depend for their living primarily on farming, do not have access to credit. The income distribution Table C-2 shows that 15.3 percent of the population (approximately 45,000 rural households) depend on agricultural income alone. A large proportion of this group probably has difficulties in obtaining credit for agricultural production purposes, and thus it will remain difficult for this group to improve its standard of living. Poor farmers in the FSSP area do have access to credit, unless they

have defaulted on a loan. Income distribution has therefore probably not improved as a result of the Credit Unions.

Nearly all the farmers interviewed employed people for weeding, and sometimes for harvesting purposes. The use of herbicides, which is increasingly taking place in the FSSP area, is a threat to employment possibilities, as has been the availability of oxen and tractor drawn equipment for land preparation and seeding purposes. The cost of using herbicides is lower than having the weeding done by manual labor, although some hand weeding will always be required. It can therefore be argued that the impact on employment of the availability of modern inputs is negative.

The production budgets were compared with production budgets from the FSSP area, and it appears that Credit Union members, based on the small sample of farmers interviewed, reach more or less the same production levels as the FSSP farmers do for maize. FSSP farmers seem to be using more hybrid sorghum seed, and therefore achieve much higher sorghum yields.

The major constraints the farmers face are drought, hail storms and frost. Most farmers think these risks acceptable in view of using modern inputs.

Due to the lack of baseline data, it is difficult to compare the before and after project situation.

Conclusions

The availability of proven appropriate technologies, combined with the fact that most households had other than agricultural incomes, has led to the adoption by farmers of these technologies. The availability of credit in some areas of the country has not played a crucial role in this process. However, credit is thought to have played a supportive role in facilitating farmers to acquire the new technologies.

The Credit Unions have not supplied credit on a large scale, but have more acted as a savings institution. This has allowed farmers to take out a loan against their shares at a crucial time of agricultural production.

The USAID funded project has had no significant positive impact on the development of the Credit Union movement, and it can therefore be concluded that the project has had no impact on agricultural production.

Although no detailed analysis has been carried out, it can be concluded that the economic rate of return to USAID's investments in this project has been negative.

The project has had no significant impact upon income distribution, nor in creating employment opportunities.

The major constraint to agricultural production, apart from natural factors and soil erosion, is the low level of farm management know-how. During the project's life, only 770 Credit Union member farmers received training in improved farm management.

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APPENDIX D
HOUSEHOLD IMPACT ASSESSMENT

APPENDIX D

INTRODUCTION

This impact assessment addresses credit unions from the user's perspective. Specifically, following the objectives listed in the scope of work, it discusses the impact of rural credit unions upon the ability of household members to a) enhance agricultural production, and/or b) create income generating activities. It also discusses whether or not the availability of credit has altered gender roles within the household, changed income distribution within the village of credit union membership, promoted other changes within the community, and can be an effective model for larger-scale activities.

Owing to the constraints placed upon data collection, this report does not provide statistical information to support the findings presented. Rather, where appropriate, literature reviewed will be cited to support the assertions made based on a total sample of 17 farmers interviewed individually, and 20 farmers interviewed in two separate groups.

Nine credit union villages were visited, three in the south (Phallang, Maqoala (Phallang Annex), and Mekaling), one a short distance from Maseru (Mazenod), two in the central region (Rhamothamo and Lioli), and three in the north (Khomu Koana, Pela Tseau and Makese). At each location, farmers who were credit union members and farmers who were not members were interviewed. An interview schedule was designed and administered, and many open-ended questions arising out of the answers given to the more formal queries were posed. What follows is a summary of the information obtained from these interviews as well as an analysis of previously-existing data on related subjects.

SOCIO-ECONOMIC/BACKGROUND INFORMATION

Overview of Relevant Socio-Economic Information

Lesotho is populated by one major ethnic group -- the Sesotho -- who have occupied the region since the Zulu Mfecane in the 19th century. While divided into several clans, the country is largely homogeneous with one language binding people inhabiting the 10 districts of the country.

Lesotho is heavily dependent upon South Africa for its imports as well as for its employment opportunities. An estimated 35 percent of the labor force (154,210 males and 11,406 females = 165,615), comprising 38 percent and 5.3 percent of the usually economically active male and female population, respectively, currently work in the mines, commercial farms and households of South Africa (see Fyhrland, draft, 1988:25; Government of Lesotho 1983:vi). By law, miners are required to repatriate 60 percent of their earnings to Lesotho, which deposits are maintained in the Lesotho Bank and are available to the miners upon presentation of appropriate papers.

