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AN ASSESSMENT OF AGRICULTURAL CREDIT POLICIES AND INSTITUTIONS IN TOGO

Report

Submitted to:

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Preface

During recent years, food output in some African countries as well as in other developing countries has been declining in relative and, sometimes, in absolute terms. Additionally, some food output has not been keeping pace with population growth rates, the mal- and under-nourished portion of the world's population is on the incline. This situation exists despite the so-called "Green Revolution" now taking place in some Third-World countries.

In many West African economies, the share of food imports has been rapidly increasing thus causing a negative impact on their already diminished balance of payments. Foreign exchange shortages are forcing governments of many countries to curtail food imports, a policy which will aggravate the already serious problem of malnourishment.

For some time now, the posture of USAID has been one of deep commitment to helping developing countries meet their basic food requirements and to raise the income levels of the poor. Although USAID has expended millions of dollars in development assistance to aid developing countries meet their food needs, progress to date has been disappointing. Thus, there is an urgent need for AID to try new ideas, new policies, new projects, and new programs in an effort to gain momentum opposing the rising food shortages in these developing countries, particularly in West Africa.

The following study is designed to set new policy directives for granting support to agricultural credit, which in turn may provide a dynamic vehicle for increasing food production and general agricultural development in these low-income countries. By providing farmers the financing for productivity-increasing modern inputs, agricultural credit may serve to raise output as well as the level of their incomes.

The major advantage of agricultural credit projects is that they require no recurrent cost. The proceeds from the sale of the additional output of a successful project should be sufficient not only to repay the loan but also to improve the lot of the farmer. Loan repayment should be sufficient to regenerate lending capacity, to cover administrative costs, and to pay the interest on the government or donor agency loans to the credit institution. If an agricultural credit program operates as outlined above, no resources will be consumed. The money committed would constitute a revolving fund. Thus, agricultural credit can be justified not only because it increases agricultural productivity, output, and farmers' incomes, but also because it has a low recurrent cost.

The major objective of this study is to assess agricultural credit policies, programs, and institutions and needs of small section IV countries of West Africa, Togo being selected as a case study. Other objectives are:

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- to assess the supply of short, medium, and long-term credit available to rural producers;
- to review GOT policies on agricultural credit, agricultural extension, cooperation, and marketing of agricultural produce as they relate to the success of agricultural credit programs;
- to assess agricultural credit needs, credit problems, and constraints; and
- to propose guidelines for AID's REDSO/WA Office in setting new policy guidelines for granting development assistance in the form of agricultural credit in small countries of West Africa.

The Togo study is one of a three-country study in which this effort was originally scheduled to be conducted. For a number of reasons, the study in the other countries was either postponed or cancelled. Nevertheless, the Togo study should be viewed as a case study in agricultural credit, the conclusions and recommendations of which have regional policy implications for West Africa as a whole.

The following report was prepared by Development Assistance Corporation (DAC) under contract from REDSO/WA. It is the product of two specialists:

Dr. Ernest L. Murphy, Economist and Team Leader and
Mr. Kenneth Ribyat, Agricultural Economist.

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The team spent approximately 4 weeks in Togo and one week in Abidjan during July/August 1980. Additional time was spent by the team in Washington, D.C. to gather background information on agricultural credit and to discuss related issues with staff members at the Embassy of Togo in Washington, D.C., and with other specialists knowledgeable of West Africa. The final report was written in Washington, D.C.

The team gratefully acknowledges the invaluable assistance of the Government of Togo, numerous individuals in Togo, REDSO, The American Embassy, and the many bilateral and multilateral aid organizations represented in Togo. The team would like specifically to acknowledge the assistance of the Director and Staff of the CNCA (Agricultural Credit Bank) whose support and assistance were key factors in making the mission a success.

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I. CONCLUSIONS AND RECOMMENDATIONS

A. Conclusions

Historically, agriculture has always been the highest priority in development planning in Togo. Of greater importance to this study is the fact that agricultural credit has been assigned an important role in this overall effort, but this role has not been fully defined. Togo has yet to develop and implement a development policy that evaluates the total capital requirements, estimates total agricultural credit needed, and formulates an agricultural credit program that can meet the overall financial requirements of the rural sector. The lack of such a policy has hindered the implementation of an effective agricultural credit program in Togo.

Agricultural credit must be taken within the context of integrated rural development where credit constitutes an important aspect of the integrated whole. Agricultural credit must also embrace the services of agricultural extension, cooperative formation, marketing, and other supportive rural institutions. A program of agricultural credit cannot be successful without the support of complementary subsectors.

The CNCA, the Agricultural Credit Bank, has been and will most likely, remain the principal creditor in the rural sector. Commercial and development banks play an insignificant role in agricultural credit in Togo. The GOT is currently seeking to implement a sectoral credit policy that will fix quotas for all banks for lending to agriculture as well as to other priority sectors which have hitherto been unable to attract capital from the general banking system. It is doubtful that such a policy will be successful in attracting financial resources to agriculture because it ignores altogether the sociological factors of agriculture and rural development. Peasant farmers will not be able to meet the security requirements of commercial banks to qualify for loans. Compulsory quotas are not sufficient to bring about the desired results. Other measures must be taken to give commercial banks an incentive to lend to agriculture.

Agricultural credit constitutes a marginal share of total credit in Togo, about 2½ percent on the average. Most agricultural credit comes from the CNCA and is made in conjunction with the marketing of agricultural cash crops, most of which are designated for export. Commercial loans constitute from 60-80 percent of total CNCA lending and CNCA commercial loans are made primarily to state marketing parastatals. Only about 20 percent of CNCA's total lending goes to finance agricultural production.

All commercial loans and most other loans made by CNCA are short-term. Only a few medium-term loans are made, mostly to finance livestock acquisition and real estate. The vast majority of the long-term loans are made through a special coffee-cocoa generation project in the Plateau Region, financed by the World Bank but managed by CNCA. The rest of CNCA's lending goes either

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to salaried individuals, or to farmers as emergency loans during periods of hardship. A marginal amount of funds is lent to finance tree planting, artisanal fishing, livestock acquisition, and equipment.

The loan repayment rate is low, about 80 percent on the average. Most of CNCA large debts are held by government societies which were dissolved in 1978. As of yet, the GOT has not reimbursed CNCA for the bad loans made to these societies. Poor weather conditions and natural catastrophes, lack of an effective marketing system, especially for food crops, lack of effective cooperatives, bad faith of some farmers, lack of effective agricultural extension services, and a poor loan evaluation system by CNCA among other factors, have been cited to explain the high default rates on loans. CNCA is currently instituting new measures that will improve the repayment rate in the future.

The CNCA is limited in its effectiveness in executing its mandate because of the lack of trained personnel, and the lack of a certain and stable supply of funds from the state, the Central Bank, and from savings and demand deposits. As a result, there is a constant deterioration in its capital base.

The level of training of CNCA's credit agents is sometimes inadequate and their relations with the rural community are sometimes tenuous. Farmers hesitate to place their savings with CNCA because of inaccessibility. Although CNCA maintains branches in

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the cities and in regional capitals, few are in remote rural areas. The current policy of CNCA is to reduce its isolation by setting up ambulatory branches in remote areas on certain market days. Other measures are being taken to gain the confidence of peasants in this regard.

The current required interest rate is considered too high for farmers, given the current problems of Togolese agricultural development. Yet, the current interest rate does not provide enough income to cover operating and administrative costs. CNCA is permitted to rediscount loans with the Central Bank with only a 3 percent margin. Interest rate structures are set by the West African Monetary Union (UMOA), of which Togo is a member. Thus, CNCA has little control over the interest rate which it charges farmers.

Current prices and market structures are not favorable to increasing production under technologically appropriate, modern methods. The risk during the transition from subsistence to surplus orientation is too great and must be mitigated by government policies, including subsidizing credit.

The ineffectiveness of cooperatives and other farmer groups and a weak cooperative policy on the part of the GOT have led to a low esteem for cooperatives by farmers. Government organized and managed cooperatives have, somehow, isolated member farmers. Thus, the lack of a cooperative structure in Togo acts as a serious constraint to the efficient implementation of a program for agricultural credit at the crucial, small-farmer level.

The current agricultural credit policy is to provide agricultural credit through the intermediary of structured, integrated development projects and programs. A common national policy will be developed and implemented on all of such projects in Togo. CNCA will assume the major responsibility for managing the credit component of specialized development projects.

Projects requiring lower interest rates than CNCA is mandated to charge must make provisions for a special fund from which the current interest rate can be subsidized. In addition, other provisions must be made to set up a special calamity fund to aid farmers when they suffer losses resulting from poor climatic conditions. In all cases, provisions should be made to reschedule loans when farmers' output has been affected by factors over which they have no control. There has been some preliminary discussion about the creation of a mutual crop insurance fund to protect both the farmer and the credit institution during periods of natural catastrophes.

While adequate research exists, extension of the methods and improved inputs are weak, except in the case of cotton and perhaps coffee and cocoa. During the next plan, agricultural extension services will be provided primarily through structured development projects.

Agricultural credit has been affected by the lack of an effective system of coordination between the CNCA and the other government agencies responsible for agricultural extension, cooperation, marketing, etc. In the past, these organizations have been more competitive than complementary. Coordination of government institutions in agriculture falls under the portfolio of the Director of Rural Development of the Ministry of Rural Development. Efforts will be made to strengthen the coordination of efforts during the next development plan.

B. Recommendations

The following section presents a list of recommendations which are made as a result of hours of consultation with government officials and other specialists on agricultural credit. These recommendations reflect the general development policies and priorities which will be implemented in the next development plan that is, rural development. As rural development also is one of USAID's high priorities, there does not appear to be any conflicts in this regard. Nevertheless, for convenience, the recommendations will be presented in these sections, recommendations for USAID, for the Government of Togo, and for the CNCA.

1. Recommendations for USAID

(a) Training Program for CNCA

The Agricultural Credit Institution, CNCA, is hampered by the lack of a trained personnel capable of carrying out its mandates and by the lack of a stable and inexpensive source of funds. To improve the effectiveness of CNCA's deliver

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and services, the mission highly recommends both technical and financial assistance to help the CNCA resolve both sets of problems.

AID support may take the form of technical and financial assistance to:

(1) Train CNCA upper and middle-level personnel through the provision of medium-term scholarships to the U.S.A. to obtain advanced training in agricultural credit and management. The training program should provide formal training at the university level during the academic year, followed by on-the-job training at credit institutions in the U.S. during the summer. The objective of this aspect of training is to provide candidates with a strong technical background in agricultural credit coupled with intense experience in the U.S. Individuals participating in this aspect of the program will be expected to hold key management positions in CNCA and will be responsible for training CNCA agents and staff upon their return.

(2) Provide an expert in agricultural credit who will be attached to CNCA personnel training unit and who will be responsible for organizing in-country training workshops and seminars on various topics related to agricultural credit and management. This expatriate specialist should

be supported by short-term specialists who will come to Togo to participate in workshops and seminars and give lectures on various topics decided upon by the expatriate credit expert in conjunction with CNCA management staff.

As the U.S. Department of Agriculture does not provide for a Master's Degree, candidates sent to U.S. for training should be attached to some university under a one-to-two year Master Program. Study tours and on-the-job training may be organized by the university through the program or they can be worked out separately by other means. Course work should include training in agricultural economics, finance, extension, project appraisal and approval, market analysis, systems of agricultural credit, etc.

(b) <u>Financial Support to CNCA</u>

As a rule, AID does not provide funds to credit institutions which operate for profit. Such institutions find support from organizations such as The World Bank and The International Finance Corporation. Nevertheless, for non-profit making institutions which cater to the needs of rural poor, AID has been known to provide financial assistance. As discussed in the report, CNCA is not intended to make a profit from its operations. In fact, given the status of agriculture in Togo, CNCA incurs annual losses from its operations. Thus, it is recommended that AID provide a grant to CNCA to be used for pre-determined purposes such as subsidizing interest rates, small farmer credit, credit for production, and long-term credit, etc.

Formerly, AID has provided financial resources for agricultural credit in countries under the PL-480 Program. If a Title III program were to be established in the future, funds generated could be used for a revolving fund for CNCA for specific, approved, low-interest agricultural loans.

(c) <u>Credit in Integrated Development Projects</u>

The current policy of the GOT is to provide credit through the milieu of structure development projects. It is recommended that AID support this overall approach.

AID should also make provision for agricultural credit in integrated development projects that it finances. In addition to the setting aside of a revolving credit fund to finance inputs to farmers, a special interest subsidy fund should be anticipated if the project requires a lower interest rate than is currently charged by the CNCA. AID-financed projects should also make provisions for a special calamity fund to cover farmers in case of natural catastrophes that destroy their crops and prevent them from repaying the loan.

In keeping with the new GOT policy, the credit component of any Aid-financed rural development project should be managed by CNCA. In addition, during project design, AID should develop the credit component in collaboration with CNCA.

