



The WEFA Group  
Wharton Econometric Forecasting Associates

150 Monument Road  
Bala Cynwyd, PA 19004  
215/667-6000

PN-011-1988  
1511 = 570 10

**DEG**

Development Economics Group of  
Louis Berger International, Inc.

100 Halsted Street  
East Orange, NJ 07019 USA  
Tel: 201-678-1960 Telex: 138-152

MALIAN FINANCIAL MARKETS ASSESSMENT AND STRATEGY

SURVEY AND POLICY RECOMMENDATIONS

APRIL 8, 1988

Prepared by:

Tamara J. Duggleby  
Louis Berger International, Inc.

and

Hisham El-Naggar  
Wharton Econometrics

A Report to the USAID Mission, Bamako, Mali  
Under IQC#PDC-0000-I-6136-00,  
The Macroeconomic Services IQC

*A Macroeconomic Services Partnership*

LOUIS BERGER INTERNATIONAL, INC.



Architects • Engineers • Economists • Planners  
1819 H Street, NW • Suite 900 • Washington, D.C. 20006  
Telephone: (202) 331-7775  
Telex: 292079 LBI UR

April 8, 1988

Mr. Eugene Chiavaroli  
Mission Director  
USAID Mali  
c/o American Embassy  
Rue de Rochester  
Bamako, MALI

Attn: James Elliot

Dear Mr. Chiavaroli:

Subject: Deliverable Under IQC #PDC-0000-I-6136-00  
D.O. #13

In accordance with the subject contract, the consultant delivered 5 copies of the draft report prior to departure from the country and now encloses the Final Report entitled: Malian Financial Markets Assessment and Strategy Survey and Policy Recommendations, April 8, 1988.

I am told Mr. Elliot's points, suggested in his March 20, 1988 memorandum to Ms. Duggleby, have been incorporated vis-a-vis short and long-term recommendations.

Two copies of the report are being sent by DHL courier while the other three are coming via the USAID pouch per a telephone conversation between Messrs. James Elliot and Curt Reintsma.

In addition, we are providing Mr. Reintsma with three additional copies - one of which should go to the USAID/Document Center/W.

Our submittal discussed herein thus fulfills our obligation under the contract.

Sincerely,

  
Barbara Phillips  
IQC Manager

cc: Carter Brandon, Director, DEG/LBII  
Tamara Duggleby  
Hisham El-Naggar

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## I. EXECUTIVE SUMMARY

1. Despite the continuing credit squeeze and depressed state of the economy, there is a clear perception among the business and banking community that the economy is being liberalized, that the donor community is ready to extend assistance, and that this is creating opportunities for private sector entrepreneurs. At the same time, these factors are engendering high expectations which may not foster the spirit donor agencies want to encourage. Potential private entrepreneurs, particularly SMSE investors, jeunes diplomes and many people making voluntary departures from the public sector, often exhibit the attitude that assistance is "owed" them unconditionally. Financial institutions, perceived by most to be the vehicle for extending assistance to the private sector, are likewise eager to earn commissions by managing donor credit lines, but do not seem to feel that this should obligate them in the least to assuming additional risks.

2. There is evidence that a strong entrepreneurial spirit exists, and has always existed, among Malian entrepreneurs. On the investors' side there is a considerable willingness to take risks, and certainly there is an eagerness to exploit business opportunities. At the same time, the private sector is hindered in its development by a number of factors. These include findings that:

- Entrepreneurs often lack sufficient managerial ability to undertake planned projects.
- Those entrepreneurs who are the target of donor assistance programs often lack viable original ideas.
- There is a tendency for entrepreneurs to undertake several activities at the same time (partially a reflection of the riskiness of most private sector activities), which sometimes fosters lack of commitment to any one line of business.

3. The business community is clearly divided into two spheres, formal and informal, which are sharply separated by a number of distinctions. These may be more evident in Mali's case than in the case of other West African countries. These distinctions pertain to:

- a. Their views of capital management
- b. Scope of their marketing activities
- c. Access to financing
- d. Attitudes toward formal sector commitments (e.g. financial obligations)

In most respects, the Malian informal sector is disadvantaged, not least by its extremely limited access to financial resources. This is clearly stifling its growth and

forcing informal sector operators to depend on the severely limited liquidity that informal financial institutions can generate.

It should also be noted that, while informal sector operators are not perceived by bank officials to exhibit much moral integrity in their dealings with formal financial institutions, there is clear evidence that they have a very strong sense of moral integrity in the context of informal credit arrangements. The latter are often unwritten, repayment being largely dependent on the borrower's good faith.

4. There is a severe liquidity shortage at every level of economic activity in Mali. This is clearly perceived by formal financial institutions, which are conscious of the strong power they wield and accordingly limit their credit in most instances to the best credit risks. The liquidity shortage is especially evident in the countryside and in informal sector operations, where exorbitant interest rates (upward of 200% on a per annum basis) are charged on very short-term installment credit arrangements to finance some consumer purchases (generally no more than two months).

5. As far as savings mobilization is concerned, the following patterns have been observed:

a. There is a distinct preference for real savings in the form of livestock, jewelry and home ownership, particularly among the rural population.

b. There is a slight cultural aversion to fixed interest credit, but this does not prevent most people from engaging in highly usurious installment credit transactions in which interest charges are disguised.

c. For most potential rural savers, interest in financial savings is conditional upon:

i. Easy access to their savings (once a week seems to be an acceptable frequency of access).

ii. Good quality services (in particular, no long waiting period to deposit or withdraw money).

iii. Assurance that the money is safe and can be drawn upon at will.

iv. A high return on savings, although that appears to be of lesser concern than access and quality of service.

v. Ability to borrow against savings, although rural savers appear to set less store by this than do urban savers.

6. Informal credit arrangements are made at various levels. The following observations were made:

a. Borrowing to finance certain categories of consumer purchases (from soap to expensive attire) is quite common, and the rates on such credit are exorbitant, reflecting a severe credit shortage.

b. There is a certain amount of excess liquidity among **commercants** (commercial traders) outside the formal credit system, and it appears to be available within a very narrow circle. Such "brotherhood" lending (not necessarily limited to relatives) is often interest-free and invariably very short-term. This liquidity is very limited and not always available when needed.

c. There is a very strong moral compulsion to repay a loan in the context of informal credit arrangements. That compulsion is generally much weaker when informal credit operators deal with formal sector financial institutions.

7. One informal financial institution, the postal checking system, was found to be surprisingly popular among all segments of the population. The system continues to be essentially insolvent, the victim of disastrous financial management. Although its proceeds are no longer used to finance the overall government budget deficit, its accounts are not separated from those of its manager, the OPT, which is a major deficit unit. At the same time people appear to be interested in the postal checking system not as an outlet for savings, but merely as a mechanism for effecting cash transfers, a function the system is capable of fulfilling if small amounts are involved.

8. Formal financial institutions share the following characteristics:

a. They are strongly dependent on low cost funds, their average cost of funds being in the neighborhood of 4.5 to 6%.

b. Banks credit allocation policy is characterized by:

i. A strong predilection for lending to the commercial sector.

ii. A preference for short-term loans.

iii. A heavy reliance upon donor guarantees for non-traditional lending, and limited willingness to accept collateral in secured lending arrangements.

iv. A limited degree of risk diversification.

9. The following recent developments have been observed in the formal financial sector:

a. A shift away from commercial sector lending, which is becoming distinctly less attractive.

b. A strong interest in attracting rural deposits, primarily the result of the need to keep bank cost of funds low.

c. A firm interest in becoming involved in donor programs in order to qualify for credit guarantees, but little willingness to undertake riskier lending activities as a result.

10. The regulation of the formal financial sector, undertaken by the BCEAO and the Malian National Credit Committee, has a number of features that have hindered the growth of financial

intermediation. These include the following:

a. Credit ceilings imposed on individual banks by BCEAO are judged to lack flexibility. (See Appendix tables.)

b. Interest rate ceilings are low relative to the risk inherent in financial intermediation in a country like Mali - and relative to the severe liquidity shortage the country is experiencing. (See Appendix tables.)

c. The inclusion within the categorical credit ceilings of credit extended through donor credit lines is limiting bank interest in using such credit lines more aggressively.

11. Little direct information was available on bank supervision, but there is reason to believe that it is fraught with problems. In particular:

a. Credit ceilings are a problem. In the best of cases, uniform credit growth rates are allowed all banks, which has discriminated against smaller banks in favor of the highly problematic BDM.

b. Sectoral credit coefficients appear to have no force at all, because penalties are not levied and they contribute little to allocative efficiency.

c. It is not certain whether penalties on overall credit ceiling violations are consistently enforced and to what extent. In all events, it is believed that the penalty rate has been too low to discourage excessive lending - particularly by the BDM.