Women have attained higher levels of literacy and education than men. The traditional division of labor among young people is often cited as the cause: young boys are expected to tend the herds, while girls are free to go to school (see Gay 1982:16-20; Statistical Yearbook 1987:34, 36). The fact that there are more literate/educated women than men strongly affects aspects of agricultural production to be discussed below.

Wives of migrant laborers are left on the farms for about nine months of the year. They manage the farm enterprise while their husbands earn some 20 Rands (the South African Rand and the Lesotho Maloti are interchangeable currencies) per day while employed in the mines. Despite women's higher educational achievements and their de facto and de jure status as heads of household, women have consistently been denied access to both financial and agricultural inputs that would serve to enhance their productive capabilities. Women are viewed as children by formal institutions and most legal transactions women wish to enter require written consent by a husband, father or eldest son (if he is of majority age)(see Gay 1982:55). For instance, a bank cannot grant a woman a loan unless she has the signature of a representative male. As was explained to me, male consent is necessary in case a woman defaults. In this instance, the male would become liable for repayment.

The most significant assertion that can be made about the socio-economic characteristics of Lesotho is that "women are the backbone of the country" (informal interview, Chieftainess Edith Malebanye, Mohale's Hoek, October 29, 1988), but that women are consistently denied the means to support the backbone; i.e., the country revolves around the labor of women, but women are officially prevented from gaining access to the resources necessary to perform their jobs more effectively (see Gay 1981:20-21).

Socio-Economic Information from Farmers Surveyed

In conducting farm interviews, 11 females and six males were asked some 60 questions. Of these individuals, 10 were credit union members (seven female and three male) and

seven were not (four females and three males). The average number of years respondents had been members of the credit union in their villages was 16 (range 2 - 25). The average age of rural respondents was 47.4, with the female average being lower (46.5, range 21-75) than the male (49, range 32-72).

The average number of years of education of respondents was 7.2, with females receiving 7.3 (range 2 - 9 years) and males receiving 7.0 (range 0 - 14). Average number of years of education of spouses was 7.8 years (range 2-14), with female spouses having learned for 8.8 years (range 5-14), and male spouses having been in school 6.7 years (range 2-12).

Fourteen respondents were married (eight female and six male) while three women were widows. The average number of years married was 24.7 (22.1 for widows). Female fertility was averaged at 4.7 (range 0-9). Ten households were reported to have a total of 35 of their own children still in school, while three households reported paying school fees for five grandchildren or other relative.

Average household size in the sample was 6.53 (range 4-13). The national average as of 1986 was reported to be 4.8 (Population Census 1987:14), while research undertaken for the National Employment Survey in 1988 indicated an average household size of 5.3 (Fyhrlund, draft, 1988:9). The number of relatives and hired laborers living with the family at the time of plowing may explain the variance in our sample. There was no particular pattern of relatives living in the household, although three were headed by widows who had inherited family assets when their husbands passed away.

At the time the interviews were conducted many men had returned from South Africa with their October paychecks to plow and to plant at the outset of the summer rainy season. The pattern establishing some 30 percent of rural women as de facto heads of household begins with a young man departing for South Africa either before he is married (generally after he has attended initiation school) or after (leaving his wife with his parents at the paternal homestead). After men accumulate the needed capital, and they are married, they request land from the local chief on which to build their homes and to cultivate. After the new household has been established, men return to the mines leaving the women behind to manage the household and farm enterprise.

Men often come home at month's end when they are paid. Alternatively, they send a portion of the 40 percent of the salary they retain with a neighbor who might be coming for a visit. Full-time mine laborers are generally granted three months' leave, a portion of which is taken by many at plowing/planting time and a portion at Christmas (with some being reserved for emergency events). This annual cycle continues until a man is well into his forties, at which time he comes home to his homestead to farm, or to embark upon other

enterprises with the capital he has been able to accumulate with his forced remittances (see Kingdom of Lesotho 1982).