(d) Marketing

It is recommended that AID provide a marketing specialist to aid TOGOGRAIN in improving the marketing system for cereals and food crops. TOGOGRAIN is in dire need of both technical and administrative support to aid in:

- the implementation of a price-stabilization program for cereal and food crops;
- the establishment of an emergency food stock program;
- marketing and management of food imports and exports;
- processing of food crops; and
- storage.

The lack of an effective marketing system for food crops constitutes one of the most serious bottlenecks to agricultural credit. TOGOGRAIN needs technical support to assist it in carrying out the ambitious tasks of its mandate.

(e) Storage

TOGOGRAIN has failed in its attempt to stabilize prices for grain because of its lack of adequate storage facilities to hold cereal between production and consumption. It is hereby recommended, therefore, that AID provide at least one storage expert to help TOGOGRAIN develop a national storage program for food crops and increase the efficiency of its operations in relation to price stabilization for producers, consumers,

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and security stock management. It is also recommended that AID finance an experimental 10,000-ton multi-purpose grain storage facility, equipped with drying and processing facilities and capable of storing grain in bulk.

(f) Studies

The assessment team recommends that AID consider financing the following studies:

(1) A study that examines the economic and financial feasibility of establishing a mutual agricultural crop insurance for farmers.

(2) A study to examine methods of improving on-farm storage facilities with emphasis placed on improved storage facilities of cooperatives and farmer groups.

(3) A study to scrutinize the feasibility of providing credit through non-institutionalized commercial channels such as merchants, middlemen, money lenders and existing credit agencies in the rural sector. Such traditional sources may increase the volume of credit and take advantage of greater flexibility and speed in lending and thus lower administrative costs and default rates.

(4) A study to examine the feasibility of organizing other means of channeling agricultural credit to groups of farmers. One possibility is to look into

the feasibility of creating regional committees to serve as a linkage between the credit institution and farmers.

2. Government of Togo-Level Recommendations

The following list of recommendations is considered by the team to be most important for the GOT to execute.

(a) Development of a national agricultural credit policy coordinated with the appropriate government agencies involved in providing complementary services to agricultural credit.

(b) Provide funding to the CNCA on an annual basis in an effort to build up its capital reserves in conjunction with the overall development plan and provide assistance in collecting on loans previously made to now-defunct state agencies.

(c) Establish a fund to subsidize interest rates on agricultural loans for specific high-risk, low-return areas.

(d) Create a special mutual crop insurance to cover both farmers and lending institutions if output is destroyed by natural catastrophes.

(e) Provide loan guarantees and tax incentives to commercial banks to encourage them to make more loans to agriculture.

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3. Recommendations for CNCA

The group makes the following recommendations for CNCA.

(a) The CNCA should assume major responsibility for defining new policy directives in the area of agricultural credit, both at the national and project level and provide the primary leadership in defining a national credit policy to be implemented in specialized development projects in which there are credit components. CNCA should insist on managing the credit component in all structured projects. The above includes the establishment of loan review procedures for small-farmer groups.

(b) Policies should be established in advance of granting loans for rescheduling them in case of crop failures. Rescheduling of debt must be recognized as a necessary aspect of small-farmer credit. However, when farmers refuse to pay their debts as a result of bad faith, the CNCA should be willing to seek government action to force repayment.

(c) CNCA should make a major effort to raise the level of rural savings. The team feels that rural savings could be substantially increased if correct measures are taken. For example, a mass-media campaign in which the government participates would be likely to be effective. The establishment of branches nearer to the farmer will also aid in this effort.

(d) CNCA should find ways to work with other banks to aid and encourage them to reach the compulsory quotas established for them by the government. CNCA should examine the feasibility of serving as an intermediary between commercial banks and farmers.

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(e) CNCA should make a major effort to improve the caliber of its staff. This implies a more effective screening process in recruitment and an increase in salaries in an effort to attract higher quality credit agents. More emphasis should be placed on on-the-job training of the CNCA staff to carry out its functions effectively.

II. INTRODUCTION

A. Background

Togo, a small country of West Africa, is situated on the Coast between Ghana and Benin. Togo has a population of about 2.5 million and GNP of about 800 million dollars. From Independence in 1960 to 1973, the GNP grew at an average real rate of 6 percent per annum. The major factors that contributed to the high rate of growth were relatively high rates of public investment in port and road infrastructures and substantial industrial investments in oil refining, steel manufacturer, cement clinker production and phosphate, along with the exploitation of phosphates under favorable market conditions and high world prices for coffee and cocoa, Togo's main agricultural exports.

During the first half of the 1970s, the Togolese economy experienced a substantial reduction in the real rate of growth. The major factors contributing to this decline were a levelling off of public investment and a general reduction in agricultural production and agricultural exports. From 1971 to 1975, the growth rate of agricultural produce declined to about 1 percent

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per annum. Production of cocoa declined by about one-half during this period as a result of declining border trade, crop diseases, and low and unstable producer prices. Coffee and palm kernel production also declined about 50 percent while ground nut production fell by 90 percent.

Food crop production, on which about 75-80 percent of Togo's population depends, barely kept pace with population growth. Unfavorable weather conditions, especially the drought of the 1976/1977 crop seasons, necessitated increased food imports and caused further deterioration in Togo's balance-of-payments which was already in the red due to a concurrent decline in phosphate prices.

The current GOT policy is to revitalize the agricultural sector which remains the most important sector of the Togolese economy. About 80 percent of Togo's population depends on agriculture for their livelihood. Coffee and cocoa alone account for about 75 percent of agricultural export revenue and about 30 percent of total exports.

Agricultural production units are generally small, consisting of small farming families working 2-5 hectares using labor-intensive methods. Except for cash crops such as cocoa, coffee and cotton, few modern inputs are used. Food crops, primarily millet, sorghum, rice, niebe, cassava, yams and maize, account for 80 percent of total agricultural production and are produced without the use of modern inputs such as

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fertilizers, insecticides, fungicides, and modern farm implements. For these reasons, agricultural credit, coupled with other factors, is crucially required to purchase agricultural inputs in an effort to raise agricultural productivity.

B. Agricultural Credit Overview

The Ministry of Finance is responsible for the organization and formulation of general credit-related policies in its role as overseer of the country's money and financial system and institution, as defined by the various international treaties and conventions to which Togo is a signatory. This responsibility is shared with the Ministry of Rural Development on matters affecting specific agricultural credit policies and institutions. The Ministry of Finance is aided in this task by:

(1) National Credit Advisory Council which is responsible for studying credit problems and defining new policies in the national interest.

(2) A banking committee in charge of overseeing banks and supervising policies passed by the National Credit Advisory Council.

(3) The Central Bank (BCEAO) which has a consultative and technical role and constitutes the execution organism of decisions made by the monetary authorities.

The Central Bank provides consultative and technical services to the National Banking Committee and is responsible for executing and enforcing monetary policies set by the monetary union. A mechanism for rediscounting loans, including agricultural credit loans, is provided by The Central Bank which is also responsible for setting and enforcing credit policies for the Togolese economy, within the limits imposed by The West African Monetary Union (UMOA).

Togo is a member of the Six-State West African Monetary Union which uses a common money (the CFA Franc) and which manages the monetary system for all of the member states. Thus, Togo is legally committed to abiding by the common monetary policies established by UMOA for the six-member countries. These policies include the establishment of fixed interest and rediscount rates applicable to banks operating in the system. Current UMOA has set the rediscount rate for the preferential sectors (for Togo, agricultural, small-scale enterprise, and low-income housing) at 8 percent (10-10½ percent for other sectors). For the priority sectors, UMOA permits banks to make loans at interest rates up to 3 percent above the rediscount rate of BCEAO. Thus, the current interest rates for agricultural credit loans is 11 percent. Agricultural credit loans below the required 11 percent can only be made through the provisions of a special interest rate subsidy funds (funds de bonification) as is currently being done by the Togolese Government to promote small-scale enterprises.

For all practical purposes, all loans made to agriculture are supplied by the Agricultural Credit Bank (CNCA). The Bank was established in 1967 and currently falls under the Ministry of Rural Development. It is a public institution with financial and administrative autonomy. Its purpose is to provide financial services to all sectors of the rural economy including agriculture, livestock, agricultural industry, commerce, fishing, rural handicraft, etc. This is the most widespread financial institution in Togo.

The CNCA is administered by the Administrative Council which is composed of 12 members and is chaired by the Minister of Rural Development. The Council is supported by a Loan Committee and the Director General of CNCA who is appointed by a Council of Ministers and is responsible for day-to-day management of the Bank.

The CNCA has 16 branches, of which 8 are regional, each having a certain degree of financial autonomy and 8 other offices depend on certain regional offices. In addition, there are 21 local, ambulent offices that are open at least one day per week to facilitate access to CNCA services by isolated farmers. This network makes the CNCA the most widely branched financial institution in Togo.

Most CNCA branches offer a certain number of services such as deposit and passbook savings accounts, loans (mostly short-term), and the provision for technical information to its clients. In addition, the CNCA is responsible for implementing credit components in at least two special structured development in the Plateau and Maritime Regions.

The banking system in Togo comprises 9 banks of which 6 are private commercial banks and 3 are development banks, plus The Central Bank. Except for the CNCA, none of the banks is engaged in agricultural financing, except the occasional provisions of commercial loans to the ex-colonial agricultural export houses. For various reasons, commercial and development banks do not make production loans to farmers but all sum up to the lack of "bankable" projects. These and other issues will be addressed later in the report.

Agriculture has always occupied a cardinal position in the economic and social development plans of Togo. Consequently, in previous development plans, agriculture will be given highest priority in the forthcoming plan covering the years 1981-85. A number of agricultural, promotional and government parastatals organizations has been created to vitalize and modernize Togolese agriculture. Nevertheless, in the past, no clearly defined set of policies have been carried out which define the role of agricultural credit in the overall contest of agricultural development. As a result, agricultural credit has been isolated, uncoordinated, marginal and detached from other development interventions carried out in agriculture. The lack of coordination between the CNCA and other intervention societies operating in the field constitutes one of the most serious bottlenecks to agricultural credit in Togo.

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C. Breakdown of Agricultural Credit in Togo

Agricultural credit constitutes a marginal share of the total credit in Togo. For fiscal year 1978-79, only about 2½ percent of the total credit went to finance agriculture, including agricultural commercial loans. This figure represents an increase over the fiscal year 1977-78 in which the share averaged about ½ percent. For fiscal year 1978-79, only about ½ percent of total credit was used to finance agricultural production.

As mentioned earlier, the CNCA provides almost all agricultural credit loans in Togo. For the fiscal year 1978-79, the CNCA made 11,276 loans, totalling 3,470 million CFAF. Commercial loans constituted about 63 percent of total loans by value, and production loans 24 percent, with the remaining 13 percent consting of "others" (personnel, emergency and housing, etc.) loans.

Commercial operations constitute the major activity of CNCA. In 1977-78, CNCA made a total of 33 commercial loans totalling 2,184 million CFAF. All of these loans were short erm and were made primarily to marketing parastatals (OPAT, marketing organization for export crops, SOTOCO, Cotton marketing organization; TOGOGRAIN, cereal marketing agency; TOGOFRUIT, fruit marketing agency; SONAPH, palm kernels, etc.). CNCA finances from about 40 percent (coffee) to 100 percent (cotton) of agricultural exports in Togo.

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The CNCA's largest commercial customer is OPAT, the agency responsible for marketing most of Togo's agricultural export crops. Commercial loans are made to buyers who have been "approved" by OPAT to purchase crops from farmers at prices fixed in advance of the crop year. Approved buyers are to use these loans to purchase crops which they then sell to OPAT. OPAT is to pay its buyers through an account at CNCA which enables it to deduct the value of the loans in advance of payment.

Loans for agricultural production for the fiscal year 1978-79 (24 percent of total) are relatively low in spite of the fact that its share has been increasing during recent years (16 percent in 1975-76, 23 percent in 1976-77). Most of these loans are short-term except for long-term loans which CNCA manages under a special world bank project (SRCC Project) which will be discussed later. The remainder consists of medium-term loans for livestock, milling of grain, fishing equipment, fruits and other agricultural activities.

Of the production loans, 89 percent short-term loans or 78 percentof total production loans (exclusive of the long-term production loans accorded through the World Bank coffee and cocoa project) were used to finance food crops. A share of the remainder of CNCA's loans (emergency loans to salaried employees and to farmers and equipment loans to CNCA's employees) has been increasing due mainly to the drought (1976-77). The

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majority of loans going to CNCA's employees are used for construction purposes.