12. Informal credit institutions dispose of a number of advantages, but their capacity for meaningful financial intermediation is presently rather limited. Linkages of informal sector credit institutions with formal institutions could, however, expand their scope for overall financial intermediation and make it possible for formal financial institutions to penetrate new sectors, while increasing allocative efficiency.

13. In intervening in financial markets in Mali, donors have taken some steps which have fallen short of producing optimal results. These include the following:

- The excessive willingness to guarantee some bank loans has encouraged banks to think of donor funds as a means of increasing their scope of activity without engaging them in much risk-taking. This runs the risk of encouraging banks to develop more into "prestataires de services" than real financial intermediaries, with little gain in overall allocative efficiency.

- Little attention has been paid to whether beneficiaries of donor credit guarantees have been genuinely disadvantaged borrowers who would not have had access to credit otherwise. There is evidence that, even where guaranteed loans were successfully used to finance productive activities, the main distributive impact has sometimes been to subsidize a number of powerful commercial families.

- Two credit guarantee programs, those for the jeunes diplomes and the Voluntary Early Departures, have met with a cool reception from most bankers. The reason appears to be that the loan applicants under those programs often do not seem to be entrepreneurial material to most bank officials. This must be taken with some qualifications, since bankers may regard no one who is a total unknown to them to be a promising investor. However, the mere fact of being disadvantaged does not make a borrower a good entrepreneur (and hence a good credit risk).

## II. Economic Environment and Financial Sector Overview

### II.A. Introduction

Despite the persistence of severe economic problems, there is a strong perception among private entrepreneurs, bank officials and investors that the business climate is improving. This is not as paradoxical as it might seem. Increasing business confidence can be attributed to the following:

- The government is more responsive to pressure from the donor community to liberalize the economy.
- The donor community is eager to extend financial assistance to Mali, ideally by helping the Malian private sector (notably small and medium enterprises).
- The financial sector is seen by many as the vehicle for enabling such assistance to reach private entrepreneurs, particularly as the severe shortage of credit is a major constraint hindering the growth of private enterprises.

### II.B. Financial Sector Overview

In many ways, Mali is a prime example where economic development is being hindered by the failure of the financial sector to fulfill its basic functions, these functions being:

- Savings mobilization.
- The provision of services to depositors and borrowers
- Risk diversification
- The allocation of funds to the most productive uses

This paper proposes accordingly to do the following:

- To illustrate the problems that have led to the sub-optimal performance of the financial sector and to assess the impact of these problems on the economy as a whole.
- To determine the extent to which regulations currently in effect and the manner in which such regulations are enforced may have contributed to these problems.
- To examine the role of informal and semi-formal credit markets in mobilizing savings and allocating funds for investment purposes, and to evaluate the efficiency of such markets.
- To discuss existing linkages between the formal financial sector on the one hand, and informal and semi-formal credit markets on the other.
- To recommend ways in which USAID can:

- o Improve the efficiency of the formal financial sector.
- o Encourage greater risk-taking by financial institutions without sacrificing the quality of their portfolios.
- o Develop linkages between the formal and informal/semi-formal financial sectors that could improve overall

efficiency.

- o Develop a healthy relationship between informal sector private entrepreneurs and the agricultural producer sector on the one hand, and the formal financial sector on the other.

- o Improve the overall business climate by pushing for necessary reforms of regulations affecting financial institutions.

## II.B.1. The Formal Financial Sector: Sources of Funds

### II.B.1.a. Savings Mobilization

The perceptions of bankers regarding savings mobilization potential vary considerably from one financial institution to another. On the whole, however, bankers appear to feel that the scope for raising the level of financial savings is limited, notably in rural areas, where most banks have had limited (and in some cases no) success in developing a viable deposit base. The reasons for that limited success appear to be the following:

- In most rural areas there is a distinct preference for real as opposed to financial savings. In the first place, there is a nearly universal preference for jewelry as a form of savings, notably on the part of women. This extends to urban areas as well. In the second place, there is an almost equally strong preference for livestock as a store of wealth. Finally, despite the fact that real estate values in Mali do not appear to be growing very rapidly, and that home construction is an involved operation that seems to be fraught with problems, home ownership is a particularly popular substitute for financial savings. The preference for real savings seems to stem from the following:

- o Wealth is traditionally measured by a family's holding of livestock and jewelry in many rural areas, while home ownership is often a matter of prestige.

- o Both livestock and jewelry are often an essential part of the dowry paid by the groom in rural areas.

- o There is a fairly good secondary market for both livestock and jewelry, so that they can be liquidated on relatively short notice should the need arise.

- Banks have serious credibility problems with the peasantry and the small commercants in the rural areas. This is because of the following:

- o Few banks have established a significant presence in rural areas. The two exceptions are BDM, whose financial management was hardly calculated to inspire confidence, and BNDA, which suspended the use of mobile banks in rural areas after a brief period of operation, perceiving it to be too costly.

- o Banks are widely regarded as unapproachable by

the rural population, which is put off by the extremely complicated requirements involved in dealing with the formal banking sector. These include having an account with the bank (often a minimum level of deposits is required) and having adequate security or guarantees - or, more simply, being "known" in formal business circles. Most rural entrepreneurs we interviewed voiced strong suspicions of the relevance of the traditional banking sector to their needs.

On the banks' side, it can be said that, with the possible exception of BNDA, most banks are accustomed to dealing primarily with the urban business community. Most bank officials appear to have undergone a training program that emphasizes the importance of developing customer relations with people judged a priori to be creditworthy. This naturally fosters an attitude on the part of bank officials that the rural population often regards as intimidating. It is interesting to note in this regard that most banks are barely aware of the credibility gap that separates them from the rural population.

On the whole, it is reasonable to conclude that Malian banks have largely failed to mobilize rural savings. This has many consequences which inhibit the growth of the local economy. In particular:

- It perpetuates the incompatibility of urban business practices and rural needs.

- It causes most bankers to be reticent about extending credit to rurally based enterprises, as they are unfamiliar with the terrain and generally ill at ease with rural entrepreneurs.

- It conditions the rural population to store wealth in sub-optimal, and not particularly productive, assets. In this regard it should be noted that the drought is believed to have reduced the proportion of rural wealth held in the form of livestock, and that fluctuations in gold prices may have resulted in negative returns to savers holding jewelry.

- It could have the effect of exacerbating the severe liquidity shortage, of which there is ample evidence in the countryside. This shortage is especially acute among small informal businesses and agricultural producers, as evidenced by the prevalence of very short-term seller-financed installment credit arrangements, implying exorbitant interest rates (200% per annum or more) for the sale of many consumer items.

- On the other hand, substantial mobilization of new savings without a corresponding increase in available credit, could have the effect of hindering the flow of informal sector credit in rural areas.

Generally alarming is the lack of formal sector intermediation between rural savers and rural borrowers. There appears to be little or no real effort by banks to insure that the financial resources generated by the rural sector are made available for investment in rural enterprises. At least three banks, BIAO, BMCD and BNDA, are actively engaged in soliciting

funds from rural savers.

This, however, is no more than a reflection of the difficulties these banks are currently facing in raising funds cheaply, in part caused by rising expectations of urban savers as to level of savings remuneration. In particular, none of the banks interviewed appears to have a well-formulated strategy for channelling funds to projects in the countryside. In the case of BIAO, the opening of a branch in the Paris suburb of Montreuil made it possible to raise funds at the rate of CFA 5 billion (\$1.78 million) per year, primarily in the form of remittances of emigrant workers from the province of Kayes. To date, however, the bank has undertaken no meaningful credit program for the region to which many of the emigrant workers will be ultimately returning.

#### II.B.1.b. Liability Management

For each of the banks examined by the financial markets team, mobilizing rural savings is not an end in itself, but merely part of the bank's efforts to secure funds as cheaply as possible. The main sources of funds for commercial banks in Mali are:

- Deposits held by individuals or by businesses. In general, banks are not willing to pay substantial interest on these deposits unless they are quite large. Indeed, most banks have minimum deposit requirements for the opening of an account (usually in the neighborhood of CFAF 25,000 to CFAF 35,000 - \$90 to \$125 - for individuals and CFAF 250,000 - \$900 - for businesses). As the banks allow depositors to draw down their accounts afterward to as little as CFAF 2,000, it is clear that the minimum deposit requirement at the beginning is meant to limit access to the bank to "serious" savers rather than to minimize transaction costs. Thus, it is apparent that the banks prefer to deal with a certain class of people, which in turn limits their clientele to a small segment of the business community.