While in South Africa, men may gather expertise in a number of fields owing to their working experience. This might include some understanding of the production/marketing system in agriculture, but more than likely concerns business operations. Women are thus seen as the agricultural "experts" of the family since it is they who participate in the daily tasks of production, harvesting, storage and marketing.

In the sample of 17, six women identified themselves as the owners of the farm. Five women indicated their husbands were the owners, since they were the ones to have been granted the land by the chief. Five men indicated they themselves were both the owners and decision makers, while one woman indicated her father-in-law was the one ultimately responsible.

Ownership is often reflected in who is determined as the main decision-maker, although husbands, fully cognizant of their absence from the farm, often defer to their wives' experience. In such instances, women reported that decisions about cropping were made jointly. Thus, seven women reported they were the decision-makers, three respondents reported joint decision-making, four males reported they made all decisions, and three reported such decisions being made by outside advisors (see discussion of LAPIS below). (For a further discussion of women as decision-makers and innovators, see Gay 1982:75-79.)

While the land law of 1979 officially made it possible to inherit land, it was found that although the chief had originally allocated a family male land, in 10 instances portions of the land cultivated had either been inherited by widows or by sons from their deceased fathers (see Poulter 1979:103-116 and Government of Lesotho 1983:vii, 1.2, 2.5 for further information on the legality of land inheritance). Two farmers indicated that in addition to their allocated plots, they also rented plots so that they might expand production.

The average number of fields held by each household was 2.6, with an average size of the farm being 8.6 acres¹ (this term generally refers to an English acre which is 70m x 70m, or 4,900 sq. meters). The average size of each field is thus 3.3 acres (range .9 to 10 acres). The national average of 3.8 acres is significantly less than that reported in the survey (Government of Lesotho 1983:4.17).

Of the 17 households, nine indicated they owned a total of 50 oxen, for an average of

¹ This figure includes the portions of land rented and cultivated by two farmers.

5.6. Eight households do not have animal traction. Ownership of other animals is presented in Table C-1:

Table C-1

<u>Animal</u>	<u>Household Distribution of Animals</u>			
	<u>No. HH</u>		<u>Total</u>	
	<u>CU</u>	<u>Non-CU</u>	<u>CU</u>	<u>Non-CU</u>
cows	1		2	
horses	3	2	4	3
pigs		1		?
donkeys	3	2	4	6
chickens	7	4	97+	20
sheep	2	5	25+	234
goats	2	3	33+	189

The farming system practiced by most farmers incorporated the hiring of tractors for plowing and women laborers for weeding and harvesting. These expenditures are made possible largely through remittances women receive from their husbands or sons from South Africa; they are also made possible through timely loans advanced to credit union members. It should be noted, however, that households without this resource flow are the most disadvantaged. In many cases, these households are headed by widowed or divorced women, who comprise another 30 percent of the population.

INCOME GENERATION -- AGRICULTURE AND OTHER ACTIVITIES

The relationship between credit union membership and agricultural production could not accurately be ascertained without a very rigorous survey designed to elicit more detailed information than was possible to obtain during our brief stay. That is not to say, however, that certain trends could not be discerned. These trends include a) the proportion of income derived from agricultural production compared to that derived from other sources, b) the effect certain services credit unions provided on agricultural methods, c) the agriculturally-related opportunities that may have been generated through access to credit, and d) the type of agricultural production stimulated by the presence of the credit unions as the only rural financial institution accessible to a large portion of female farmers.

Cropping Every respondent was involved in cropping activities, with maize and sorghum as the two major field crops. Each of respondents also had a garden in which a number of vegetables was grown, largely for home consumption, the principal crop being a green leafy vegetable and/or cabbage.

Not every household sold its crops, especially sorghum. Twelve households reported growing this crop, 50 percent of which brewed beer from the grain, 17 percent exchanged bags of sorghum for sheep and then sold the sheep, and 33 percent paid labor with a 70 kg. bag of the crop. Sorghum is grown mainly with seed saved from the previous year's harvest. Paid inputs generally include plowing, weeding and harvesting. What is most significant about sorghum is that it has the potential to generate the highest income either in beer brewing or exchange in trade.