It can be concluded that only a small percentage of total credit financing in Togo goes to agriculture. The CNCA is about the only institution which accords agricultural credit. Most of [illegible] loans are short-term commercial loans, used to purchase agricultural export crops, made directly to or through government marketing parastatals. Only a small share of CNCA loans are for production purposes, and in this regard, they are made on a short-term basis. The largest percentage of production loans finance the production of food crops. CNCA accords a few medium-term loans, however, principally for livestock, tree crop production and provision of equipment. Almost all long-term loans are made in conjunction with a special coffee and cocoa regeneration project financed by the World Bank. The average size of production loans for food crop is 98,000 CFAF in 1978-79, up from 40,000 CFAF the year earlier. This increase can be attributed to the change in CNCA policy which accords more loans to groups.

III. AGRICULTURAL CREDIT POLICIES AND PRIORITIES

Agricultural development has always been a priority in Togo. Its first agricultural development plan was launched in 1966, shortly after the accession of the current political regime. The rural sector was also given highest priority in the Second Plan. The major emphasis in this plan was on increasing food production and the development of rural infrastructure. The primary social objective of this plan was the elimination of hunger by attempting to supply the basic food needs.

In the current plan (The Third Development Plan), agriculture is also given highest priority. The major emphasis in this plan is placed on food production and the development of a productive infrastructure to increase food production for both local consumption and export and to diversify into new products. Emphasis has been placed on agricultural extension, rural animations, improvement of regional distribution of benefits, and decentralization of developing activities. Thus, the strategy consisted of the creation of rural growth poles in various regions of Togo.

The Fourth Five-Year Plan covering the years 1981-85 has not yet been officially released. This plan will cover the final years of the first 20-year plan. The fourth plan is expected to stage the acceleration or "take-off" of the Togolese economy. It is anticipated that agriculture will remain the priority sector in this plan.

The emphasis in the forthcoming plan is to stipulate encouraging initiatives for small farmers, the major producers of both subsistence and cash crops. The development of cooperative groups along with the improvement in the marketing system and technical services is also expected in the next plan.

A. <u>Agricultural Credit Policies</u>

One of the major problems to the development of an effective agricultural credit system in Togo is the general lack of an effective set of structured agricultural credit policies. Although agricultural development has and continues to be given highest priority in development planning, agricultural credit has never been clearly integrated into overall agricultural development. In addition, there has been a general lack of coordination among the various institutions which are directly or indirectly involved in agricultural credit. The general lack of a comprehensive agricultural credit policy has led to an inefficient utilization of scarce funds for this purpose.

The benefits to be accrued from agricultural credit in agricultural development are innumerable. First, agricultural credit serves as a stimulant to agricultural productivity. In addition, agricultural credit may increase agricultural investment and change the structure of production permitting an increase in savings which may be harnessed for reinvestment in the agricultural sector, thus triggering a dynamic chain of agricultural development.

One of the problems preventing the implementation of an effective credit program in Togo is the general lack of financial and technical means to bring about a change in the traditional method of cultivation. The effectiveness of agricultural credit depends not only on financial availability, but also on the simultaneous availability of a number of other supporting factors, such as an effective system of providing technical assistance to farmers, agricultural cooperation, effective pricing and marketing systems, and a general demand for crops produced both in the domestic and international markets.

In its ideal form, the scenario for a farmer credit program could be exemplified as follows: the government, or a donor agency lends funds to an agricultural bank which, in turn, relends the funds either directly or through cooperatives to farmers. The farmers use the funds to purchase productive inputs, which are combined with agricultural extension to produce more output. The additional output is sold and the proceeds are sufficient to repay the loan and leave the farmer better off. The payments received from the farmers by the agricultural bank are sufficient to regenerate lending capacity, to cover administrative costs, and to pay the interest on the government or donor agency loan. Such a program consumes no resources; the money committed constitutes a revolving fund.

Although the model appears simple, things may not turn out as expected. First, there may be no, or only negligible, increases in agricultural production following credit, thus, compromising repayment possibilities. Agricultural extension services may be ineffective if not non-existent. Next, the administrative cost of making loans to individual farmers may be so high that the interest proceeds may not cover costs.

Granting of credit through groups of farmers may be hindered by the lack of effective cooperatives. Additionally, output may increase, but farmers may be unable to sell their crops due to the lack of an effective marketing system. Even with an effective marketing system for crops, farmers' incomes may be negatively affected by low, fixed government prices for their output. Finally, there is always the possibility that credit may reach the hands of those farmers who believe they can ignore repayment obligations with relative impunity. To all of these must be added the capriciousness of the weather. The entire credit program can be killed by unkind weather conditions which affect crop output. Any of the above (as well as others) may cause a complete breakdown in the credit program.

It cannot be emphasized enough that agricultural credit is only <u>one</u> of the numerous factors which play an important role in the complex process of raising agricultural production. In fact, agricultural credit may not even be the most important factor. Thus, any policy designed to encourage an effective use of agricultural credit to aid in rural development must treat agricultural credit within the integrated context of overall agricultural and rural development. If not, much funds, effort, and time will be wasted in agricultural credit projects without desirable results. Agricultural credit projects must take into consideration the interdependence among the factors which determine the success of credit programs.

Thus, it can be argued that one factor which explains the guideline of certain past credit projects has been the lack of simultaneous support of other activities which are indispensible to the success on credit, measured in terms of the level loan repayment.

A breakdown in any of the above factors can bring the entire credit program down with it. Thus, an effective agricultural policy program must be designed to address such factors as agricultural research, extension, cooperatives, marketing, storage, pricing and price stabilization,etc. This requires that agricultural credit be treated within the context of integrated rural development and viewed as one factor in the linkage process which is expected to contribute to overall rural development. Taking this as given, what then appears to be the major agricultural policy approach in Togo?

As mentioned earlier, the Agricultural Credit Bank (CNCA) was created in 1967 and given administrative and financial authority to accord credit to both private individuals and to government societies. Prior to their demise, Regional Intervention Societies (SORAD) provided the major mechanism via which CNCA accorded agricultural credit to small farmers. SORADs borrowed funds from CNCA which they loaned to farmers. According to the mode of operation of that system, the SORAD was to make loans to farmers for agricultural inputs, provide farmers with the necessary technical services, and be responsible for repayment of the loans.

The above system failed at a substantial loss to CNCA. SORAD failed because their poorly trained personnel had to cover too large of an operating area and the programs provided in-effective agricultural extension. In addition, the SORAD was responsible for collecting agricultural produce but the lack of an effective marketing system for these crops contributed to the inefficiency of the SORADs.

The SORADs was also responsible for encouraging cooperative formation to serve as a vehicle for granting agricultural credit. These were quickly organized but they did not provide an adequate credit structure. Thus, SORADs became a management organ between CNCA and agricultural cooperatives, charging enough interest to cover their operating cost. This interest, when added to CNCA's original interest, increased the cost of credit to peasants.

Consequently, in 1978, the GOT decided to dissolve SORADs, leaving CNCA with extensive debts which served to reduce substantially their loan portfolio. As of today, the GOT has not reimbursed CNCA for the bad loans which it made to the SORADs. The new organization which grew out of the SORADs did not accept their debts. Most of CNCA's large losses come from the SORADs and other government societies.

In order to improve its low repayment rate, CNCA future policy is designed to better understand its clients. Its strategy will be to get involved at the grass-roots levels in the villages. Currently, CNCA lending approach is to organize farmers into production and marketing groups. In the past, the CNCA provided loans through cooperatives and pre-cooperatives. Due to the lack of, or insufficient structures of cooperatives in Togo, this system did not prove to be too successful. The making of loans via ad hoc groupings resulted into large losses.

To replace the cooperative mechanism for granting collective loans, the CNCA's future policy will be to grant credit through rural committees made up of responsible villagers, technical extension agents, CNCA representatives, responsible local farmers, etc. These committees will be responsible for screening potential candidates for loans. They will pre-select candidates and will develop the original dossiers.

The CNCA will also be responsible for organizing the rural milieu so that it can better satisfy its needs. Also, it will foster a closer collaboration with technical extension service for advice and technical expertise. It will attempt to foster a closer working relationship with marketing organizations since improved marketing and improved loan repayment are positively linked.

B. Credit Policies in Special Projects

In the past, special projects with credit components have been implemented by the project management itself. Such a policy has resulted in a multitude of different credit packages among the diverse regions, often for the same type of project.

The current set of policies of the CNCA is to foster one national policy for credit in all special development projects. These policies must be flexible enough to suit the specific needs of the activity (i.e., one specific set of policies for each group or activity), but the same set of credit terms accorded for the same activity must be regionally uniformed. In order to assure this uniformity, the CNCA will become involved in developing and managing the credit elements of special projects. The CNCA is particularly opposed to projects which highly subsidize equipment or inputs to farmers without remuneration. Such policies adversely affect credit programs, in that they give peasants the feeling that they can get something for nothing. In addition, following project implementation, peasants are cut off abruptly and are unable to continue operating as they did in the past. Instead of implementing highly subsidized credit projects, CNCA feels that it would be more appropriate to use its facilities to finance farmers under more favorable terms. In this manner, a revolving fund will be generated to allow peasants a chance to continue to receive credit beyond the project's lifespan.

C. Sectoral Credit Policy

As mentioned, Togo's commercial banks are not now involved in agricultural financing. In order to encourage banks to be more active in agricultural financing, the monetary union of which Togo is a member, the Central Bank, and the National Council on Credit, launched in 1977, a policy to encourage banks to grant more credit to agriculture and other priority sectors. For the years 1978 and 1979, the "Selective Credit Policy" of Togo fixed a minimum quota of 5 percent for the agricultural and social housing sectors and 10 percent for small and medium-scale enterprises.

Table III-1 presents the amounts and percentages of credit accorded to priority sectors for 1978 and 1979. The Table reveals that these objectives were not attained. In actuality, for the entire year (1979), only about 3.5 percent of total credit was accorded to agriculture. Even this figure is inflated as only the loans equal to or above 10 million CFAF are recorded in the statistics. These account for about 65-70 percent of the total credit of the economy. The global figures would reveal an even lower percentage.

Because of poor results for the years 1978 and 1979, the National Commission on Credit, on the recommendation of the Administrative Council of the Central Bank, decided to put more bite into the Selective Credit Policy by setting quantity as well as quality controls on banks. The Committee opted to fix minimum quotas for the priority sectors and maximum quotas for the less favored. The feeling of the Committee was that by setting maximum quotas on the sectors preferred by commercial banks, banks would begin to lend the difference to agriculture and other priority sectors, once these quotas were

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Table III-1. Distribution by Sector of Credit Registered With the Central des Risques; Situation at the End of the Trimester for the Period December 31, 1978 through September 30, 1979.

End of Trimester / Sector	December 31, 1978		March 31, 1979		June 30, 1979		September 30, 1979	
	Amount (Million CFAF)	Percentage of Total Credits	Amount (Million CFAF)	Percentage of Total Credits	Amount (Million CFAF)	Percentage of Total Credits	Amount (Million CFAF)	Percentage of Total Credits
Agriculture	1,288	3.6	1,338	3.5	1,381	3.7	1,318	3.5
Public Works/ Buildings	4,523	12.8	4,463	11.8	4,201	11.3	3,439	9.2
Of Which Housing	(144)	(0.4)	(378)	(1.0)	(386)	(1.0)	(442)	(1.2)
Industry	16,091	45.7	19,905	52.5	18,629	50.2	19,262	51.6
Of Which Small-Scale Enterprises	(1,929)	(5.5)	(1,825)	(4.8)	(1,806)	(4.9)	(1,826)	(4.9)
Commerce (Trade)	10,706	30.4	9,417	24.8	10,088	27.2	10,537	28.2
Shipping and Transit	1,834	5.2	1,782	4.7	2,017	5.5	1,977	5.3
Other Services	805	2.3	1,038	2.7	766	2.1	840	2.2
Total Credits	35,247	100.0	37,943	100.0	37,082	100.0	37,373	100.0

Source: BCEAO

reached. The Central Bank would also enforce these maximum quotas by applying sanctions on banks that exceeded the maximum quotas, and encourage banks to recycle their surplus liquidity in the sectors held in priority. The committee also opted to raise the quota for agriculture from 5 to 10 percent for 1980 (See Table III-2), and five percent for commercial credit. The Committee also envisaged the establishment of an interest rate subsidy fund (fonds de bonification) for agriculture as has been done for small and medium-scale enterprises.

The Committee recognized that it will be difficult for the agricultural sector to absorb the recommended 5 percent for production loans. For this reason, it proposed the following recommendations for both government intervention societies and for farmers:

(a) <u>Rural Intervention Societies</u>

- Reorganize intervention units in areas of self-sufficiency and profitability;
- Provide for more rural motivation and training;
- Create credit cells to serve as a liaison between agricultural producers and banks; and
- Provide these units with the necessary material and manpower requirements to fulfill their objectives. In this regard, it was highly recommended that TOGOGRAIN be reinforced and be given a monopoly in the import and export of food crops.