- Refinancing arrangements, which are strictly regulated by the BCEAO. Credit de campagne and SMSE loans can (and invariably are) rediscounted at the Taux d'Escompte Preferentiel (TEP or preferential discount rate) of 6%, which in effect subsidizes this form of credit. It does so without excluding it from the stringent overall credit ceiling to which all banks are subject. Other loans can be refinanced at a higher rate (8.5%).

- Credit lines provided by the donor community, which provide partial or total loan guarantees. Loans offered from these credit lines are, however, counted as part of the bank's credit for purposes of monitoring overall credit ceiling compliance.

- Funds loaned to Malian banks by participating foreign

banks (e.g. Credit Lyonnais in the case of BMCD and the Caisse Centrale in the case of BNDA). There is clear evidence that the cost of such funds is extremely low (around 3.8% in the case of BNDA), suggesting deliberate undercharging (possibly for tax purposes) by participating foreign banks.

There is a clear pattern of evolution in banks' liability management, the result of economic and financial developments in recent years. Among the major aspects of this evolution are the following:

- Banks are becoming increasingly conscious of the cost of deposits. This is because they are finding that, in urban areas in particular, depositors are beginning to care a great deal about the return on their money. This is resulting in the bidding up of yields on large term deposits and CD's, which are subject to negotiations with depositors. This is a major reason underlying some banks' increasing interest in mobilizing rural savings.

- Quality of service (defined as access to savings, speed of transactions, etc.) continues to be a significant factor in wooing depositors. The branching policy of certain banks appears to have been largely governed by such considerations. Most banks maintained that quality of service is of paramount importance to potential depositors when a region is first penetrated. After a while return on deposits becomes increasingly more important. This explains the fact that no or very low minimum deposit amounts are required in areas where a new branch is first set up.

- Banks are becoming increasingly interested in managing credit lines extended by donor agencies, and are generally willing to modify their credit policies to qualify for donor guarantees, as described below. Banks, however, are typically seeking to act less as traditional intermediaries and more as "providers of service" ("prestataires de service") of donor agencies. They are, in effect, trying to operate while minimizing the risk to themselves - a natural reaction under the circumstances.

The average cost of funds for most banks appears to be in the range of 4.5 to 6%. This suggests significant use of low cost refinancing (at a preferential rate), and presence of a high proportion of sight deposit, which yield no interest, among their liabilities.

It is thus clear that a fairly significant percentage of bank depositors are captive clients, interested in maintaining an account with the bank in order to qualify for a loan, to insure that funds are securely stored, or to have access to bank services. Banks are quite conscious of this fact, and on the whole they are eager to perpetuate a situation which guarantees them access to funds at low cost.

It can therefore be concluded that conditions on the liability side promote bank dependence on low-cost funds. This in turn limits their potential for savings mobilization and, given the correspondingly low ceilings they realize on their assets allowing them a modest margin, is one of the factors explaining their high aversion to risk.

## II.B.2. The Formal Financial Sector: Credit Allocation

It is reasonable to conclude that, the BDM and the BNDA notwithstanding, the formal financial system in Mali suffers from a lack of specialized development institutions. The major elements of the lending policy of the Malian banking system can be summarized as follows:

- A strong predilection for lending to the commercial sector, and, conversely, an aversion to lending to new entrants in the market, notably agricultural producers and most small businesses.
- A preference for short-term loans.
- A heavy reliance upon donor guarantees for non-traditional borrower groups, and limited willingness to accept collateral in secured lending.
- A limited degree of risk diversification.

### II.B.2.a. The Predominance of Commercial Sector Lending

As far as private sector lending is concerned, there has been a strong preference on the part of bankers for the commercial sector, whose activities are heavily geared toward export-import operations and retail distribution. The reasons for this nearly universal preference are as follows:

- The commercial sector constitutes the bulk of the traditional business community, which in turn constitutes the major part of bank depositors. The commercial traders are better known and more used to dealing with bankers than anyone else. It might also be added that there are biases that operate in bank dealings with commercants. Banks understandably find it easier to deal with better educated entrepreneurs who can present their ideas convincingly, as is true of many commercial traders. Inability to express oneself in French does not appear to be an unsurmountable problem if the merchant speaks Bambara. Speakers of Jawango and Sarakole (groups which are active in commerce) have, however, reportedly encountered difficulties.

- Almost all other sectors are subject to risks the banks consider unacceptable. They will rarely extend credit to other sectors without adequate guarantees, for the following reasons:

- o The low rate ceilings (see appendix tables) are

in part responsible for bankers' reluctance to lend to sectors other than the commercial sector, as other sectors are perceived to carry higher risks. In cases where the TEP can be used to refinance credit cheaply (as in the case of credit de campagne and small SMSE loans), credit ceilings also contribute to turning bankers away from what they consider to be lower quality credits.

o The agricultural sector is considered particularly risky, primarily because supply conditions and government policies affecting agricultural production can change rapidly. For most banks, the remoteness of many agricultural producers (complicated by the banks' limited rural outreach), the predominance of small-scale farming, and the fact that agricultural producers are often intimidated by urban bankers, are additional complicating factors.

o In considering project dossiers submitted by small- or medium-scale agricultural or industrial loan applicants, most banks feel obliged to investigate both the background of the applicant and the viability of his project. Because of the lack of trust and familiarity between the banks and many potential non-traditional customers, "moral integrity" is one of the major points of emphasis of loan officers. Verification in such cases is often costly and very difficult.

BOAM is, however, exceptional in that it has been actively wooing new borrowers with local enterprises for some time, and has gone far in the direction of minimizing information costs by using its own stockholders and their acquaintances as references.

Recent credit market developments have resulted in a highly evident shift on the part of banks away from commercial credit. These include the following:

- Because of the continuing economic difficulties, many commercants are considered to have become worse credit risks.

- The recently instituted requirement that merchants deposit 75% of the value of the credit they seek to finance import operations is making this kind of operation distinctly less popular with banks.

- There is a clear perception that providers of the highly sought after guaranty funds are eager to direct credit toward new borrowers, notably cooperatives and SMSE's. Banks are especially anxious to qualify for such guarantees, if they are not required to take substantial risks in doing so.

#### II.B.2.b. Preference for Short-Term Loans

There is a strong bias in favor of short-term loans on the part of Malian banks. This can be explained by the following:

- The preference for commercial sector lending in itself leads to a preference for short-term lending, as the needs of the sector are, for the most part, short-term in nature.

- Long-term rates mandated by BCEAO allow for a negligible premium on long-term loans, the justification being that banks' experience in West Africa suggests that long-term lending is in fact less risky than short-term lending. This, however, merely reflects the fact that the extremely limited long-term lending extended by African banks has been reserved for their very best customers.

- The unstable macroeconomic and business environment implies that risks are compounded over time, leading to a high liquidity preference. This is accentuated by bankers' awareness of the high volatility of their liabilities, which are predominantly short-term in nature.

- Given the highly restrictive credit ceilings in effect, banks are reluctant to extend long-term loans that would limit their future ability to extend short-term credit.

The bias in favor of short-term lending has had a number of harmful consequences. These include the following:

- Many SMSE's (notably industrial) require long-term financing because of their lengthy gestation periods. These SMSE's are effectively cut off from credit.

- The scarcity of long-term credit exacerbates the shortage of short-term credit, as short-term credit is often rolled over by businesses in need of long-term financing.

#### II.B.2.c. Limited Use of Collateral

As a rule, banks' preferences for guarantees on loans they extend fall in this order:

1. Guarantees offered by donor credit agencies, preferably on the entire amount of the loan rather than on the amount of the actual default.

2. Co-signature by known bank customers or, in some cases, by "notables" who pledge their word of honor.

3. Collective guarantees by groups of investors or by members of a cooperative association.

4. Real assets used as collateral.

The relatively low levels of confidence which banks have placed in guarantees other than those offered by donor agencies, is doubtless a reflection of their disappointing experience. Some banks, notably BNDA, have suffered substantial losses because of co-signatures or collective guarantees that could not be made good.

The strong bias against real assets used as collateral is particularly alarming in a country where real assets are preferred to financial ones as a form of savings. In effect, it suggests that even sectors which have accumulated a surplus in the form of resources cannot convert this surplus into liquidity to be used for productive purposes. The reasons for bank aversion to using real assets as collateral include the following:

- The consent of the Ministry of Justice is required before assets can be seized, and even then the procedure typically lasts 18 to 24 months.
- The resale of seized assets is often complicated by their excessively specialized nature.
- Malians are generally reluctant to buy assets seized from a borrower in distress, and highly visible attempts by a bank to sell such assets are viewed as bad practice.