Table C-2 indicates the cropping pattern of the 17 respondents:

Table C-2

Cropping Pattern of 17 Households

<u>Crop</u>	<u>No. Grow</u>	<u>Av. Acres</u> (English)	<u>Av. Harvest</u> (70kg. Bags)		<u>Av. Sales</u> (Bags)		<u>Av. Ann. Inc.</u> (Maloti) (market prices)
			<u>Bags</u>	<u>Bg/Ac</u>	<u>HH</u>	<u>Av. Bg</u>	
Field							
Maize	13	4.5	26.5	6.0	9	16	456.50
Sorghum	12	3.1	5.0	.4		-	-
Beans	7	3.3	5.3	1.6	1	3	120.00
Peas	3	1.7	5.0	2.9	2		150.00
Hay	1	-	-				
<u>Garden (includes LAPIS project)²</u>							
Cabbage	5	4,400 hd (2 LAPIS)					2520.00
Greens	4	1,650 bdl (2 LAPIS)					825.00
Beetroot	3	(LAPIS)					65.00
Potatoes	3	(LAPIS)					300.00
Carrots	3	(LAPIS)					99.00
Pumpkin	1						200.00

Considering income generated from the sale of field crops only, several factors must be considered: 1) a maximum of 53 percent of households receives cropping income; 2) of the amounts harvested, significant proportions are saved for consumption, seeds, exchange, or beer brewing; and 3) marketing is problematic in that Co-op Lesotho prices (the government parastatal supplying inputs and purchasing outputs at gazetted prices) are approximately one-half that which can be obtained through informal, individual sales. For instance, sorghum is purchased by Co-op Lesotho at M21/70kg. bag, and maize for M24/70kg. bag. Farmers creating their own markets can generate M40 for sorghum and M50 for maize.

The incomes that can be generated entail the use of inputs such as hybrid seeds (for maize), fertilizer, labor and the like. Table 3 presents an analysis of these inputs:

Table C-3
Households Using Cropping Inputs

Input	No. HH		Av. Ann. Cost (Maloti)	
	CU	Non-CU	CU	Non-CU
Tractor Hire	5	2	98*	75
Tractor Fuel (own tractor)	1	2	45	32
Oxen Hire	1	2	128	91
Fertilizer	7	2	573*	124
Hybrid Seed	5	3	70	79
Insecticides	6	2	78*	4
Labor	9	13	145*	**
Fuel for Pump	2	1	183*	?
Land Rental	2	0	1350*	-

* Includes LAPIS farmers.

** Laborers paid with 1 bag each of either maize or sorghum for tasks including weeding and harvesting.

Income from Other Agricultural Activities

Farmers derive incomes from a range of agricultural enterprises including raising poultry, dairy cows, sheep, and goats. Day-old chicks are purchased at M7.50 each and can be sold, according to size, at M7.00 to M9.00. Eggs are generally sold for 20 to 25 cents each, depending on size. Gazetted prices for eggs in 1984 ranged between M1.44 for producer prices and M1.70 retail prices per dozen. An individual selling eggs in nearby villages can earn M2.40 to M3.00 per dozen.

According to informants, a dairy cow costs approximately M600, although the gazetted price in 1984 was M380. Cows can be obtained in bridewealth from a future husband's family, or can come to a family, as can oxen, through the practice of mafisa. This entails the borrowing of an animal for a period of time in which the animal is bred. In return for maintaining the adult animal, the borrower keeps the calf to increase the family herd.

Sheep, in the surveyed sample, are largely obtained through trading a bag of sorghum or maize between growers in the lowlands and herders in the mountains. Respondents indicated they could receive between M90 and M130 per animal for an average net return per sheep ranging between M69 and M109. Sheep are also sheared and their wool sold at an approximate rate of M3.25 per animal.

Goats can be obtained in a similar fashion, although they are generally reared for their mohair wool rather than resold. Each goat produces an average of .77 kg. of mohair, and farmers receive approximately M6.02 per kilo.

Table C-4 presents data on potential earnings to be generated by these non-cropping activities.

Table C-4
Non-cropping Agricultural Incomes

<u>Activity</u>	<u>No. HH</u>		<u>Av. Poten. An. Income</u>	
	<u>CU</u>	<u>Non-CU</u>	<u>(Maloti)</u>	
			<u>CU</u>	<u>Non-CU</u>
Poultry				
Chickens	1	900		
Eggs	1	3	4170	?
Sheep	1	1	4250	6300
Wool	1	4	78	188
Goat Mohair	1	1	148	435
Piggeries	1	1	?	?