Table III-2. Agricultural Credit Realized in 1979 and Credit Objectives Set for 1980 in Absolute and Relative Value

	Realization in 1979		Objectives for 1980		
	Amount Billion CFAF	%	Amount Billion CFAF	%	Observations
Agriculture	1.5	2.5	6.7	10.0	minimum
Commercial-ization	(1.2)	(2.0)	(3.3)	(5.0)	minimum
Production	(0.3)	(0.5)	(3.4)	(5.0)	minimum
Industries Of Which	19.8	34.0	20.1	30.0	maximum
Large Scale	(17.7)	(30.4)	(16.8)	(25.0)	maximum
Small Scale	(2.1)	(3.6)	(3.3)	(5.0)	minimum
Housing	1.6	2.7	3.4	5.0	minimum
Commerce Of Which	13.2	22.7	13.4	20.0	maximum
Large Stores	(7.4)	(12.7)	(6.7)	(10.0)	maximum
Other	(5.8)	(10.0)	(6.7)	(10.0)	maximum
Public Works/ Building	3.0	5.2	3.3	5.0	maximum
Shipping & Transit	2.3	4.0	3.4	5.0	maximum
Other Services	1.1	1.9	3.3	5.0	maximum
Sub-Total	42.5	73.0	53.6	80.0	
Unrecorded Credit	15.7	27.0	13.4	20.0	
TOTAL	58.2	100.0	67.0	100.0	

Source: BCEAO

(b) At the Producer Level

At the farm level, the Commission recommended that the authorities undertake measures to organize farmers into cooperative groups. These groups will have the advantage of being acceptable mechanisms for channeling loans to farmers, to rationalize marketing, storage and transformation of agricultural produce and to more easily control market prices.

(c) Recommendation for the Government

The Commission recommended that the Government guarantee fixed prices for agricultural products, supported by price stabilization, as is currently done for cash crops. This could be achieved by setting floor prices (for the crop year) and ceiling prices (during shortages) for food crops. The Commission also recommended the establishment of a National Guarantee Fund for Agricultural Investments.

The latter recommendation was made by the Commission in consideration of the natural calamities to which agriculture is subject. Banks are skeptical of making production loans to agriculture because of the high risks occasioned by natural catastrophies. For these reasons, the Commission recommended a Fund that would guarantee both producers and credit organizations against climatic risks such as droughts, floods, etc.

It is doubtful that the selective credit policy as outlined above will have much impact on increasing agricultural credit in 1980 any more than it did in 1978 and 1979. If

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strictly enforced, the policy that sets a maximum quota for other sectors and a minimum for agriculture would serve to reduce the volume of credit in the economy rather than increase credit to agriculture. It cannot be assumed that bankers will make more loans to the priority sectors after they reach the maximum quota in their preferred sectors. As one banker puts it, "I am not going to throw money away when I reach the ceiling set by The Central Bank." Banks will simply hold more liquid reserves, thus limiting the scarce supply of investable funds in society. In addition, to circumvent the policy, banks will say that they failed to find applicants who met their qualifications and this is the heart of the problem. Small farmers cannot meet bankers' requirements for collateral when applying for loans. In addition, an illiterate farmer cannot package a loan in a manner which is acceptable to bankers. Thus, there are structural constraints preventing bankers from making loans to agriculture.

A successful policy designed to encourage more banks to lend to the rural sector must be designed to address these problems. The Government must provide more incentives to commercial banks to encourage them to provide more funds to agriculture. Such incentives may take the form of repayment guarantees, tax incentives, and technical subsidies to banks to support small-farmer lenders, etc. These may include guarantees which repay bankers a part (or all) of loans to small farmers.

New forms of institutions may be created through which commercial banks may cooperate in providing resources for agriculture. For example, commercial banks can specialize in making loans to a medium-term institution which relends to farmers. Commercial banks may be encouraged to lend to groups of farming groups which they themselves organize for this purpose. Here, banks may group farmers and provide them with the necessary expertise to qualify for their loans.

Compulsory quotas require special rediscount facilities or repayment guarantees to be successful. The latter is better adjusted for small farmers. The selective credit policy fails to provide financial incentives to entice commercial banks to implement the policy.

Commercial banks should be encouraged to cooperate with the CNCA in making loans to farmers. This cooperation could take the form of commercial banks supplying CNCA with funds (at a low rate of interest) which would then be loaned to farmers through the CNCA. This formula has the advantage that the CNCA has more branches in the rural sector than commercial banks. As a rule, commercial banks lack branches in the rural areas.

It can be concluded that in the absence of cooperatives, heavy subsidy, or significantly higher interest rates, commercial banks will simply not extend credit to small farmers. Compulsory quotas will require some form of incentives to be successful. In the absence of incentives, they will reduce the ability of the banking system to allocate resource efficiency. Commercial banks need both the stick and the carrot to reorient themselves towards the traditional sector.

D. Pricing and Marketing Policies

There are two separate sets of pricing policies conducted in Togo, one for export cash crops and the other for food crops.

1. Export Cash Crops

Prices for export cash crops are fixed in advance for the crop year by a special committee whose major function is to fix and recommend to the government a set of export crop prices. The level of prices is fixed in accordance with the supply and demand situation in the world market. To these fixed set of prices, OPAT, the Export Marketing Board, adds marketing and transport costs.

Crops are purchased by OPAT's "approved" buyers (acheteurs agrees) and brought to its buying stations where they are sold. Financing of approved buyers is performed either by CNCA (for small Togolese buyers) or by commercial banks (by the large ex-colonial houses). OPAT is also aided in its marketing efforts by other specialized parastatals which intervene in certain sections to provide extension and primary marketing and ultimately sells the output to OPAT for export. These corporations include SONAPH for palm kernel and oil, SRCC for coffee and cocoa, TOGOFRUIT for fruits, and SOTOCO for cotton. These autonomous, product-oriented public corporations are entrusted with the execution of agricultural development projects as well as the primary marketing of the crops.

Producer prices have been kept relatively low for the two major export crops--coffee and cocoa. This policy, while enabling the government to gain increased revenues from the sale of these crops, has reduced the incentive of farmers to invest in these crops, causing output to decline. Recent price rises and the coffee/cocoa project (SRCC) have been intended to counteract this decline. Pricing policy must be conducted to set a proper balance between the conflicting objectives of increased farmer income against the need to generate public revenues, and the goal of self-sufficiency in food crops as opposed to export crop production.

Most modern inputs have been limited to cash crop production. Farmers have been subsidized by about 20 percent for fertilizers and insecticides. The cost of these subsidies to the government has been more than offset by the taxation of export crops implicit in the low producer prices.

As a rule, the marketing and pricing policies of Togo have not created a major handicap to agricultural credit. These issues will be addressed later in Part V.

2. <u>Pricing and Marketing Policies for Food Crops</u>

Pricing and marketing policies for food crops fall under the jurisdiction of TOGOGRAIN, the government marketing and price stabilization agency for food crops. Created in 1971, the objectives of TOGOGRAIN are to stabilize prices at an adequate level to producers and to guarantee cereals to consumers at reasonable prices.

TOGOGRAIN's avowed pricing policy consists of firm prices to producers when prices fall below a set of minimum determined by the cost of production. TOGOGRAIN sets its prices in accordance with that set in the market. When market prices fall below the target floor prices, TOGOGRAIN intervenes by authorizing its purchasing agents or its licensed buyers working on a commission, to purchase grains (usually after harvest) when prices are low. If the market price of grain rises higher than a fixed ceiling price (set to protect consumers), TOGOGRAIN not only withdraws from the market but begins selling its stored grain. TOGOGRAIN intervenes when the retail price (including margins) is above the desired consumer price.

In theory, TOGOGRAIN is supposed to purchase grain at a higher price after harvest than private traders offer to farmers. The practice of the matter is often just the opposite and it is often difficult for TOGOGRAIN to purchase grain. TOGOGRAIN has had more success in protecting urban consumers from the high price of grain during short periods.

There is also the problem of determining prices in the market. TOGOGRAIN fixes prices by the kilo. But in the market grain is sold by traditional measures. In addition, there is a variety of pricing formulas in the traditional sector based on many factors such as the relationship of buyer to seller, quantities bought and sold, the number of buyers, etc.

Thus, TOGOGRAIN has also been designated the official marketing agency for import and export of food crops. However, there are also small clandestine traders who trade grains back and forth across neighboring borders, though this actually does not generally attain large volumes.

3. Private Marketing of Crops

The vast majority of food crops is handled by private traders and retailers through traditional channels. TOGOGRAIN purchases only a small fraction of the total grain produced and marketed in Togo. Some argue that TOGOGRAIN quantities are not sufficient to have an impact on prices. The local purchase of grain is largely in the hands of market women. TOGOGRAIN often is unable to compete with private merchants because of the traditional ties that they have with their sellers. Farmers are familiar with these merchants and they often provide specialized services such as credit.

In conclusion, the GOT is concerned about stabilizing prices to both producers and consumers as is evidenced by TOGOGRAIN's activities/goals. However, the goals of maintain-ing adequate producer prices and guaranteeing reasonable consumer prices require an infrastructure that is not presently available. These and other issues will be fully addressed in Section V.

Compared to many African countries, Togo's intervention in the markets is "light-handed". The traditional marketing system operates with relative efficiency and the government has found it undesirable to supplant it for welfare purposes. Nevertheless, the traditional system needs strong guidance from the state marketing operatives.

IV. AN ANALYSIS OF AGRICULTURAL CREDIT PROGRAMS AND INSTITUTIONS

The following section presents an analysis of agricultural credit programs and institutions in Togo. Although the Agricultural Credit Bank, the CNCA, is the primary agricultural credit institution in Togo, there are a number of private and state organizations that provide ancillary support to agricultural credit. These will be discussed below.

A. The Agricultural Credit Bank (CNCA)

The CNCA is the principal institution of agricultural credit in Togo. Established in 1967, its purpose is to provide financial services to the rural sector to encourage development. It is administered by an Administrative Council consisting of 12 members (see Appendix for membership), presided over by the Ministry of Rural Development. The Administrative Council sometimes delegates a part of its administrative functions to a Loan Committee and to the Director General of CNCA itself. There are five major departments in the main headquarters in Lome. They are Inspector General, Administrative Services and Personnel, Accounting and Financial Services, Office of Research and Credit, and Training Office Organization and Systems Management.

Since its inception in 1967, CNCA has made more than 11 billion CFAF in loans to agriculture and other sectors.

The CNCA was originally endowed with a capital of 333 million CFAF and now has a current holding of 405 million CFAF, down from 467 million CFAF the previous year. In addition, CNCA receives annual subsidies from the government which up until 1978 amounted to 100 million CFAF, of which 75 million CFAF came from the treasury and 25 million CFAF came from OPAT. However, in 1978 and 1979, the treasury gave only 50 million CFAF and OPAT, 25 million, although 100 million was actually budgeted.

The CNCA has 16 offices (8 regional agencies and 8 local agencies which depend on the regional offices) and 2 project credit units, one each with the coffee/cocoa project in the Plateau Region and the integrated agricultural development project in the Maritime Region. In addition, there are 21 local offices that open at least one day per week to facilitate access to CNCA services by farmers. This network makes the CNCA the most widely represented financial institution in Togo (see Appendix for Organi-gram).

As of 1979, CNCA employs 196 persons, including 79 in the Lome headquarters and 117 in the agencies and credit units.

During the fiscal year 1978-79, CNCA made 3.6 billion CFAF in loans. About 60-70 percent of all of CNCA loans were made in conjunction with marketing of agricultural produce. The CNCA finances the total marketing of some products (cotton) and about 60 percent of others (coffee, cocoa, palm, etc.).

As for the types of loans made, those include food crops (annuals), perennial tree crops (coffee, fruit, palm, etc.), livestock, artisanal fishing, real estate, rural handicraft, and others.

1. CNCA Activities

The CNCA maintains facilities for demand deposits, passbook savings, and time deposits. In conjunction with the government, this bank is also involved in the training of agricultural technical services.

As for demand deposits, they consist mainly of checks made to government employees and paid via the CNCA. The CNCA has use of these funds for only a very short period of time. These accounts are a burden on the resources of CNCA (the servicing of these accounts can tie up as many as 20 employees at a time) and do not provide a useful source of funds. Demand deposits totalled 2,006.8 million CFAF in 1978 and rose to 2,176.5 million CFAF in 1979. Customer deposits form the bulk of CNCA's assets. Unfortunately, 55 percent of the deposits are often available for only a few days each month.

Passbook savings is an activity of CNCA which has been increasing. The accounts went from 486.1 million CFAF in 1978 to 726.2 million CFAF in 1979, an increase of 49 percent.

In terms of time deposits, the CNCA handled 1,066.9 million CFAF in 1979 as opposed to 525.9 million CFAF in 1978, an increment of 103 percent. As a rule, CNCA deposits are neither stable nor are they long-term in nature. This fact substantially reduces CNCA's ability to make loans.