#### II.B.2.d. Limited Risk Diversification

The strong predilection exhibited by banks for commercial sector and short-term loans allows for limited scope for risk diversification. This is made evident by the fact that most banks are now feeling the pinch of deteriorating conditions in the commercial sector. In the case of BNDA, the only partially private bank with substantial exposure in the agricultural sector, the fluctuations to which that sector is vulnerable are keenly felt, given BNDA's limited involvement in sectors subject to a substantially different kind of risk.

Most Malian bankers argue that risk diversification on a large scale is not realistic in today's environment. The reasons they give can be summarized as follows:

- For the reasons explained above, the commercial sector will have to continue to be a major user of bank funds.
- Diversification is not seen as a function to be performed by bankers, but rather by the entrepreneurs themselves. Most entrepreneurs are, in fact, involved in more than one activity at the same time. This, however, does not result in the pooling of bank risk. Instead, it often gives rise to a lack of commitment to any one enterprise on the part of bank borrowers.
- Project evaluation is a costly activity in most banks. Bank managers are therefore generally unwilling to invest additional resources in this area - unless, of course, assistance on this end is extended by donor agencies.

#### II.B.3. Regulations Governing the Formal Financial Sector

The formal financial sector is subject to the following regulators:

1. BCEAO. Mali rejoined the UMOA in 1984. Technically Mali has the same voting rights as the other UMOA members, including France. In practice, however, Mali has relatively little influence on decision making at the UMOA level, given its lack of experience with BCEAO proceedings and its status as a more substantial debtor than some other members of UMOA system. Furthermore, French influence predominates in UMOA, forcing upon its African members a more restrictive monetary policy (and hence tighter credit ceilings) than many of them would like to see.

2. The Malian National Credit Committee. The committee includes representatives from the Presidency, the Ministry of Finance, the Malian branch of BCEAO and the banking sector. The committee decides on the allocation of credit ceilings between individual banks, and also enacts other banking regulations (e.g. deposit requirements for importers) at the national level.

Membership in UMOA has offered Mali certain advantages, notably a stable, fully convertible currency; higher quality credit management and supervision; and more responsible fiscal policy in general. At the same time, membership in UMOA has meant that Mali has little control over its monetary policy, since it must subscribe to whatever policy the UMOA judges necessary to protect the value of the CFA Franc. Among the serious handicaps imposed by UMOA regulations on the Malian banking system, are the following:

- The global credit ceiling imposed by UMOA is judged to be particularly stringent in Mali's case. This is because Mali is believed to have an extremely low velocity for money, suggesting a more modest inflationary impact for credit.

- Interest rate ceilings (see Appendix tables) are low relative to the level of risk inherent in financial intermediation in a country like Mali. To conclude from that that low rates are at the root of Mali's financial sector problems (i.e. that Mali is the victim of repressed financial markets) is, however, an understatement of the problem. First, it is not clear that rates on savings accounts fall short of inflation (estimates of inflation for an average family vary greatly, but 5 to 6% seems to be the average estimate). Financial savings therefore probably do carry a real return. Second, for banks to expand meaningfully the range of their lending, other problems (e.g. high information costs, the unreliability of the accounting and legal systems, the segmentation of the banking community, etc.) would have to be addressed. In the final analysis, however, credit allocation cannot be put on a sound footing without interest rates being allowed to reflect the risk inherent in lending to different classes of borrowers.

- While the possibility of refinancing at the TEP has contributed to greater willingness to extend credit de campagne and loans to SMSE's, the cut-off for amount of the total investment for rediscountable SMSE loans (CFA 30 million-\$100,000) is too low to favor many small industrial schemes. The

application of overall credit ceilings to preferential loans probably discourages greater use of TEP discounting. Furthermore, the TEP can only be applied to credit de campagne when the latter is used for marketing purposes; loans for agricultural production are therefore discountable only at the higher rate.

- The refusal of the BCEAO to exclude credit lines provided by the donor agencies is likewise limiting bank interest in using such credit lines more aggressively. The only likely explanation of this rule is inflationary fears (probably exaggerated) on the part of the UMOA Board, as the balance of payments impact of such loans is neutralized by the provision of foreign currency by the donor agencies.

At the same time, there are problems with the way the Malian National Credit Committee applies the credit ceilings mandated by UMOA to individual banks. The imposition of uniform growth constraints of necessity tends to favor larger, well-established banks, and to discriminate against smaller, newly established banks. At the root of this problem is the highly problematic BDM, which is responsible for nearly 80% of outstanding bank loans. The resolution of BDM's future must take into account the need for increased competition between Malian banks, and hence for favoring banks other than BDM in the application of credit ceilings.

## II.C. Overview of Formal Financial System

### II.C.1. Profile of Major Banks

#### II.C.1.a. BIAO Mali (Banque Internationale de l'Afrique Occidentale)

The key characteristics of BIAO Mali can be summarized as follows:

- It is probably the best managed bank in the country, but its interest is largely limited to financing commercial activities and low-risk guaranteed programs.

- It places considerable emphasis on quality, as evidenced by its high quality facilities and the substantial resources devoted to promoting the bank's image.

- Partly because of its high emphasis on quality, it exacts a high margin (averaging 10% in 1986) for its activities as an intermediary. BIAO stresses low-cost fund raising and seeks a high return on its assets, without at the same time undertaking unduly risky activities.

It is unfortunate that the best managed bank in Mali places less emphasis upon lending activities serving the country's needs. BIAO is predominantly an urban bank. Its recent interest in rural branching is largely limited to seeking low-cost funds in the form of savings, as the bank is beginning to feel the pinch

of increasing return requirements on the part of urban savers. Its success in mobilizing emigrants' savings in France is likewise not linked to any particular program of promoting investments in Kayes, the area to which most of the emigrants belong.

BIAO remains essentially a commercial bank operating according to high standards, which are the standards of a bank operating in a developed economy. It seems unlikely that it could be induced to undertake more agricultural or industrial lending without substantial guarantees and/or technical assistance. Its clientele consists primarily of merchants, mainly those commercants (commercial traders) who are among the most renowned and best established in the country. The bank's project evaluation procedures are fairly efficient and rigorous, averaging a week per dossier. New entrants and small businesses appear to have difficulty meeting the bank's lending requirements.

The following pattern of development can be anticipated for BIAO:

- BIAO will remain committed mostly to extending high-quality (and largely short-term) loans to the commercial sector.

- BIAO will eagerly seize the opportunity to utilize donor credit lines. In particular, BIAO is eager to take over lending functions now under the OHV program under certain conditions, including guarantees.

- The bank's attempts to mobilize rural savings will probably meet with limited success, as it is experimenting mostly with high cost mobilization vehicles (like mobile banks) and, intends to offer limited access (twice a month) to most rural depositors. At the same time emigrants' deposits can be expected to continue to grow.

- If most BCEAO restrictions were relaxed, BIAO would probably expand the volume of its credit without substantially compromising the quality of its portfolio - that is to say, without meaningfully diversifying its clientele. The bank is likely to limit its competition for deposits to continued emphasis on high quality service, rather than substantially higher rates.

#### II.C.1.b. BMCD (Banque Malienne de Credit et de Depot)

BMCD is another relatively conservative Malian bank, specializing largely in serving the needs of the commercial community. Both its assets and liabilities show strong dependence on the commercial sector. Commercial accounts (requiring a minimum starting deposit of CFAF 250,000 in Bamako) are nearly three times as large as average individual accounts, and savings accounts constitute no more than 13.5 % of total accounts outstanding (1985/86). At the same time, the need to contain growing funding costs has compelled the bank to expand its

activities outside Bamako. Branches have recently been opened in Sikasso and in Koulikoro. These branches have in fact been successful in attracting additional depositors. For the most part, however, these represent local well-established merchants.

Short-term commercial credits account for nearly 63% of BMCD's total loan portfolio, a proportion which grew significantly in 1985/86. The economic conjuncture and tightening regulations have, however, limited the scope of commercial lending in recent months, and that is a major reason why BMCD is seeking to somewhat diversify its portfolio. It is also clear that the bank is reluctant to do so without substantial donor guarantees.