Income from Non-Agricultural Activities

In addition to agricultural income, households generated cash in many ways.

Remittances -- Men working in either mines or on commercial farms in South Africa remit varying sums to their families per month. In one instance, a son sent his mother M20 per month, while sending a larger proportion to his wife. In another instance, a woman reported her husband sends between M300 and M550 every other month, assuming she would "bank" what she did not use with the credit union. Fyhrlund (draft, 1988:44) found the incidence of remittance varied as well as did amounts, putting recipients in a rather precarious cash flow position.

Making and Selling Brooms -- Grass for these implements is generally gathered by older women who then make the brooms and sell them for M2 each.

Buying and Selling Clothes from the Republic -- One woman who had herself worked in South Africa as a domestic travelled monthly to purchase clothes to resell in neighboring

villages. Another reported she started the business when she visited her husband in South Africa.

Brewing Beer -- The gazetted buying price of Co-op Lesotho of a 70kg bag of sorghum is M21. This amount, according to the literature, can be doubled or trebled by brewing beer (see Kanyanga 1988:17-18). According to respondents, the amount of sorghum it takes to brew 20 liters of beer is 3kg., at gazetted price worth M.90.

Income derived from selling this amount of beer was reported as M8. Thus if a 70kg. bag of sorghum were utilized totally for beer, a brewer could earn M184 (70kg.: 3kg. = 23 brewings x M8 = M184). Subtracting from this amount the cost of sorghum (M20.70), the added maize meal (cost calculated on the basis of the gazetted price of M24) (2-1/2kg. x 23 = 57.5kg. x M.34 = M19.55), and the sugar (1/2kg. x 23 = 11.5kg. x M1.40 = M16.10), for a total cost of M56.35, the average net amount that can be earned by transforming a 70 kg. bag of sorghum into beer is M127.65. This is 608 percent over what can be earned by selling the grain to Co-op Lesotho.

Shop Ownership -- While several people reported owning small cafes, it was not possible to ascertain incomes therefrom.

Sewing Clothes -- Women who sewed dresses reported that a dress style worn by many Masotho women required six meters at M6.50 per meter (plus 12 percent tax), or M43.68. The women said such dresses can be sold for M75, for a profit of M31.32 (without considering labor). A dress can be made in 6 - 8 hours. Women could possibly make 5 dresses per week, or a potential profit of M156.60 per week.

Knitting and Selling Sweaters -- Women who engaged in this enterprise reported an adult-sized sweater will require 6 skeins of yarn purchased @ M1 each, plus 12 percent tax. Buttons and zippers might account for M2.25 - M3.13, plus 12 percent tax, for a total cost of production (without counting labor) of M9.73. The sweater can be sold for M50, or an approximate profit of M40.23. Labor takes approximately one week, so a woman might make four sweaters per month for an approximate monthly income of M160.92. Sweaters for children require only three skeins and can be sold for M25, for an approximate profit of M18.95.

Other activities in which credit union members were reportedly engaged include brickmaking (a male activity, as opposed to those listed which are primarily female activities), spinning wool and mohair, food-for-work road construction projects, and working in other people's fields. (For a further analysis of these income generating activities, see Senoana, Turner & van Apeidoorn 1984.)

Table 5 presents a summary of incomes generated from these non-agricultural endeavors:

Table C-5

Non-Agricultural Income

<u>Activity</u>	<u>No. HH</u>		<u>Av. Poten. Ann. Income</u>	
	<u>CU</u>	<u>Non-CU</u>	<u>(Maloti)</u>	
			<u>CU</u>	<u>Non-CU</u>
Remittances				
Now	2	3	4200	
Previous	5	4	3000	
Selling brooms		2		240
Buying & selling clothes	3			150 net
Brewing beer	2	4	520	581
Owning a cafe	2	1	?	?
Tractor rental	1	1	M30/acre	M28/acre
Sewing clothes	2		3257 net	
Knitting sweaters	10		1931 net	
Washerwoman	1		420	
Crochet	1		540	
Tie-dying	1		250 net	

Analysis of Cropping Incomes and Credit Union Membership

While the data presented on agricultural incomes indicate minimal differences between credit union and non-credit union members, several points on the meaning of membership, from the user's point of view, need to be made clear.