2. Loans

During the 1978-79 season, the CNCA made a total of 11,276 loans which amounted to 3,469.6 million CFAF, down by 28.3 percent by number and up by 22.1 percent by value from the 1977-78 fiscal year. These statistics reveal that CNCA made larger loans mostly to government parastatals and fewer small loans to farmers and production groups during the 78-79 fiscal year as opposed to the preceding one. The interest rate charged by CNCA is currently 11-11½ percent. It pays a 7-7½ percent rate to its depositors and borrows from the Central Bank at a discount rate of 8-8½ percent. It is permitted to make loans discounted with the Central Bank with a margin of 3 percent.

As for lending procedures, loans to companies are made by the Loan Committee after a review of the dossier. Loans to salaried persons are made after a satisfactory review of the dossier and upon presentation of some form of collateral or guarantee. Loans to farmers are made upon the recommendation of the agricultural technical service with which the peasant is working (SOTOCO, SONAPH, etc.). Loans for equipment require payment of 10-20 percent of the cost of the equipment by the recipient. As a rule, loans made by the CNCA are in kind as opposed to cash. Loans can be made by the agency chief for amounts up to 100,000 CFAF. For amounts beyond 100,000, but less than 2 million CFAF, the loans must be approved by the office of the Director General. All loans of greater value must pass by the Loan Committee for approval.

3. Loan Structure

During the 1978-79 fiscal year, 56.6 percent of all loans by number and 86.6 percent by value were short-term (for one year or less--see Table IV-1). The average size of short-term loans was 471,326 CFAF. About 73 percent of the value of short-term loans were accounted for by 33 commercial loans. Next in importance were 3,451 emergency loans, averaging 135,726 CFAF and accounting for 15.6 percent of the short-term funds. This is a substantial increase from previous years, much of which can be attributed to adverse climatic conditions during recent years.

Table IV-1. Loan Structure for the Fiscal Years 1976/77--1978/79 (Percentage of Total Loans)

Loan Structure \ Fiscal Years	1976/77		1977/78		1978/79	
	Number	Value	Number	Value	Number	Value
Short-Term	73.0	88.9	61.8	84.5	56.6	86.6
Medium-Term	2.0	2.6	0.1	5.1	0.4	2.0
Long-Term	25.0	8.6	38.1	10.4	43.1	11.4

Source: Annual Report of the CNCA, CNCA.

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The third category of short-term loans by value was food crops, where 2,525 loans (39.6 percent) accounted for 248.1 millio CFAF (8.3 percent), the average size of which was 98,261 CFAF. The number of food-crop loans declined substantially, but the average size of theloan increased, reflecting a larger number of loans being accorded to cooperatives and farmer groups and fewer to individual farmers.

In 1978-79, a total of 39 medium-term loans was accorde less than 1 percent of the total number of loans, and about 2 percent of the value. Most of these loans went to individual farmers and salaried workers, primarily to finance livestock acquisition and equipment. Only 6 of the 39 went to finance food crops.

Long-term loans accounted for 43 percent of the total by number but only 11 percent by value. Most of these loans were made to farmers in the Plateau Regions to finance industrial crops (mainly coffee and cocoa). Other activities receiving long-term credit were fruit crops, livestock, housing and other diverse uses. Most of the long-term credits given to farmers were for commercial crops.

Table IV-2 reveals that the vast majority of loans made by CNCA were in conjunction with the marketing of agricultural output. As a rule, commercial loans averaged 75-80 percent of total loans accorded. CNCA finances an average of about 78 percent of the total.

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Table IV-2. Distribution of Loans by Number and Value 1976-77 to 1978-79 (Percentages of Total)

	1977		1977/78		1978/79	
	Number	Value	Number	Value	Number	Value
Production	80.3	23.0	87.7	30.5	69.1	23.6
Commercial-ization	.5	68.9	.1	60.4	.3	62.9
Energy Personnel	19.3	8.1	12.2	9.1	30.6	13.5

Source: Annual Report of the CNCA, CNCA.

Table IV-3. Volume and Percentage of Commercial Crops Financed by CNCA

FISCAL YEAR / CROPS	1977/78		1978/79	
	Production	%Financed by CNCA	Production	$ Financed by CNCA
Cocoa	16,668	71	12,591	89
Coffee	4,693	41	6,038	39
Palm	588	100	5,499	47
Peanuts	682	36	925	65
Cotton	4,517	100	12,610	100
Karite	6,709	30	1,216	85
Kapok	379	1	213	7
Ricin	112	100	64	99
Total	34,348	61	39,153	78

Volume of commercial crops exported by OPAT, up from 61 percent during the previous year, as exhibited in Table IV-3.

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In terms of regional distribution of loans, the Plateau and Central Regions accounted for 46 and 37 percentage, respectively, of the total value of food crop loans. This reflects the ability of farmers already involved in commercial crops to finance other farming activities. Ninety-six percent of industrial crop loans are made in the Plateau and all of the loans made under the "diverse" category are made in the Plateau and Central Regions.

Finally, of all loans made by CNCA, farmers received about 52 percent of the number but only 12 percent of the value, while salaried workers received about 17 percent of this number and 11 percent of the value.

4. Loan Repayment

The recovery of questionable debts constitutes one of the most serious problems of the CNCA, as it freezes a portion of the assets, some of which are never released. Table IV-4 summarizes the default rate for the years 1977-78. The rate of non-payment for the years 1977-78 was about 20 percent, up from a low of 2½ percent for 1976-76. The increase can be attributed primarily to climatic conditions and crop failures for the years 1976-77; for the years 1978-79, the rate was 7.3 percent.

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Table IV-4. Default Rates for Fiscal Years 1977-78 (In Million CFAF)

Loan Types	Total Loans	Reimbursed	Bad Debt	% Non-Payment
Production	321	276	45	14.0
Commercial	2,928	2,304	623	21.3
Other	229	250	30	13.1
Total	3,478	2,830	698	20.0

Source: CNCA.

The decrease in the rate of unpaid loans can be attributed to a reduction in unpaid commercial loans as exhibited in Table IV-5. This decline can be attributed to a new system of releasing funds for commercial loans.

Table IV-5. Percentage of Unpaid Loans, 1975-76 to 1978-79

Type	1977-78	1978-79
Commercial	21.3	1.9
Production	14	
Others	13.1	
Total	19	7.25

Source: CNCA

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The majority of bad loans (90 percent or 623 million CFAF) came from the commercial loans. This was either due to late payment by OPAT of its private traders who made loans from CNCA to purchase crops from farmers, or to poor management by marketing societies. As for production loans, the proportion of the total non-payment is small (6.4 percent), but the non-payment rate (14 percent) is high.

The bad debts come primarily from SORADs private buyers and questionable agricultural loans.

In the past, CNCA lost much money in unpaid loans to the SORADs which was never repaid. As of 1979 the SORAD still owes CNCA 355 million CFAF. These debts risk becoming permanent, as the SORADs were dissolved in 1978. As for private marketing societies, CNCA has made many unrecoverable loans. Some of these societies have since been liquidated, so there is little chance of recovery. The third major loss is to questionable agricultural loans which amounted to 49.6 percent of bad debts in 1978-79. In 1977-78 these amounted to 48 million CFAF and increased to 52 million CFAF in 1978-79, which is relatively high for agricultural production. The CNCA's high losses can be attributed first of all to the nature of agriculture itself. Agriculture depends to a large extent on climatic conditions. When rainfall is inadequate, farmers suffer a loss on their crops and thus, are unable to repay loans.

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Repayment of equipment loans to clients who have accounts at CNCA, does not seem to be a major problem. But for production loans, the non-payment rate climbed as high as 40-50 percent during the drought. Repayment of CNCA's loans to farmers is also adversely affected by an ineffective marketing system for food crops. TOGOGRAIN, for example, was unable to sustain the minimum price for cereals because of a lack of adequate storage facilities. As a rule, repayment is highest in activities where commercialization is most effective. For example, SOTOCO has the most effective marketing system for cotton and also has a 100 percent repayment rate. Nevertheless, the nature of the crop itself also influences repayment. Cotton, for example, is a crop which cannot be eaten and is grown primarily for sale.

For herding and fishing, where the non-payment rate is 16 percent, the problems are both a lack of feed and insufficient incentive for herders to sell their cattle on the market. Fishermen are acting in bad faith and therefore, have refused further credit to this sector until the rate of repayment rises to an acceptable level.

The highest rates of default occur on the special projects credit. The ACP Project has a default rate of 73 percent while the UPC Project has one of 67 percent. These poor rates can be attributed to a combination of uneconomic loans made and poor crop results.

The largest debt was incurred by the SORADs. Other losses incurred through the management of payroll account demand deposits, 181.8 million; EAR Siege, 45.6 million; and short-term agricultural loans; 52 million). The government's attitude towards the debts incurred by government agencies has not been favorable to CNCA. The GOT views money owed to CNCA as a transfer from one line of the government budget to another. As a result, efforts to recover loans such as those made to the SORADs have met with little success. This has placed a major constraint on the working capital of CNCA which restricts CNCAs ability to augment its lending capacity.

Finally, there is always the problem of bad faith. Some borrowers simply refuse to repay their debt. Some of their attitudes have been indirectly encouraged by the government's past policy of granting agricultural inputs free of charge to farmers. This has given some farmers the impression that anything coming from the government is free. Some farmers actually campaign in the rural sector to encourage other farmers from repaying loans.

B. <u>Credit Programs in Structured Development Projects</u>

There are two special development projects with credit components which are managed by the CNCA, and at least one other structured project with a credit element. The first consists of a coffee and cocoa regeneration project which is financed by the World Bank and the GOT. This project began in 1974 with the objective of rehabilitating coffee and cocoa plantations in the Plateau Region. Loans are made to farmers for a period of 8 years, including a 4-year grace period, to replant their aged or diseased trees. Cocoa loans are made for 12 years with a 6 year grace period to uproot diseased cocoa trees and replant disease-resistant trees. The interest rate on loans is 8.5 percent, including a 2 percent (one time) commission (1 percent for CNCA's general guarantee fund and 1 percent for a guarantee fund for long-term coffee and cocoa credit). In addition to long-term loans, short-term loans are made for fertilizers.

In the SRCC Project, loans are made to groups of five or more farmers planting at least 3 hectares. All members must satisfactorily execute the required agricultural operations for the individuals to get credit.

Loan repayment is the individual's responsibility unless there is a Village Group Center (VGC). The VGCs have been organized on a pilot basis and are operating successfully. They are designed to provide centralization of and improved post-harvest care for the produce to be marketed through technical advice and storage facilities. It is also hoped that the VGSs, in cooperation with the private licensed buyers, will facilitate credit recovery.

As of September 30, 1979, 532 million CFAF in loans had been accorded to 10,180 planters and 1,347 groups. Out of 6.6 million CFAF due on coffee loans and 1.6 million CFAF due on cocoa loans, only 4 million CFAF (60.6 percent) and 0.04 million

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CFAF (2.5 percent) have been repaid for coffee and cocoa, respectively. This is an overall repayment rate of 50.7 percent. CNCA ascribes this high rate to the fact that 50 percent of the plantations have shown little or no output and that some planters have used receipts from sales for other purposes than repaying loans.

To increase the low repayment rate, CNCA's current policy is to encourage the formation of more VGCs. In addition, a more careful consideration of the economic viability of the areas in which loans are made will have a positive impact on loan repayment. In many cases, the activity for which farmers are encouraged to obtain credit may not be profitable enough for succesful repayment.

A second project with a credit element managed by CNCA is the rural development project in the Maritime Region which began in 1976 and is scheduled to run through 1981. The objectives of this project are to improve and diversify production of upland crops (maize, cassava, ground nuts, cowpeas and cotton) as well as to develop and review production capabilities for low land, rainfed rice, vegetables and coconuts. Support services and infrastructure for 20,000 farm families are to be provided. Loans are made in kind to farmer groups to supply required inputs.

During the last three crop seasons, about 50 million CFAF have been accorded. The drought-related crop failure of 1977 led to a default rate of 83 percent. The following year, farmers in the project zone grew a bumper crop and output was so high that prices fell and farmers once again found themselves unable to repay their debts. The 1978-79 crop was considered normal, but repayment went to cover the previous 2 years' debt. Thus, the entire 1979 debt is unpaid; and the overall default rate for the three years is 83 percent.

The repayment rate has been poor due to farmers' groups that are poorly organized and lack managerial capability, the lack of an adequate marketing system for food crops, bad faith of some farmers, and the dissolution of certain farming groups.

Finally, there is one other structure development project with an agricultural credit component for which provisions are now being made for CNCA administration. This project is jointly financed by USAID and the Europe Development Fund (FED) whose objectives are to resettle about 1,800 farming families from densely populated areas in the less populated areas of Lakara where there is good agricultural potential. The project includes provisions for roads, schools, dispensaries, solar water pumps, and small-holder related projects.