The bank's procedures for project evaluation seem to be reasonably efficient, averaging two weeks per dossier. At the same time the background of the borrower is at least as important to the bank as the nature of the project. BMCD appears reluctant to expand the scope of its lending beyond a relatively limited circle of well-established, low-risk borrowers. An exception might be soundly developed SMSE's, with capable entrepreneurs behind them. BMCD management has indicated that increased lending rates for such loans could also influence volume of business done in this sector.

The following developments can be anticipated for BMCD:

- BMCD will limit its savings mobilization efforts to increased branching in smaller urban centers and to the solicitation of large customers (foreigners seem to be a special target). Some improvement in the quality of service may result.

- No substantial increase in risk-taking by BMCD is expected, although the bank realizes that commercial loans per se are becoming less and less profitable. BMCD will be very eager to utilize donor guarantees and to participate in established borrower programs, but will not seriously seek to penetrate brand new sectors without such assurances.

- If most BCEAO restrictions were removed, BMCD would probably compete more aggressively for both deposits and loans. Bank officials suggested that interest ceilings were one factor inhibiting them from taking risks, particularly among the SMSE. Given the essentially conservative training of BMCD staff, however, they will probably prefer to deal with higher risk customers according to their standards rather than vice versa.

#### II.C.1.c. BNDA (Banque Nationale de Developpement Agricole)

BNDA is the only partially privately owned bank in Mali with pretensions to being a specialized credit institution. The initial focus of BNDA activities was the financing of CMDT (Compagnie Malienne pour le Developpement des Textiles) credit, which is extended to cotton farmers and which continues to be one of its most remunerative activities. Since then the bank's

strategy of expanding into other large rural development programs, and into direct cooperative and village association lending has run into snags, particularly relating to the latter lending program.

Judging by the 1986 and 1987 financials, significant success continues to be registered by BNDA in mobilizing rural savings. Deposit accounts have been increasing steadily since 1985, and are expected to continue to grow in 1988. At the same time, public deposits at the bank have all but disappeared, resulting in a net diminution of term deposits in CFA Franc terms. The share of term deposits in total deposits fell at fiscal year-end (Sept. 30 1987) to 19% of total deposits from 47.9% of total deposits at fiscal year-end in 1986. At the same time the share of savings deposits and various sight (non-interest-bearing) deposits rose in fiscal 1987.

On the whole, BNDA continues to be successful in mobilizing rural savings. At the same time, the deterioration of the bank's assets is putting pressure on the bank to seek ways to lower the average cost of funds. The bank's current problems can be summarized as follows:

- There has been a noticeable deterioration in the quality of the BNDA's assets, as provisions for doubtful loans have had to be increased substantially on various categories of loans, and continue to be increased. The most problematic loans in BNDA's portfolios are: loans to jeunes diplomes, credit ordinaire to cooperatives not served by Rural Development Organizations, other loans to individuals and loans extended through certain state programs, notably ODIPAC.

- The bank's spread has shrunk from 6.3% in fiscal 1986, to 5.4% in fiscal 1987, as the average return on loans has diminished at a rate well in excess of the decline in the cost of funds.

The past errors made by BNDA have resulted in a more conservative attitude that is certain to limit risk taking in the future, particularly as regards lending to cooperatives and seeking to develop linkages with informal sector SMSE's. This will be the case unless, of course, guarantees are extended or low-cost funds are provided. Program support by Rural Development Organizations will also be a requirement to expand activity in lending to rural producer groups.

The following developments are anticipated for BNDA:

- The bank's attitude toward lending is almost certain to become significantly more conservative. There seems to be a tendency to favor some expansion in lending to small semi-industrial and semi-artisanal projects, but greater reliance

on guarantees will be the case.

- Lending to cooperatives outside the scope of donor programs is likely to diminish, and emphasis will be on knowing the borrower better. This suggests that the bank's project evaluation procedures, at present highly complicated, will focus increasingly on assessing the background and moral integrity of the borrower.

- BNDA management has emphasized the need to minimize the cost of funds and to seek greater donor guarantees to reconstitute the guarantee funds for jeunes diplomes and cooperatives, given the fact that some of these funds have been badly eroded due to high delinquency rates.

- If BCEAO restrictions were relaxed, it is doubtful that this would lead to any significant increase in risk taking by BNDA. The fact is that the bank is currently retrenching to a considerable extent. At the same time, its need for donor support is increasing, suggesting that bank behavior will depend more heavily in the future upon the conditionality of such support.

#### II.C.1.d. BOAM (Bank of Africa Mali)

BOAM is unique in being wholly owned by private Malian and African (as opposed to European) interests. As such it is autonomously administered by a staff judged to be the most dynamic in the Malian banking sector. The characteristics of BOAM can be summarized as follows:

- It provides fairly efficient service, but, unlike BIAO, does not invest much in projecting an impressive image.

- It draws heavily on the familiarity that its 700 or so stockholders enjoy with Malian business circles. This contributes to its highly efficient processing of project dossiers. BOAM probably goes farther than any other Malian bank in investigating the projects submitted by loan applicants.

- While largely owned by private Malian interests, BOAM does not appear to be dominated by the large commercial families which wield considerable power elsewhere. In fact it appears to be going out of its way to promote a second-tier group of Malian entrepreneurs, suggesting that new entrants have a better chance of securing loan approval at BOAM than at any other bank.

- The bank started out leaning heavily on commercial loans. It has, however, made considerable progress in penetrating the industrial sector, and seems determined to continue to move in that direction.

- While the bank can be characterized as perhaps the most aggressive in terms of its use of funds, it is highly risk averse, which is hardly surprising considering that it is risking its stockholders' capital.

The following developments can be anticipated for BOAM:

- The bank will continue to expand its involvement in the industrial sector and to reduce its dependence on commercial loans.

- The bank will probably be the most promising source of funds for new entrants into the credit market (e.g. SMSE's).

- At the same time, BOAM will be no less emphatic than other Malian banks about its need for donor funds. However, it will perhaps be more disposed than other banks to discuss more creative guarantee arrangements.

- If most BCEAO restrictions were relaxed, BOAM would probably increase its risk taking moderately. It would almost certainly seek a greater degree of risk diversification than other banks. Its rural penetration would probably not increase significantly, as it does not see itself as an agricultural bank, a role it considers reserved for BNDA.

## II.C.2. Overall Evaluation of the Banking Sector

The four banks surveyed in this study can generally be characterized as highly risk averse. This risk aversion, coupled with a number of regulatory constraints and other institutional constraints, has inhibited the Malian banking sector from fulfilling its role as a financial intermediary.

The formal banking sector has registered minimal success in mobilizing rural savings, extending quality banking services to a broad sector of the public, diversifying business risk, and allocating funds to most productive uses.

The performance of the sector is hardly even, however. BNDA can boast some success in mobilizing rural savings and will probably continue to be the most creative bank in this regard. BIAO and, to a lesser extent, BMCD and BOAM, emphasize the quality of their services, although these services are extended to a relatively small segment of the public. BOAM has probably gone farthest in diversifying risk and achieving a relatively high degree of allocative efficiency.

The predominance of risk aversion continues to be the most serious impediment to USAID's objective of using the financial sector as a vehicle for promoting economic growth. Possible explanations of the formal financial sector's risk aversion include the following:

- The extreme instability of supply conditions and of the policy environment have made financial institutions wary of the long-term lending, especially in the agricultural sector.

- High information costs complicate the task of efficient funds allocation. These costs can, however, be cut by more active participation of bank associates and of loan applicants in project evaluation.

- Moral integrity poses a problem. While there is evidence that Malians of all classes exhibit the highest moral integrity in informal credit arrangements, it appears that there is a significant problem of moral hazard where formal arrangements are concerned. As a result, the personal evaluation of the loan applicant plays an important role in loan request evaluation.

- The heavy reliance on donor guarantees in the past has conditioned banks to expect substantial guarantees in the future, and, in many instances, to make this a precondition of undertaking new lending activity.

- There is some evidence that bank staff training (BOAM is a noticeable exception) conditions bank officials to see both savings mobilization and credit extension through European eyes. In other words, despite the high standards of training in many banks, bank officials are often taught to operate under conditions that are far-removed from the reality of the Malian market. It is also probable that a bureaucratic pattern of employee advancement, to some extent derived from the traditional French banking system, predominates at most banks, suggesting that there is little incentive for risk taking at the job level.

- Low interest rates and restrictive credit ceilings are also a factor underlying the high risk aversion of the formal financial sector. This does not, however, mean that phasing out these ceilings would automatically result in significant risk taking. Improved programs for increasing borrower preparedness to present and manage bankable projects must accompany policy changes aimed at broadening access to credit resources and improving allocative efficiency.