Women and Resources

As stated above, women do not have ready access to the resources they need to enhance both agricultural production and their abilities to generate incomes. The presence of the credit union in rural communities provides women, who comprise more than 75 percent of membership, access to finances not readily available elsewhere. Although loans are made on the basis of shares, women find that they can get loans, pay them back, and still have their shares. This means that when they wish to borrow a portion of the funds necessary to purchase fertilizer or seed, or to pay for tractor hire or labor, they can go to the credit union and get what they need. In our sample, the 10 members had obtained 13 loans in the last year to cover the costs of agricultural inputs.

Credit union managers and clerks, especially if they are men, assume that the decision to borrow has been made jointly with a husband. In interviewing respondents, however, it was found this is often not the case because husbands are not available.

Many credit unions visited often make bulk purchases of fertilizer and seed from Co-op Lesotho, which delivers to the credit union. Thus, members need not go individually to the Co-op, saving longer-distance travel expenses, since they only need go as far as the credit union (we found this can also entail expenses, but not as much as if a direct purchase from the Co-op was necessary). It is highly likely that a ripple effect in the use of technological inputs has occurred at such credit unions, and an increasing number of loans for such inputs is made annually.

Overcoming Unreliable Remittances

As noted in the discussion above, 60 percent of mine laborers' earnings must be repatriated through the Bank of Lesotho. Of the remaining 40 percent, miners remit certain portions to their families. Such remittances, however, may be sporadic and inconsistent in amount. While many miners send greater amounts at the time of plowing and planting, others may not, leaving women with few options on cropping. It is possible that a spouse will send a special letter through the Bank of Lesotho to free up a certain portion of his remittances/savings, but the paperwork takes both time and a trip to the bank to withdraw the funds. By the time each task is accomplished, the proper time for planting may have passed.

Membership in a credit union reduces women's dependence on the timeliness of a spouse's remittance. At an appropriate time, she can fill out the bond form to cover an input loan and receive the amount and/or inputs needed in time. When she ultimately receives the remittance, she can either pay back the loan or deposit what she has received in her share account.

Education and Agricultural Decision-Making

The management of every credit union is organized into a number of committees, one of which is agricultural. This committee is generally composed of members whose agricultural productivity is admired in the community. These members, according to respondents at one credit union, act as informal extension agents. When a farmer wishes to apply for an input loan, a committee member will accompany the prospective borrower to the farm to ascertain what is needed. Once this is accomplished, then the committee

member helps the borrower fill out the bond form and facilitates the granting of the loan. Since the national agricultural extension service was not very active in most of the communities surveyed, the agricultural committee of the credit union is seen as supplying an integral service.

Their advice does not fall on deaf ears. Studies have shown that better-educated people are more likely to be better farmers. This was particularly emphasized when interviewing officials of the LAPIS project who reported that people who could read and calculate could plan out their fields better, understand proportions for fertilizer application, and keep better records of their enterprises.

In summary, while the direct impact of the credit unions upon agricultural production is not easily discernible with the information available, the indirect impact of having the services of a financial institution at close hand facilitates women's ability to be more agriculturally productive. This is accomplished by a) having a savings/lending institution accessible to women, b) providing funds to plow and plant in a timely fashion, and c) providing an informal agricultural extension service by and to the members.

Analysis of Non-Cropping Income and Credit Union Membership

It appears that respondents interviewed who are not credit union members find other means to save/invest their income/capital. For credit union members, their share accounts accumulating interest on a daily basis constitute much of their capital. For non-credit union members, animals and land constitute their capital. Liquidity can be obtained by non-members via the sale of sheep, sheep wool or goat mohair. While this can also be obtained by members, the number of sheep and goats owned by non-members is larger. Additionally, land parcels owned and cultivated are generally larger for non-members: a significant portion of non-members inherited land from their fathers or their husbands.