The AID component consists of assiting farmers in the purchase and training of animals for traction. Several pairs of animals have been issued to families on credit before the project credit unit developed a specific set of obligations to the farmer. This approach to agricultural credit has already created some problems. First of all, the manner in which credit has been

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extended has given farmers the impression that repayment is of low importance to the implementation. As the credit element has not yet been separated from the technical services, the technical advisor risks being placed in the role of credit collector. Such a dual role could lead to conflicting loyalties and undermine the confidence of the farmers in the technical advisors.

It is suggested that the terms of credit be settled with the CNCA. The current policy of the GOT is to formulate a national credit policy which is then implemented throughout the country in all of the structured development projects. The new policy is to require CNCAs input in all aspects of the credit units in the various projects being implemented in Togo.

The CNCA has little flexibility in setting interest rates which are charged to farmers to make agricultural loans. If project implementors deem the CNCA's rates too high, then a special interest subsidy fund could be deposited with the CNCA to subsidize the difference between the actual rate charged by the CNCA (11-11½ percent) and the desired rate. This formula was followed by the World Bank Coffee/Cocoa Project which opted for a rate of 7 percent.

C. Commercial Banks

Currently, there are ten banks operating in Togo, including the Central Bank. Three of these banks are development banks, (including the CNCA) and five are commercial banks. The current credit policy of Togo is to consider all banks operating in Togo as development banks and to encourage each to operate in all sectors of the economy as prescribed in the Sectoral Credit Policy. Such a policy grants CNCA authority to make loans outside of agriculture and obligates other banks to provide credit to agriculture as well as to the modern sector.

As of today, there is very little financing of agricultural activities by commercial and development banks. Other than provisions of credit to finance the purchase of agricultural export cash crops, and even in this case, principally by the ex-colonial export horses, little or no agricultural credit is provided by banks other than the CNCA.

Banks universally give the same reasons for their reluctance to move into agriculture. Such arguments as:

- the lack of bankable projects;
- the lack of conventional means of security to guarantee loans;
- low profitability of agricultural activity but at high risk;
- inability of illiterate farmers to prepare dossiers;
- lack of modern, large-scale agricultural enterprises in Togo;
- lack of organization in the rural sector (i.e., cooperatives);
- lack of branching facilities in the rural sector;
- lack of motivation of farmers and the strong desire of the farmers to use loans for non-agricultural purposes; and
- lack of an adequate marketing system, etc.

Commercial banks are reluctant to make loans to farmers because of structural problems and difficulties of operating in the rural sector. It is doubtful, therefore, that the mere legislation of compulsory quotas to banks to provide loans for agricultural credit would be efficacious. Such a policy is not realistic in that it does not attempt to remove any of the structural barriers to lending to the rural sector. In addition, banks tend to concentrate on certain activities and don't have the necessary expertise outside of their specialization.

Government guarantees of loans made by commercial banks in the agricultural sector would provide them with greater incentives to make agricultural loans. Some banks feel that the government's financial position may prevent them from honoring their commitments, and, therefore, they would rather that agricultural loans be guaranteed by an international agency.

Banks also argue that interest rates for agriculture are fixed low in relation to the high risk. Interest rate structures are decided by the West African Monetary Union and must be adhered to by all member countries. If interest rates are to be set lower than the market rates, then the GOT must establish a subsidy fund for agricultural loans. Such a fund ("Fonds de bonification") has been established by small-scale enterprises. The National Industrial Bank (SNI) currently provides low-interest loans to small-scale enterprises (8-10.5 percent interest rates) whereas the discount rate of the Central Bank is 8-8½ percent. The difference is being met from the special subsidy fund.

D. Cooperative Credit Union

Finally, there is one cooperative credit union in Togo (National Committee for the Development of Cooperative Unions for Savings and Credit, CONAUDEC), which currently harnesses only savings in the rural sector, but has ultimate plans to make agricultural loans to member cooperative groups. CONAUDEC is a non-profit organization whose objective is to organize people in both the rural and urban communities into saving groups for investment in an effort to make them self-sufficient.

At present CONAUDEC has 7 agents assigned in the five regions whose major charge is to teach farmers to manage cooperatives (accounting, management of funds, etc.). As of 1979, CONAUDEC has attached to it 89 cooperatives with a combined membership of 3,739 people. They collected a total of about 43 million CFAF in savings and made about 18 million in loans (see Table IV-6).

Table IV-6. Summary of CONAUDEC Membership, Savings and Loans, 1976-79.

Year	No. COOPECs	Membership	Savings (CFAF)	Loans (CFAF)
Dec 76	77	2,823	24,978,087	12,039,942
Dec 77	85	2,985	29,797,150	18,839,087
Dec 78	92	3,685	33,839,718	18,726,265
Dec 79	89	3,739	43,964,517	18,213,202

Source: Annual Report of CONAUDEC.

CONAUDEC is currently organizing a National Congress of Cooperatives which will elect a National Advisory Council to advise management. The purpose of this Congress is to set off a national cooperative movement and to spread some propaganda in order to increase its membership. CONAUDEC also organizes seminars and workshops to train its agents and managers of cooperatives. Recently, CUNA has supplied a credit union expert through USAID to provide technical assistance to CONAUDEC over the next two years. It has also received some financial support and technical assistance from other foreign donors.

As a rule, CONAUDEC has not yet become involved in agricultural credit. The structure is not yet sufficiently developed for CONAUDEC to make agricultural credit loans, thus, the major emphasis to date is on the collection of savings.

V. AGRICULTURAL CREDIT PROBLEMS, CONSTRAINTS AND NEEDS

Agricultural credit is only one factor which may have a positive impact on increasing agricultural productivity and overall development of the rural sector. It is by no means the only factor and in fact, may not be the most important factor to encourage rural development.

Since an effective program of agricultural credit cannot be considered in isolation, then, agricultural credit must form one aspect of an integrated rural development program which addresses production, farmer organization, marketing, storage

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and pricing policies. All of these elements are interdependent and one of them can render a satisfactory result taken by itself. Any breakdown in the linkages produced by complementary sectors will cause a breakdown in agricultural credit. It is this principle which will guide the discussions to be presented in this section.

A. Agricultural Credit Problems and Constraints

The question which must be answered at this stage is what are the major handicaps in the various supportive sectors which have caused either a breakdown or have reduced the efficiency and success of agricultural credit in Togo? The answers to the above question are many, but we shall concentrate on climatic and structural factors, agricultural extension, farmer cooperation and marketing, including storage and government agricultural policies.

1. Climatic and Structural Factors

The success of agricultural credit, like agriculture in general, depends to a large extent on climatic conditions. Although the weather in Togo fluctuates less than in the Sahel, it is still subject to periodic droughts and floods. When rainfall is inadequate, farmers suffer crop losses and are unable to repay their loans.

The data and discussions presented earlier in this report indicate that there is a positive and direct relationship between loan delinquencies and poor weather conditions. This relationship was very evident during the crop cycle 1976-77 when output was severely affected by the drought of 1977. Conversely, extremely good weather which produces a bumper crop and floods the market and reduces prices may also have a negative impact on loan repayment. Togo experienced this problem in 1978 following the drought when TOGOGRAIN had inadequate storage facilities to successfully implement its price stabilization program. TOGOGRAIN was forced to evacuate grain that was rapidly deteriorating under poor storage facilities at a price below the existing market price. To aggravate this situation, TOGOGRAIN dumped grain into the market when market prices were already low and this further depressed prices, the opposite situation of TOGOGRAIN's legislative objective. Thus, farmers were unable to repay their loans because of the losses they incurred as a result of the depressed prices for grain.

2. Marketing Problems

Agricultural credit is hampered in Togo by the lack of an efficient marketing system for agricultural crops. This problem is especially evident when it comes to marketing of food crops.

As mentioned earlier, TOGOGRAIN is the official marketing agency for food crops as well as the agency in charge of price stabilization, management of food security stock, and the agency in charge of import and export of food crops. TOGOGRAIN is supposed to buy surplus crops when the price of grain is low and sell when the price to consumers is high. TOGOGRAIN carries out its function by authorizing buyers to purchase grain when prices fall below a predetermined minimum. Prices are fixed based on the price observed in the market place.

There are several serious problems which TOGOGRAIN encounters in an effort to implement its functions. First of all there is the difficulty of setting its prices. In theory, TOGOGRAIN fixes its price based on the price observed in the market place. In reality, it has no way of determining the so-called "market" price. It estimates market prices based on the price at which it purchases grain from its buyers. TOGOGRAIN has no monitoring system to accurately determine the price that its buyers actually paid for grain in the market place.

TOGOGRAIN actually controls only a small share of the total grain produced and marketed in Togo. The vast majority of grain traded passes through the private, traditional channels.

It has been argued that the small quantities of grain handled by TOGOGRAIN limit its ability to influence market prices. Table V-1 shows that TOGOGRAIN markets only 0.2 percent of the total output. Others argue that TOGOGRAIN is more effective in affecting the prices paid by consumers during shortage periods than it is in controlling producer prices. TOGOGRAIN has been known to pay lower prices in the market than private buyers which makes it difficult for it to purchase grain from farmers.

One of the major constraints to TOGOGRAIN's successful operation is the lack of adequate storage facilities to hold grain to prevent prices from falling. As mentioned earlier, TOGOGRAIN had to evacuate grain early to minimize its losses, as the grain was rapidly deteriorating under poor storage conditions. At present, TOGOGRAIN has 6 silos with a total capacity of 7,400 tons.

Table V-1. Production and Marketing of Food Crops in Togo

Year	Total Purchases (Tons)	Of Which Millet/Sorghum (Tons)	Production Marketed (%)	National Production Marketed	Of Which Millet/Sorghum (Tons)
1973/74	565	558			
1974/75	924	79			
1975/76	2,028	1,909	0.9	202,900	
1976/77	4,015	3,476	1.5	231,040	
1977/78	8,778	8,520	3.4	252,760	
1978/79	690	502	0.2	274,575	
1979/80				285,082	

Source: Annual Report of TOGOGRAIN.

In addition, there are 5 silos under construction that are expected to be completed by early next year and that will provide for 5,000 tons additional capacity. It also has at its disposal storage warehouses that can provide another 15,000 tons of short-term storage in sacks. Between now and 1980, TOGOGRAIN hopes to increase its storage facilities to 50,000 tons.

TOGOGRAIN is hampered by the difficulty of competing with market women in the purchase of grain. Due to the familiarity that these merchants have with farmers, and because of the other services which they provide such as loans, they have the advantage over TOGOGRAIN in purchasing grain from farmers.

Finally, TOGOGRAIN is limited in its marketing effectiveness by insufficient manpower, improperly trained employees, and by a lack of financial support from the government. TOGOGRAIN is expected to operate on a balanced budget, buying and selling grain so that a small profit margin is left to cover the cost of its operation. Nevertheless, it continues to incur losses.

An effective program for agricultural credit is severely handicapped in food crops if output is primarily autoconsumed and if the market is underdeveloped. Loans made to farmers to produce food crops are subject to higher risk than for export cash crops for which there is an organized market. Farmers who borrow money to purchase modern inputs to grow food crops for which there is no sales outlet may easily find themselves in debt. The CNCA's credit program is negatively affected by the high non-payment rates for production loans to grow food crops. Thus, a precondition for an improvement in the repayment rate in food-production loans is the establishment of an effective marketing system for food crops.

The marketing problems for cash export crops are different but nevertheless have an impact on agricultural credit. OPAT, the official marketing board for cash export crops, coordinates commercial credit for its "approved" buyers with the CNCA. OPAT buys its crops from private approved traders and parastatals (such as SOTOCO, SONAPH, TOGOGRUIT, etc.) after the crops have been financed by the CNCA. Private traders who borrow from CNCA to purchase crops are paid through a CNCA account from which the loan may be deducted. Such a system appears at first view to be failure proof, yet CNCA still incurs losses from the system.

First, some buyers manage to be paid directly by OPAT and sometimes fail to repay their loans. Others sometimes fail to use the loan to purchase crops from farmers and do not sell to OPAT, which results in a loss to CNCA. Often OPAT's buyer certification process leaves much to be desired and as a result many "questionable" traders with bad faith are certified to buy. Then, there are sometimes delays by OPAT in paying buyers for crops sold. In practice, OPAT pays CNCA upon verification of the products which may lead to loan delays in repaying CNCA.

Some argue that the marketing system for cash export crops in which CNCA finances the primary purchase of crops and OPAT controls ultimate sales tends to benefit OPAT at CNCA's expense. In reality, OPAT incurs few risks in the marketing of crops and makes substantial profits. To offset some of CNCA's losses by this system, OPAT makes annual contributions to CNCA from its profits. However, one can question whether these contributions offset adequately the built-in biases in the marketing system which serve to CNCA's disadvantage.