### III. The Informal Savings and Credit Markets

#### III.A. Constraints to Increasing Overall Lending Levels to Productive Borrowers

##### III.A.1. Village Based Farmer Cooperatives

Among the most evolved institutions serving the credit and investment needs of rural producers are the Tons Villageois or Associations Villageoises (Village Associations), which have been developed through the USAID integrated rural development project Operation Haute Vallee (OHV) and the cotton commercialization program of CMDT in Mali Sud. These rural producer groups have been developed with donor agency technical assistance, using as the basis Associations Villageoises and traditional village tons, or work groups previously organized in target areas.

Under the OHV program of credit and agricultural extension services, these groups have served to strengthen the rural informal sector by providing an effective vehicle for (1) channeling technical assistance and inputs to improve production of cotton and basic foodcrops, and (2) extending seasonal production credit to smallholder farmers for purchase of inputs. Tons Villageois typically function like credit cooperatives, in that Ton officers assemble and submit the credit requests of individual member/farmers as a group, and the Ton itself is responsible for repayment of the loan through the provision of a group guarantee (caution solidaire).

Loan repayment records for the previous campaign (1986-87) show that Tons Villageois are repaying at high rates (97 to 98%), in both the OHV and CMDT programs. Loans have been made and repaid largely on the basis of the cotton cash crop, which provides a predictable cash value and seasonal income.

After working with Tons for several years under program credits, the OHV project has moved some 47 of 150 Tons receiving seasonal credit to the point of taking and repaying credits directly to the Banque Nationale de Developpement Agricole (BNDA). CMDT management has similarly applied for a line of credit to transfer their role as lenders to BNDA. Individual farmers under both programs are taking medium term loans directly from BNDA for equipment and animal traction.

Village level producer groups have for the most part worked well as informal credit groups, largely because of the common economic activity, the continued presence of technical support by RDO's in project preparation and borrower screening, and the group guarantee. Group guarantees have been effective in this context. If a Ton member can't pay his share, the Ton pays. A sampling of OHV Tons Villageois interviewed during this study, indicated that

the Ton also reaches a wide variety of people (young and old ) with credit and related benefits. Tons assisted in securing credit, and in increasing their production and incomes in cash and foodcrops, do not cover the entire OHV area but represent a significant portion of the population for purposes of demonstration and continued replication of results.

With better access to credit through the OHV program, Tons at both ends of the development scale have substantially increased their combined production of cotton and foodgrains, and increased household incomes. They have been able to avoid using trader credit for consumer goods, often paid in kind. Some better developed Tons have made loans in foodcrops to other Tons, and to their own members, to be repaid in kind. In a limited number of instances, loans are made in cash to members or other groups, at mutually agreed conditions including no interest.

While Tons have made significant progress as credit intermediaries under both donor credits and bank lines, there are significant constraints to extending credit to this sector, both for seasonal and investment loans. Their own development as informal lenders has been fairly slow because of limited levels of liquidity at the Ton level. Liquidity varies from season to season, due to the fact that farmers are highly dependent upon moving and selling cotton and grain stocks, and this has been one factor inhibiting use by Tons of formal banking facilities as savers.

To ensure continued availability of commercial bank credit for crop production inputs and equipment investments, BNDA has been heavily dependent upon the OHV field staff to screen borrowers and conduct initial analysis of financial feasibility of Ton Villageois project loan requests. Credit officers don't view this as the role of the bank. Management has, as noted, strongly indicated that the BNDA would not be in this market if the Rural Development Organizations (RDO's) were not providing project financial analysis and technical back up for producer groups.

Present bank capability to analyze agricultural production and investment credits is limited, more by bank practice than by credit analysis training. Future expansion of commercial credit to Tons Villageois and Associations Villageoises will require development of more capability at the village producer group level to analyze and present their projects for credit, and more bank capability in house to conduct project analysis and servicing.

The CLUSA technical assistance component proposed as an element in the upcoming Development of the Haute Vallee (DHV) Project, will be used to assist Ton Villageois in developing skills in credit management and analysis and presentation of their projects to the lenders.

## Other Formal Sector Constraints in Expanding Credit to Tons Villageois and Other Village Level Producers

Two other commercial banks interviewed (BIAO and BOAM) have indicated interest in expanding their portfolios to provide credit ordinaire for inputs for crop production. When questioned further, they show a distinct disinclination to lend into the small producer market without assistance in supplementing or circumventing their credit ceilings, or guarantees.

Expansion of the global amount of credit available to village level agricultural producers, for seasonal crops and investments, is very much constrained by the credit ceilings applied to such agricultural credits and other credit ordinaire, by the Central Bank. As a result of credit ceilings, and current demands for credit ordinaire, BNDA is experiencing a squeeze on short term funds, and is negotiating a supplemental outside line of credit to meet requests of OHV village producer groups, with USAID.

Current banking services extending credit ordinaire to Tons Villageois appear to be suited to the needs of the Tons, and are not in themselves a constraining factor in expansion of credit.

Tons Villageois interviewed in the OHV area indicated a strong interest in making further investments in agriculture, largely in expanded lands under production in cotton and foodgrains. Expanded commercial credit to this group will depend for the foreseeable future on production of sufficient hectares in cotton to repay the full value of the loans, given that the grain yields and prices are considered too variable for the grain sector to be creditworthy. The fact that the commercial banks will only lend against cotton production and marketing, has tended to limit crop diversification.

Future USAID programming in agricultural credit should work within these constraints. USAID credit activities should concentrate resources upon moving credit services to proven borrower groups, including the creditworthy Tons Villageois and other cash farmers operating within viable, creditworthy productive units, increasingly into the commercial banking sector.

In this process, every effort should be made to induce BNDA as the principal commercial lender to smallholder agriculture, to incrementally assume more responsibility for borrower and project analysis. USAID programming should at the same time gradually induce BNDA and any other commercial bankers which elect to serve this market, to lend for more diversified crop production and marketing, as yields, market prices, weather conditions and production capability of village producer groups demonstrate that diversification is feasible - in short, that crop sectors are creditworthy.

### III.A.2. Private Cereal Traders

Since the lifting of price controls on basic food grains in the 1985-86 campaign, the cereals market has largely been controlled by private sector traders. The market is structured around three basic levels of commercial activity in the purchase and sale of grains. These are:

(1) The farmer or producer group selling grain on the local market, generally to grain traders in or near the production area

(2) The grossiste or demi-grossiste in or near production areas, operating out of a central market town

(3) The urban grossiste purchasing large quantities of grain from grossistes in or near production areas, for resale in urban markets like Bamako

As described in the November, 1987 evaluation of the PRMC program, each level of commercial grain marketing activity secures and uses credit in different ways, and at different levels. Needs for and uses of credit are to a large extent determined by production levels, quantities of grain available, funds at the grain merchants' disposal and price movements in the market.

Interviews held with traders in producer areas, indicate that there is among them a significant perceived need for outside credit to finance larger purchases of grains from village level producers, at the level of the demi-grossiste, or local merchant handling a variety of lines and purchasing grain from producers for resale in the local markets.

Ouelessebougou is given as an example. Grain traders interviewed here are operating with cash flow from the business and family funds to finance grain purchases. Examples taken from the area traders indicate that when prices are low, they have expanded from purchase and resale of quantities of as low as 2MT, to quantities of as high as 4MT per trader per year. Traders interviewed in this area and in Kati will sell animals to generate capital to make expanded purchases of grain.

Ouelessebougou traders buy and sell according to the price of grain at the farmgate, and the amount of available working capital. Their turnover is also very much constrained by quantities of grain accessible to them, through very small deliveries by farmers or village producer groups, or through small trucks which they may hire to take them to producer areas to buy grain.

It is important to note that traders in producer areas are working within loosely organized systems for evacuation and

marketing of crops, which often turn on the availability of small transports for hire, and the availability of cash flow from the trading business to pay for these services. Farmer groups have few if any means to evacuate their crop. Farmer deliveries noted are typically very small, ranging from a 100 kg sack to perhaps as high as 800 kg, brought in on a horsedrawn cart. The demi-grossistes who don't have sufficient working capital to afford truck services, must during some periods rely completely upon farmer evacuation in very small quantities for supply.

Despite these constraints, demi-grossistes interviewed felt that with sufficient credit they could expand grain sales to 10MT to 20MT per year, from current levels as noted of 2MT to 4MT, and optimize their profit. None of those interviewed had direct experience in working with commercial banks, and they had not sought them out because of lack of experience and knowhow in dealing with banks. Credit used by these merchants is generally in the form of very short term loans made by one commercant to another at no interest.