While the preponderance of non-members own the sheep and goats, members own more chickens and earn income either through the sale of eggs or the chickens themselves. This may be due to the fact that the credit unions have a direct connection with training in the care and rearing of chickens. The credit unions themselves receive information on different income generating projects, which they in turn pass on to their membership. Once a member indicates s/he is interested, the member fills out the appropriate loan forms and then participates in a week-long course that will enhance his/her ability in this business. Thus, members receive free training and loans to launch their enterprises. Without the accessibility of loans to females, many of these projects may never come into fruition.

While this argument is forceful in theory, the total number of members who actually received farm management or other type of training over the eight-year period of USAID support was only 770. Given the officially-estimated membership over these years, only 2.4 percent of membership availed themselves of this opportunity.

Analysis of Non-Agricultural Incomes and Credit Union Membership

Many of the income generating projects described above originate with loans from the credit unions. In 100 percent of the clothes making and/or buying/selling operations, loans were obtained from the credit union to either buy a sewing machine or facilitate the first wholesale purchase. Yarn is obtained with loans to knit sweaters as is the cloth to sew dresses and school uniforms. Moreover, several credit unions have purchased sewing and knitting machines that are rented to members for a nominal fee.

Indeed, any activity that requires a certain amount of seed capital among member respondents has been launched with a loan. Those who are not members may be able to resolve liquidity problems through negotiating with their husbands, withdrawing funds from a bank account (if one has an account) some distance away, or selling beer or agricultural produce. Many of these non-member options are also open to members; the credit union, however, offers both financial and other services not available in other forums. In the sample, 100 percent of members indicated that if they needed cash for any purpose, they would go to the credit union. Non-members who had bank accounts would withdraw funds, while those without this resource would attempt borrowing from other sources. Additionally, if respondents generate incomes they do not readily need, they indicated they would save it by purchasing more shares in the credit union.

SPIN-OFF EFFECTS OF CREDIT UNION MEMBERSHIP

LAPIS

As mentioned in the crop production table above, some credit union members have opted to participate in the LAPIS project (Lesotho Agricultural Production and Institutional Support Project), a USAID-financed endeavor to conduct agronomic research, to teach at the Lesotho Agricultural College, and to facilitate the adoption of irrigation and advanced cropping practices in the production of vegetables. While this project is beyond the scope of this impact analysis, it merits brief discussion in terms of how farmers have participated

through credit union membership.

LAPIS loans are currently administered through credit unions. One LAPIS official reported that the project would not be operational without the cooperation of LCCUL (Lesotho Cooperative Credit Union League). While loans for irrigation equipment, imported seeds, and fertilizers have created havoc with the cash flow of many credit unions, approximately 30 members have received the loans to join this high-tech project. Some farmers have only been in the project for a year and so have not yet fully realized their first harvest, while others have been participants from its inception and have realized a return of over M2500 on just one or two crops. This amount, however, represents only 25 percent of potential, according to one LAPIS advisor. The second year is to yield 85 percent of potential.

While such a return is admirable, the rate at which borrowers are paying back their loans (some in excess of M10,000) is not. The lack of liquidity experienced by some credit unions due to the slow pay-back rate of LAPIS borrowers has resulted in an inability of other members to borrow on their own shares to obtain agricultural inputs. Thus, for some the LAPIS spin-off has resulted in increased potential earnings, while for others -- non-participants -- the spin-off will have a negative impact.

Educating Future Generations

Families can experience a cash shortfall at the outset of the school year because it roughly coincides with the time when agricultural inputs must be purchased. The ability of credit unions to lend small amounts, such as M20, to pay school fees in August/September ensures that a child will be able to attend school. While funds might indeed be forthcoming from other sources to meet this expense, to be able to borrow against one's shares provides an individual member with a sense of security should those alternative resources not be available. For instance, among credit union members, 30 percent took out loans to cover school fees.

ALTERNATIVE FINANCIAL RESOURCES

In addition to being able to transform capital into cash by selling animal products, crops, or individually-made commodities, rural people have found several means of obtaining cash.

Makhodsi

Makhodsi are a particular type of ritualized bond friendship characteristic of the people in Southern Africa. When a person is young, either in school or just finished, a special friend is identified who can "keep secrets" and act as the person to whom one goes in any kind of difficulties or when one wishes to share the joys and sorrows of everyday life.