3. <u>Agricultural Extension</u>

Agricultural extension is one of the most important factors in determining the effective utilization of inputs purchased as a result of an agricultural loan. If farmers are not aware of the technically correct way of combining purchased inputs with other factors of production, then productivity may not increase with the purchased inputs. In such cases, the farmers will be unable to repay the loan from the proceeds of their output.

Agricultural extension services are particularly weak in Togo. There are two approaches to agricultural extension in Togo: diffused extension service, provided to farmers at large over the territory; and structured extension services, performed in conjunction with the implementation of structured development projects. The former approach is especially weak. One extension agent is expected to cover many farmers and in several different villages, often without the necessary facilities (vehicle, tools, equipment, inputs, etc.). Agricultural extension workers are spread too thinly to effectively perform their tasks.

Agricultural credit accorded in conjunction with this diffused extension service is very risky for credit may not be successful since the farmer often does not master new techniques that use the purchased inputs obtained on credit.

The structural extension approach has an advantage in that it is provided to farmers who participate in structured development projects that attempt to address all of the sectors which foster rural development. Often, the market is assured for the crops supported in these programs.

Agricultural credit is more successful in project-related extension programs because they require a closer contact between trainer and trainee. Under this formula, agricultural credit creates less of a problem. There is usually more control over the farmer's output which aids in the recuperation of loans.

SOTOCO, the cotton marketing parastatal offers the best example of a structured approach to agricultural extension, marketing and credit. SOTOCO has a vertical organizational structure which assumes primary responsibility for the provision of productive inputs, extension service for cotton production, and marketing. It purchases cotton from farmers under its jurisdiction at fixed prices and, at the same time, deducts any outstanding loans. Cotton farmers have a 100 percent repayment rate as opposed to about 40 percent for coffee and cocoa farmers, whose crops are still marketed informally by private merchants.

In recent years there have been few major structured development projects and agricultural extension has been geared toward diffused extension service. In this system, agricultural credit passes directly to peasant farmers from CNCA. There has been little coordination between the CNCA credit program and extension services in the area of agricultural credit. The credit agent is responsible for recuperating loans.

Diffuse extension service has been restricted by a shortate of adequately trained workers. There are only about 600 agents to provide all agricultural extension for the country as a whole. In contract, SOTOCO employs an equal number of agricultural extension agents to promote cotton production alone.

Agricultural extension workers are not sufficiently trained to provide services at the level required by the new extension policy which requires polyvalant skills. Many agents need recycling and retraining to equip them to provide multipurpose servides related to crops in general, as well as to agricultural cooperative formation and credit. Agricultural extension agents will be required to perform all functions in the future.

Prior to 1978, agricultural development was to be conducted through regional promotional societies (SORADs) which were in charge of agricultural extension, marketing, infrastructure development, and social welfare. This mandate proved to be too broad for the SORADs to fulfill. Thus, the GOT decided in the early seventies to form commodity-oriented societies to lessen the responsibilities by the SORADs, but it also withdrew their marketing income. They were resolved in

1977 and replaced by the ORPV (in the Ministry of Rural Development) and the ARAC (in the Ministry of Rural Economy). Both organizations were to be involved in agricultural extension.

Whereas the ORPVs are not yet functional, the ARACs have been given the major responsibility for promoting small farmer development. They provide both extension and cooperative services at the farm level. The ARACs use the diffused approach to extension. In this approach, one agent may cover 10-15 villages. Understandably, their effectiveness is severely limited by this approach.

The extension policy that will be implemented during the next five years will concentrate on the intermediary of structured projects. The objective is to stay with the farmer long enough to permit him to fully master new technological packages so as to make him self-sufficient. It is hoped that an independent farmer will be thus created.

Agricultural credit will be funneled primarily through structured integrated projects. A line of credit will be provided in such projects, managed by the CNCA, and used for a well-defined purpose. In all projects requiring credit, a feasibility study should be conducted to see if the economics of credit-related projects is correct. These studies will be conducted at the micro-level for farmers on an individual basis, as it is the farmer who will be expected to repay the loan. Thus, the project must show profitability to the farmer making the loan as well as to the economy as a whole.

In case of unfavorable climatic conditions, provisions should be made for farmers to reschedule the loan.

4. Cooperatives

As a result of the high administrative cost involved in making loans to farmers on an individual basis, some formula has to be developed which will allow for credit to be accorded on a group basis. Although cooperatives have often been provided this formula and are regarded as a viable structure for according production credit, the cooperative development in Togo has been slow and unsuccessful for several reasons.

The cooperative movement has, in the past, been from top down, and has not resulted in the formation of a permanent cooperative structure in Togo. It does not take into consideration the socio-economic factors of the rural milieu. Farmers do not feel that state-organized and managed cooperatives are their organizations, but regard them as another state institution. Farmers are thus not motivated to become members of such organizations and when they are members, have no motivation to develop group cooperation. In addition, the state has given peasants the impression that co-ops are mechanisms for receiving free assistance.

To aggravate the situation, the state has often brought in managers from the outside, many of whom don't even speak the local language. These managers tend to be very bureaucratic and peasants have trouble relating to them and to the management system which was fixed by the state. Such cooperatives have often been accused of making promises to farmers which were not (or could not have been) kept. Often, peasants were promised that their crop would be purchased but promises were not honored.

Thus, it can be concluded that the traditional method of organizing cooperatives from top down has fallen in disrepute. Such cooperatives do not pay enough attention to the special needs of the rural farmer and their management personnel have behaved paternalistically towards farmers. This has alienated the farmers and created a general apathy towards the co-ops themselves.

In order to circumvent the negative attitude of farmers towards past attempts of the government to organize them into cooperatives, the current policy is to encourage pre-cooperatives from the bottom up. Many informal groups have been organized into pre-co-ops but their structure is often too weak to provide a basis for according agricultural credit to small farmers.

There are several organizations operating in Togo whose major objective is to encourage cooperative formation. The cooperative services of the Ministry of Rural Development and CONAUDEC are the most active. CONAUDEC is trying not only to organize co-ops into production, marketing, and credit organizations, but financial institutions as well. The success of these efforts remains to be seen.

Grouping farmers has its advantage in lowering the administrative cost of making loans as well as providing a mechanism for obtaining group responsibility for repayment of loans. Nevertheless, one must avoid a single or rigid concept of cooperative organization in Africa. Thus, new forms of farmer organizations must be devised for Africa which can be adopted to the African situation, not only for the provision of agricultural credit but for farmer organization in general.

As there are few "real" cooperatives in Togo, new mechanisms must be created that will provide an efficient means of making group loans to small farmers. One such formula is to create regional committees made up of village responsibles, technical extension agents, CNCA representatives, local farmer representatives, etc. Such committees can be made responsible for screening potential candidates for loans. These committees can also be entrusted with the responsibility for developing loan categories and for the preselection of candidates.

One potential problem of village-level committees is that village leaders are most often community elders who constitute the most conservative and skeptical elements of society. Such elements do not usually provide a mechanism for change. The young will be more willing to experiment, but are often not given voice by the elder leaders. In spite of this, there is a need to study new arrangements by which group credit can be accorded in Togo.

5. Farmer Motivation

One of the most serious problems of introducing an official credit program in a traditional society which has been accustomed to receiving factors of production that do not require a direct repayment is the belief that what comes from the government is free and does not have to be repaid. Thus, many farmers have developed bad faith and refuse to repay loans. Some farmers even engage in propaganda campaigns to encourage other farmers not to repay loans.

In some cases, borrowers have not used the funds borrowed for agricultural purposes. There is a tendency for farmers to use funds from loans for building. In any event, he will hesitate to invest it in agriculture. There is a need to remotivate and re-educate farmers in the best methods of utililizing credit.

Peasants need also to be trained in the use of agricultural materials (irrigation facilities and equipment, agricultural machinery, and modern inputs) that are purchased through credit in an effort to get the most from them to improve production.

6. Government Support to Agricultural Credit

One of the major problems that has affected agricultural credit in Togo is insufficient financial support by the government. The CNCA lacks its own source of funding. Thus, it must either borrow funds from the Central Bank or receive annual funding from the government. In the former case, the CNCA is required by the Central Bank to make loans only 3 percent above the interest rate at which it borrows from the Central Bank. However, adminstrative cost of making loans to agriculture is greater than the 3 percent spread.

The CNCA does receive savings and demand deposits. Nevertheless, these sources of income are very short-term and unstable in nature. Finally, it receives annual sums from both the government and OPAT. These sums are insufficient to provide the level of support required for the desired level of agricultural progress. In addition, the government has not reimbursed CNCA for the unpaid loans made to the former SORADs. These were state organizations that were dissolved by the state. The new organizations which grew out of the SORADs did not assume their debts. Most of CNCA's large losses originated from the certain government societies. Thus, the funds which CNCA receives from the state do not cover its losses. Consequently, its total lending capacity is gradually shrinking. CNCA's working capital went from 467 million CFAF in 1978 to 404 million in 1979.

CNCA needs funds for long-term loans. Currently, peasants receive short-term loans (90 days). The Central Bank does not rediscount loans to CNCA for more than 4 years, and even here, loans are mostly for commercial purposes.

The CNCA needs an annual allotment of funds to raise the level of its capitalization. It should be the first bank to receive funds from the state. Not only does the CNCA need funds, but it needs them at a lower cost. The current interest rate to farmers (11-11½ percent) is too high for agricultural purposes.

In summation, the lack of adequate funding constitutes one of the major handicaps to agricultural credit in Togo. The CNCA needs a stable source of funds and at a reasonable cost.

B. Agricultural Credit Needs

1. Coordination

One of the most difficult questions to answer in this study is the following: Is there an acute shortage of agricultural credit in Togo? Or better still, are there viable sectors or subsectors in agriculture which are handicapped by the lack of or shortage of available financial resources to finance their progress?

These questions are difficult to answer because when one views the underdeveloped nature of agriculture in Togo relative to its potential in terms of agricultural resources including manpower availability, one is tempted to answer the question affirmatively. But on the other hand, when one evaluates agricultural requirements in relation to the capacity of existing supporting sectors, institutions, and operating efficiency of both, credit services provided, etc., one may draw the opposite conclusion.

Given the existing state of complementary activities in the rural sector of Togo that are required to make agricultural credit successful, the answer to the above question is "no". There does not appear to be a shortage of agricultural credit relative to the absorptive capacity of the rural sector. The state of agricultural extension, farmer organization and motivation, marketing channels, pricing policies, agricultural technology, etc., is such that the rural economy of Togo cannot absorb much more agricultural credit in an economically efficient manner.

The question as it was put is not correctly posed. The question should have been put as follows: Assuming that agricultural credit is provided within an integrated rural development program, is there sufficient credit available in Togo? The answer to this more important question is "yes". It is to the latter question that the following comments are addressed.

As mentioned, the major agricultural policy orientation in the next development plan will be the provision of agricultural credit within the context of precise integrated development projects which attempt to intervene in all aspects of rural livelihood. Agricultural credit will be provided to enable the farmer to purchase modern inputs necessary to increase his productivity. Farmers will be provided the necessary supportive services such as agricultural extension, cooperation, marketing, etc., to make the credit component successful. Under structured, integrated programs, the level of agricultural credit requirements will have to be substantially increased. The current level of support would be highly inadequate to support an integrated development strategy for changing the rural environment.

Currently, agricultural credit policies do not support an integrated strategy towards rural development. As mentioned earlier, agricultural credit is not enough to change the rural milieu in itself. The other ancillary services, technical expertise and a timely supply of inputs are necessary. Current policies do not encourage the coordinator of various sources of state intervention in the various subsectors of the rural economy. This lack of coordination constitutes a major bottleneck. Credit has been given a marginal position in most agricultural projects, a policy that has hindered its successful implementation.

This lack of coordination has often resulted in an inefficient use of limited credit funds and has served to reduce the effectiveness of credit. TOGOFRUIT can be cited as an example of problems that could have been eliminated with more cooperation among state intervention societies. The CNCA makes loans to farmers to grow fruit under the auspices of the fruit marketing organization, TOGOGRUIT. In a matter of a few years, fruit production will substantially increase. Nevertheless, the necessary marketing and transformation facilities to meet the expected supply increase have yet to be provided for. Therefore, when the highly perishable fruit reaches the market, much will be wasted as a result of a lack of cold storage, transport, and processing facilities. Thus, the farmers who have borrowed money from CNCA to grow fruit will find themselves in debt.

The above problems should have been anticipated and the necessary investment made in specialized facilities such as cold storage, cold transport, canning, etc., so as to make farmers investments in fruit trees profitable. It would have been better had farmers been grouped to finance not only fruit trees, but also processing facilities, transport and storage facilities, etc., in addition to fruit trees. In this fashion, they would have controlled the entire operation. Fruit production and marketing need to be better integrated and coordinated and, thus, jointly financed through agricultural credit.