One merchant interviewed had with cash flow from his business and family money, expanded last year's sales from 2MT to 4MT. There is sufficient evidence that this level of trader could use credit for trade expansion. It is also evident that current business levels can be supported through funds from the business and family relationships.

There are several constraints to expanding credit to the grossiste or demi-grossiste in or near producer areas. Levels of liquidity are reasonably low, more so at the level of the demi-grossiste. While this level of merchant is most interested in using credit to expand market activity, the business and its needs are not known to commercial banks. Such commercants have as noted, no prior experience in seeking or using commercial credit, and most are illiterate.

Traders are operating at this level within a rural evacuation and transport system which generally serves their needs well, only if business receipts are sufficient to cover payment for trucks visiting producer sites. It should also be noted that demi-grossistes and grossistes in the producer areas are operating within an established commercial system which is largely controlled by a few big urban grain merchants, with better access to commercial bank financing and other resources. Reaching these levels with additional external credits, such as those offered by the PRMC, must be done over a longer period of time than the present Life of Project, and within an evaluation system permitting closer study of borrower needs and closer supervision of borrower access to and use of credit, within the larger system where bigger grossistes dominate.

The larger, urban traders represent a class which has sufficient access to capital, through formal credit and their own means, to make market choices based upon the opportunity - choices not

necessarily dependent upon availability of outside funds. As the PRMC evaluation results indicated, the primary beneficiaries of the cereal trader credit component were a few of the bigger traders. There is evidence that they made decisions to use the credit program according to perceptions of relative advantage rather than need for credit.

The evaluation shows that, for a variety of reasons, relatively limited amounts of grain were purchased and stocked under the program, as compared with projections. There is evidence that some large commercants may have used credit funds to finance other lines of trade, in violation of the loan agreement, at a lower cost of funds. Within the framework of the grains marketing system, urban grossistes have been able to secure credit for grain trade from other sources and sometimes use their own funds, depending upon the supply of capital available to the grossistes in producer regions to transfer large quantities of grain to urban markets.

Both donor agency staff and commercial lenders interviewed as part of this study, recognize that the provision of cereal trader credits under the PRMC has generated mixed results, in terms of amounts of grain purchased and held off market to stabilize prices, and use of the credit. This experience, previous poor credit records of some cereals traders and the onset of the present economic conjuncture, have caused commercial lenders to become more cautious in appraising risk on these loans.

One participating PRMC lender maintaining an active interest in lending to cereals traders (BOAM), called for joint participation in the PRMC by three interested banks (BOAM, BMCD and BNDA), with closer control over borrower use of the credits at the bank and at the PRMC program level. The BOAM credit official also recommended development of a Guarantee Fund (up to 20% of program lending resources), which would lessen the bank share of the risk.

Central Bank imposed credit ceilings on credit ordinaire delimit the amount of credit which banks can make available, within their portion of the Counterpart Funds under the PRMC program. Bank services to cereals traders are appropriate to the type of lending involved, and are not a constraint in expanding lending.

Given the nature of the relatively fragile commercial structure through which grain is marketed, and the large degree of control held by larger commercants, the PRMC program will have to continue to serve big traders as well as other participants in the structure, to reach program objectives of price stabilization and assurance of producer prices. The objective of expanding availability of credit to the cereals marketing sector is a separate one. Correction of past program dysfunctions with regard to extending credit availability to a larger number of

traders in the sector, could be better accomplished through more comprehensive analysis of the financial needs and marketing capabilities of traders at the grossiste and demi-grossiste levels in producer areas, and closer donor and lender supervision of the use of borrower funds at all levels of the cereal trading market chain.

### III.A.3. Non-Formal Small Traders/Diverse

Interviews conducted with small scale, non-formal traders in several market towns in the Bamako Region (Ouelessebougou, Segou and Kati), indicate that the needs of such trading businesses are for very short term credits (generally for a few days, no more than a month). Credit is used for purchase of merchandise or payment of suppliers. Needs are generally met through informal arrangements made between market sellers, at no interest charge.

Among small merchants interviewed, in cereals trading and diverse commerce, liquidity is relatively low, probably necessitating frequent resort to informal credit. Among commercants surveyed there is virtually no use of formal banking facilities for savings or credit.

Given the informal market's ability to respond to very short term needs for cash loans, at culturally acceptable terms, there appears to be little need for outside credit for small scale traders in the rural informal sector. As previously noted, credit to these businesses is extended on the basis of honor, and this informal loan guarantee generates a situation where the borrower makes every effort to repay and on time. This would not necessarily be the case if credit were extended by a formal bank.

Interviews with selected merchants indicate that there is a general disinclination to using banks, due in part to lack of experience and perceived constraints in using bank services. Particular mention was made of the requirement that a bank account be kept. There was also a perception that government employees and others seeking formal bank loans have to pay a bribe to secure credit.

Small traders in this context mean businesses which have invested up to CFA 200,000 and 500,000 (\$800 to \$2000) in start up for a multi-line commercial business. Market interviews indicate that levels of liquidity are low both for the trader and for his customer. Hence, as noted, customer credit is often extended for short periods of time (a week to a month), allowing him to pay for merchandise in installments at a considerable surcharge.

Low levels of liquidity, the lack of experience with formal banking services, capacity of the current informal market to serve credit needs, and the very limited and short term amounts of credit required (usually less than CFA 50.000), indicate that the small trader market would generally not be a viable market

for extension of formal banking services, on the savings and credit side.

As noted, slightly larger market town traders involved in purchase and resale of foodgrains, rely on their resources to supply funds for larger purchases. Those selling grain to the urban markets often sell cattle, repurchasing cattle as a form of such savings when the buying season is over.

#### III.A.4. Transports for Local Consumer Goods Distribution

Interviews in Bamako and regional towns of Ouelessebouougou and Kati, indicate that transport in both urban and rural markets is very much controlled by private sector operators. In rural areas, the bulk of the goods and people are transported by small trucks, which for a fixed price per unit/weight of merchandise will carry goods from one point to another. As noted, significant use is made of hired small trucks by grain traders at the demi-grossiste level, to make purchases out in producer area at a lower price. Small transports carry large amounts of foodstuffs and other consumer goods from market towns to central cities. -

Because of the seasonality of main crops, and the existing efficiency of the the PRC and small scale private sector in meeting producer to market transport needs, there appears to be little identifiable need for credit to the sector. It should be noted by way of example that, during the recent appraisal of the Development of the Haute Vallee (DHV) project, the DHV Project Paper Team found that available capacity for transporting cotton, and mangoes and tobacco on the off season, surpasses the need for such services by producers participating in the project.

As rural areas like OHV and other regions develop more diversified agriculture in cash crops, opportunities to finance transport services serving sectors with year round hauling needs, could be further studied by USAID. Informal estimates gathered by the study team in Ouelessebouougou Arrondissement (67 villages), indicate that a small private commercial transport financed for agricultural hauling services, would probably be kept busy at maximum six months of the year, given the current stage of development of agricultural crops, of which three months would be required for collection and hauling of secondary crops such as grains. This rate of potential underutilization occurs in part because some of the offseason crops - like mangoes and fresh vegetables for market - are scattered and not sufficiently commercialized to make regular transport services profitable and viable.

#### III.A.5. Loans to Agricultural Equipment Suppliers

Due to limited time for the scope of study, and the extent to which this credit portfolio has been covered in the recently

completed PP for DHV, the study team has not conducted a full analysis on this sector. Experience of the OHV program in negotiating and securing services for equipment sales, distribution and assembly, indicates that there are advantages in using private suppliers, if supply and quality are consistent. Assembly of farm equipment kits also provides additional sales to local small scale enterprises in the blacksmithing business. In any case, extension of USAID credit or credit guarantees to agricultural equipment suppliers, should not be considered before a full analysis has been made of the size and attractiveness of the market being offered to private suppliers.

### III.A.6. Small to Medium Scale Enterprises (SMSE)

For the purposes of savings and securing credit services, Small to Medium Scale Enterprises (SMSE) in Mali operate very much in the informal sector. The SMSE sector as discussed with formal and informal lenders as part of this study, includes such categories of business as (1) commercial and distribution outlets, (2) small manufacturing units, (3) agricultural production projects (ground and tree crops), and (4) agro-processing businesses.

The sector has been discussed in these broad terms largely because these are the sub-sectors in which Malian entrepreneurs have been attempting to secure credit through their own informal mechanisms, and through special lines of credit or guarantee funds made available to SMSE through formal banks.