In one instance in our sample, we interviewed two males who were not credit union members and who had established their friendship more than forty years ago. While one was working in the mines for 34 years, the other was taking care of his friend's family and farm, acting as advisor and conveyor of instructions. When each of these men was asked where they would go if they needed cash, they replied "each other." Moreover, they worked hard in order to be able to help the other should the need arise.

In our sample, 100 percent of non-credit union members responded they would first go to their makhodsi if they needed money, while 30 percent of members indicated they would follow this pattern only if they already had loans outstanding at the credit union.

When I asked how much could be borrowed from such a friend, the two men referred to above could not limit what they would make available to each other. Women's friends, however, could be relied on for anywhere between M10 and M100.

Funeral Societies

Every woman interviewed reported she is a member of a funeral society. On average, members pay a joining fee, a monthly fee at meetings, and a specified amount when a member passes away. Membership ranged between 60 and 300, with amounts to be paid to the surviving family differing in accordance with membership.

While these societies act as informal savings institutions, funds are not generally available for loans. Only in one instance was evidence reported that a portion of the money accumulated for six months is contributed, along with 40 cents from each member, to a raffle. The maximum amount of the raffle was M140. This impact analysis found that all but one funeral society kept its money in the local credit union.

CREDIT UNIONS AND THE FUTURE

The currently active members interviewed are very loyal to their credit unions and expressed a desire for them to expand in a number of different ways. Bearing in mind that the credit union is generally the only institution in a village that can provide a variety of services, members would like their credit unions to augment the services they provide. Members indicated they would like their credit unions to: 1) purchase insecticide sprayers to rent out; 2) teach dairying, poultry, and knitting at the credit union site; 3) organize cooperative groups for knitting and weaving; 4) purchase knitting machines and teach the women how to use them; and, for credit unions that do not already supply the service, 5) purchase fertilizer and seed in bulk from Co-op Lesotho and have it delivered to the credit union.

SUMMARY AND CONCLUSIONS

Credit Unions as Rural Financial Institutions

Respondents themselves are very committed to the credit union as a financial institution. It provides to them an opportunity to save and to borrow funds to purchase agricultural inputs and establish a number of microenterprises. It provides women, especially, the security of knowing they can purchase their agricultural inputs on time, of knowing that there is some money available should a spouse fail to remit, and of gaining access to knowledge either through the agricultural committee or through training opportunities the credit union offers. Incomes generated through cropping, animal husbandry and petty commodity production are made possible through loans obtained from the credit unions. Respondents reported that each of the small scale businesses established began with a credit union loan. It would appear that remittances are earmarked for certain activities, while more independent income generating activities women wish to establish require their own source of funds.

While the unions have afforded women, in particular, the ability to be more self-sufficient, the unions have also fallen prey to manipulation. The LAPIS project, while enhancing the productive capabilities of a few has produced resentment among the many. A reconceptualization of this project and its linkage to the credit unions is in order.

In conclusion, from the user's perspective, the credit union is seen as the members' institution -- a source of savings as well as of loans. Members voice their desires about the

future and how their unions can be even more responsive to community needs by offering a variety of services. To strengthen these unions, these desires need to be addressed.

Impact of USAID Project on Credit Unions

The Lesotho Credit Union Development Project (632-0214), initiated in 1980 and continuing through 1988, was designed to enhance the effectiveness of rural credit unions under the general umbrella organization of the Lesotho Cooperative Credit Union League. Evaluation reports of this project, while continually commending the progress made, have failed to emphasize the management and development problems each of the unions has been experiencing. Rather than expanding membership, a number of credit unions have failed, and, according to the research undertaken for the present analysis, less than one-half of the officially recorded members are active. Many of the remainder have merely taken out loans for most of their shares, never repaid them, and left the account dormant. Their names have never been removed from membership, and although they are in arrears in their payments, they receive interest on whatever shares remain. Moreover, interest on their arrears are never charged.

Given the actual membership numbers, credit union membership constitutes less than 1 percent of the currently estimated population of 1.6 million. While it has been argued that members have benefitted by having a financial institution in their communities, the overall impact of the project is not encouraging. That is, where managerial skills have not been sufficiently developed, where membership continues to default on loan repayment, where new members are not readily sought out, and where loan policies can be manipulated to reflect the needs of other development projects rather than the needs of the credit unions themselves, the project cannot be deemed successful.

APPENDIX E

BIBLIOGRAPHY

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