There has been little attempt to integrate the credit components with the implementation of other components in specialized projects. For example, in the Coffee-Cocoa Project, the CNCA has not been able to operate as closely as it would have liked to with other organizations rendering technical services. As a result, there were many loans approved that may not have been had there been greater collaboration with extension services, thus, improving the repayment rate.

Coordination of activities in agricultural falls under the jurisdiction of the Director of Rural Development, Ministry of Rural Development. There are seven state organizations and 8 agricultural services which fall under the Director of Agriculture. Nevertheless, the necessary coordination for recuperating agricultural credit leaves much to be desired.

At the regional level, the Regional Director of Rural Development is in charge of agricultural extension and cooperative formation. When there is a special project in a region, a trainer is put in charge of implementation. In such a case, the agent works closely with CNCA's credit agents. However, in the case of diffused extension, there is little or no coordination of CNCA's activities with extension and marketing units.

The current policy of the CNCA is to seek a closer collaboration with technical extension workers. CNCA cannot have credit agents everywhere and must, therefore, depend more on the advice of the extension agents in the rural sector. This does not suggest that the technical units should assume a credit role. The technical advisors' primary role should be that of widely disseminating new techniques. Their role as collectors of loans and as extension agents may create conflicts between the farmers and the agents and contribute to the failure of both functions.

2. CNCA's Needs

CNCA's personnel need substantial strengthening. Much of its present staff is young and inexperienced. Many have very superficial understanding of the credit needs of the rural sector and do not have a sufficient understanding of the socio-economic factors and the morality of the rural milieu. Thus, there is a particular need for a training program to improve the ability of CNCA's staff to more effectively meet its objective.

The CNCA cannot reach all farmers individually. Thus, it must increasingly rely on farmer groups or cooperatives as a means of serving farmers. Due to the shortage of effective farmer pre-cooperatives or groups, the CNCA has not been able to make many production loans. Methods must be developed by which the efficiency of operating such groups is improved. Farmers must therefore, be given incentives to reorganize and be given the necessary management training and support. CNCA has generally found that groups organized solely for the purpose of receiving credit are not enduring. Such approaches lend credence to the view that government services are free. Thus, agricultural credit should be given to the group in a setting of technical guidance. The necessary inputs should be made available in adequate time and fashion as credit. The farmer groups must be prepared to handle the distribution of inputs and the sale of their production.

Regional branches of CNCA have not been effective in reaching the small farmer in the more remote areas. In fact, CNCA provides very little credit to individual farmers. Limited road infrastructure and transport facilities deter the farmers from using CNCA's facilities.

3. Interest Rate Subsidies

The interest rate on savings is 7½ percent per annum. The current interest rate which CNCA borrows money from the Central Bank is 8-8½ percent. The current lending interest rate to agriculture is 11-11½ percent. The margin which CNCA realizes is not adequate enough to finance its activities. Nevertheless, the interest rate is considered too high--for financing small farmer activities.

As the current policy of CNCA is to actively encourage savings, the interest rate of such accounts should not (and cannot) be lowered by CNCA. Thus, to increase the margin according to CNCA without raising its lending rates will require some form of interest rate subsidy. Such a subsidy can come directly from the Treasury, from agencies concerned with the rural sector (OPAT, SRCC, TOGOGRAIN, SOTOCO, etc.), or from donors as an integral part of development projects.

4. Global Credit Policies

The CNCA has been outside the mainstream of development planning. In addition, there has been a particular lack of a global policy for rural credit which has decreased the effectiveness of credit at the small farmer level.

The current policy of CNCA is to correct past policy inadequacies and to foster a global policy concerning rural credit in an effort to integrate its activities into an overall development plan of Togo. Such a policy should reduce competition between CNCA and other agencies and bring credit to small holders on a more regular basis.

CNCA is currently promoting a uniformed national policy towards agricultural credit in specialized development programs. Such policies accord similar credit terms in similar projects implemented in different regions. Such policies are not only in keeping with the national policy of harmonious regional development, but it also assures better control and coordination of credit throughout the nation. CNCA will play a major role in developing the national policy to be conducted.

Different conditions of financing under different projects create problems of uncertainty, distortion in production, and harder followup programs once the projects are terminated. Project's credit funds should be placed with the CNCA where they can be distributed under constant supervision unhampered by various conflicts of interest, and where CNCA cannot provide the flexibility in adjusting its services to all regions.

This policy should also emphasize a sharply focused organization of farmers in relation to their credit needs as opposed to a more diffused approach.

Agricultural credit policy should promote a balanced combination of food and cash crops. Cash crops whose marketing is assured by the state offer more security to farmers in selling their output. Loans used to purchase inputs to raise food crop output can be repaid out of the sales of cash crops. Credit is more risky in projects producing food crops alone. Also, crop rotation is necessary to maintain proper soil fertility. Farmers should not always grow the same crops in the same land year after year.

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In specialized projects with credit components, funds should be made available to cover crop losses due to unfavorable climate conditions. Such funds may come from mutual crop insurances or from some type of "natural catastrophe fund."

In order to retain the good faith of farmers, the terms of credit must reflect the realities of their situations. There must be provisions for recheduling debts when farmers are unable to pay as a result of climatic problems or marketing bottlenecks.

Once applied for, credit requests should be acted upon and, if approved, issued without long delays. This could possibly be achieved by allowing certain standard credit levels per hectare for certain crop mixes, as is being applied in the coffee/cocoa project. Such a system can be especially workable where farmers constitute members of a group which assume collective risks, thus, avoiding lengthy application processes. Credit should be granted in kind as opposed to cash whenever possible.

APPENDICES

Exhibit A-1

Distribution By Sector of Credits to the Economy in 1979; Situation as of the End of Trimester

Sector \ Trimester	December 12, 1978	March 30, 1979	June 30, 1979	September 30, 1979
	(Percentage of Total Credits)			
Agriculture	2.5	2.4	2.5	2.3
Industry	31.2	36.2	33.9	33.9
Of Which/ Large Scale	(27.4)	(32.9)	(30.6)	(30.7)
Small Scale	(3.8)	(3.3)	(3.3)	(3.2)
Housing	0.3	0.7	0.7	0.8
Public Works/ Building	8.5	7.4	6.9	5.3
Shipping and Transit	3.5	3.2	3.7	3.5
Commerce	20.8	17.1	18.4	18.5
Of Which/ Large Scale	(11.2)	(9.2)	(10.1)	(10.6)
Other Services	1.5	1.9	1.4	1.5
Sub-Total	68.3	69.0	67.5	65.8
Unrecorded Credit	31.7	31.0	32.5	34.2
Total	100.0	100.0	100.0	100.0

Source: BCEAD

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Exhibit A-2. Percentage By Number and Value of Loans Made by CNCA by Region, 1978-79.

	Short Term		Medium Term		Long Term		Total	
	By #	By Value	By #	By Value	By #	By Value	By #	By Value
Maritime	16.3	30.6	15.4	16.9	0.1	8.6	9.3	27.9
Plateaux	39.4	54.8	64.1	67.9	.998	90.1	65.5	59.1
Central	26.1	6.9	10.3	11.6	.0004	1.0	14.8	6.3
Kara	1.8	2.0	0	0	0	0	1.0	1.7
Savanes	16.4	5.2	10.3	3.6	.0002	.4	9.3	5.1
Total	6377	3005645700	39	68646876	4860	39532167	11276	3469614312

Source: Annual Report of the CNCA, CNCA

Exhibit A-3. Organigram of the CNCA (As of September 30, 1979)

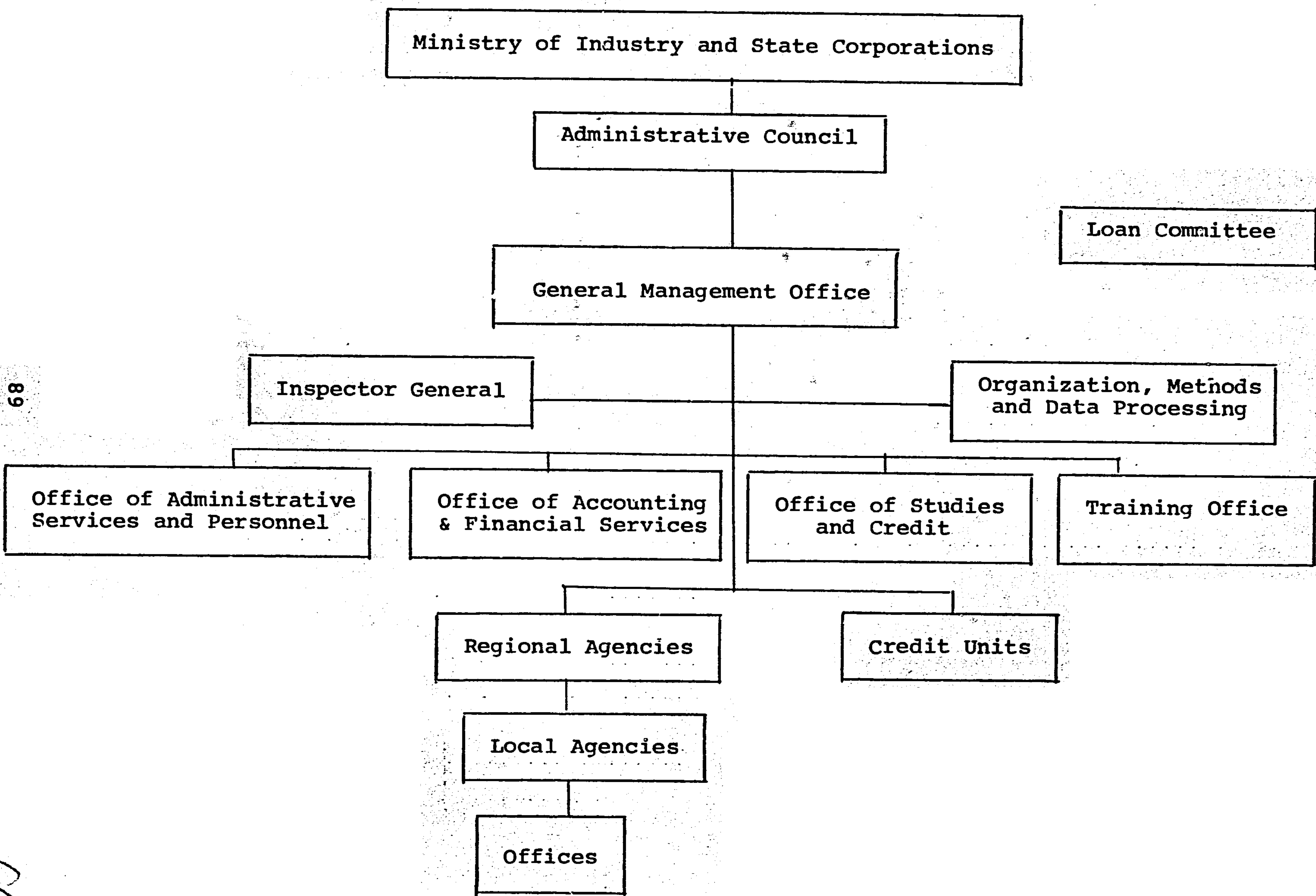

Exhibit A-4. Regional and Local CNCA Agencies With Dependent Regional Offices

Regional Agencies	Local Offices	Local Agencies	Local Offices
TSEVIE	Keve	TABLIGBO	Vogan
KPALIME	Agou	ANIE	Elavagnon (Est-Mono)
KPALIME	Dayes-Elavagnon	NOTSE	Tohoun
ATAKPAME	Amlame	SOTOUBOUA	Blitta
BADOU	Kougnohou	SOTOUBOUA	Adjengre
LAMA-KARA	Bafilo	TCHAMBA	Kambole
LAMA-KARA	Niamtougou	BASSAR	Kabou
LAMA-KARA	Kante	BASSAR	Guerin-Gouka
LAMA-KARA	Zone Projet-FED	PAGOUDA	Ketao
DAPAON	Mandouri	MANGO	Gando
		MANGO	Barkoissi

Source: CNCA

Exhibit A-5. List of Banks Operating in Togo

1. Union Togolaise des Banques (UTB)
2. Banque International pour l'Afrique Ovest (BIAO)
3. Banque Togolaise du Commerce et de l'Industrie (BTCI)
4. Banque Commerciale du Ghana (BCG)
5. Banque Arabe Lybienne Togolaise pour le Commerce Exterieur (BALTEX)
6. Banque Togolaise de Developpement (BTD)
7. Société Nationale d'Investissement (SNI)
8. Caisse Nationale de Credit Agricole (CNCA)
9. Banque de Credit et de Commerce International (BCCI)
10. Banque Centrale des Etats de l'Afrique de l'Ovest (BCEAO)

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