#### III.A.6.a. SMSE in Rural Areas

Credit needs among SMSE in rural areas extend to financing for (1) basic services, including repair services for trucks and agricultural equipment and commodity storage facilities, (2) value added processing units in market areas where production level and evacuation systems justify them, and (3) commercial outlets stocking very basic consumer goods (pharmaceuticals, feeds, household implements).

Sample interviews with SMSE in towns in the Bamako region, indicate that these businesses do not generally use the formal banking system to meet credit needs. Startup and working capital is typically provided by family, and through small, short term informal loans made between market businesses in the same community.

Limited available information indicates that liquidity is generally low, and probably profitability as well in some small commercial businesses. Hence, the study team often observed vitally needed businesses carrying very low stocks. Frequent examples were village level boutiques or market town shops, carrying low levels of the most basic family pharmaceuticals.

SMSE's surveyed in rural areas could in most cases not realistically be expected to become formal banking customers. As with businesses described in "market traders", most have no experience in using banks for savings or credit services. Credit needs are very small and over very short periods. Many are illiterate. Viable SMSE's serving production, service and in some cases commercial needs in rural areas may, however, be potential customers for NGO programs, coupling credit with small business advisory services.

As noted, commercial banks expanding operations in rural areas are doing so on a very selective basis, emphasizing collection of savings, but with no evident intention of extending credits to small business or small traders. Constraints to extending credit to rural SMSE include the following:

(1) Difficulties in servicing rural loans, lack of information and experience in the sector, and small size/low profitability of these loans, present higher risks than banks are willing to take.

(2) Institutional practices and behaviors of the banks in extending savings and credit services, do not meet the needs and expectations of rural people. This particularly applies to deposit account requirements and terms for deposits withdrawal. Intimidating attitudes of commercial bankers and lack of knowledge and experience in using banking services on the part of the rural population, increase the perception by rural people that their expectations are unmet.

Among rural SMSE, limited interviews indicate that agreements and licensing to start or operate a business, do not in themselves affect access to credit. Certain businesses, particularly grain traders, do appear to go to significant lengths to avoid visibly stocking commodities to avoid tax collections.

### III.A.6.b. SMSE in Urban Areas

Urban entrepreneurs seeking financing for SMSE projects, have entered commercial banks (including the BNDA) under several programs designed to extend credit to special economic groups. These customers have most recently presented loan requests under the Jeunes Diplomes (Recent Graduates) Program designed to assist graduates in going into private business, and the Voluntary Early Departures Program, funded by USAID, to provide economic alternatives for people choosing to leave state employment as part of the Economic Sector Reform Program.

The majority of the projects proposed for development and financing under the Jeunes Diplomes and Voluntary Early Departures Programs, have been in or related to the agricultural sector. These have often involved production and marketing of

food products and other agricultural derivatives. Projects have been for the most part small scale, involving loans of no more than CFA 10 to 15 million (\$36,000 to \$53,000), with an average credit request running CFA 1 to 5 million (\$3500 to \$18,000).

Interviews held with the banks, with Ministry of Employment Officials and technical counselors at the FED and Voluntary Early Departures Program, indicate that several significant constraints are blocking the way for expansion of credit to SMSE proposed for financing, under present credit programs providing direct lines for bank administration, or guarantees. These constraints include: (1) contradictory viewpoints between SMSE borrowers and bankers, regarding the lending transaction, (2) lack of experience in business planning and management among prospective borrowers, (3) a somewhat delimited market, (4) low rate structure for SMSE lending, (5) poor delineation of project analysis roles between banks, project preparation services and borrowers, and (6) high perceived risk on the banker's part.

One approach to alleviating constraints (1) and (2) would be establishment of a Centre de Gestion, or Management Development Center, which could provide recent graduates and people - undertaking a recycling of their careers, with needed skills in business planning, management and marketing. Such a center should also provide needed project follow up to assure sound business management.

In response to the need for such a support structure for the SMSE, the Fonds Europeen de Developpement (FED) is working with the Ministry of Employment to development a program which would provide training in business planning and management to existing and new entrepreneurs. Funds are being sought from several donors to finance set up and operating costs.

#### Contradictory Views of Lending Transaction

Interviews with program staff and with bankers receiving SMSE project and loan requests, indicate that the banker and the potential borrower seeking financing for an SMSE often view the lending transaction very differently. Many of the current clientele for SMSE loans are coming from the ranks of people who have made the voluntary choice to leave public employment as part of the Economic Sector Reform Program, or by recent graduates with limited experience in the business marketplace.

The majority of the borrowers from these groups have limited or no direct experience in managing a business. The very provision of credit assistance programs to them as special groups, has fostered within a number of applicants the attitude that credit is a right. The combination of these factors fosters perceptions on the part of the bankers that loan applicants are not serious entrepreneurs.

By contrast, it appears that many of the entrepreneurs with a solid business concept, some business background and perhaps prior experience in developing the business idea before leaving public employment, have not been coming to the banks under the program, due to reasons of not needing outside financing and technical assistance. Members of this group are estimated to comprise about 30% of the participants in the Voluntary Early Departures Program.

Banks, for their part, are looking hardest at the disposition of the person, and his potential success as an entrepreneur. They are emphasizing the person over the project. Banks which are considering lending to the SMSE borrower are looking for the capability to mount a solid business and present it well, willingness to invest a significant amount of owner equity (average 20 to 30%), capacity and serious intent to carry out the business, and character.

Bankers have sometimes tended to generalize "owed to me" attitudes on the part of some potential borrowers, to the group as a whole. Bank perceptions are generally that the bulk of the people sent to them are not the "good entrepreneurs", but people who aren't in touch with reality, and thus heighten an already perceived high risk.

#### Lack of Experience in Business Planning and Management

Interviews with program technical counselors and bankers alike indicate that SMSE borrowers coming through current credit and technical assistance programs, lack basic skills in (1) project development and (2) business management. There is a significant level of agreement that potential borrowers most need project preparation training in the areas of (1) market analysis and (2) cost/revenue project analysis. On the management side, most basic skills need to be built, including preparing and operating from a business plan, accounting and financial management, and building the habit of using management technical assistance services.

Lenders are most fearful of risk involved when applicants bring in projects for which no viable market can be demonstrated. The lenders have experienced a sufficient number of these, and the combination of this and a number of applicants with "giveaway" attitudes, has increased risk associated by bankers with the whole class of potential borrowers. This has occurred under both the Voluntary Early Departures and the recent graduates programs.

#### Limited Market

Limited business experience among groups at economic risk, the continuing shortage of available credit for investment, and lack of other resources encouraging development of Malian private

enterprise, have tended to stunt growth and diversification in the local economy. Further, Malians among the recent graduates and Voluntary Early Departures groups have in a number of cases responded to the business loan opportunity by bringing in unimaginative and duplicative business ideas, in many cases in sectors or markets which are saturated.

A related problem is lack of a blueprint as to what is needed in the Malian economy. As yet, no project of business development assistance has carried out a thorough program of market by market analysis, which would develop a series of replicable opportunities in all regions (in agricultural processing, essential services, and local manufacture of imported basic consumer goods). Such analysis is critically needed to improve delivery of economic opportunity programs for new and existing entrepreneurs.

#### Low Interest Rate Structure

Discussions with several lenders expressing interest in SMSE lending, but also disinclination to lend due to perceived high risk, have indicated that higher rates on SMSE loans could make lending somewhat more attractive, even though SMSE are still perceived as being high risk loans. At present rates of 8.5 to 9%, they are not very attractive loans, when the banks can place funds on the money market at near that level of return. One lender indicated that loans would have to be rediscountable at 6%, to cover risk not covered by borrower equity of minimum 20%.

It should be emphasized that increased interest on the part of commercial lenders in expanding lending to SMSE under a higher rate structure, would ultimately depend upon the soundness of the borrower and the viability of the project presented. These will remain the primary lending criteria under any rate structure.

#### Perceived High Risk

Banks' perceptions of higher risk tend to override their interest in most SMSE projects. Risk is a composite of judgements of borrower capability and seriousness, project viability, and returns which will meet or beat the opportunity cost of placing money on the money market. This is a commercial banking practice which appears to compete strongly with other types of lending for displacement of bank resources.

As noted, prior experience with SMSE programs has done little to lower banks' estimations of risk. The risks in lending to SMSE are real. Changes in interest rate structure which result in a higher remuneration to lenders for making loans to this sector, will not alter the risk. They may to a certain extent make the risk worth taking, where projects presented are reasonably sound.

## Failure to More Carefully Define Project Analysis Roles

Thus far, programs to assist SMSE development using bank credit have failed to carefully define the roles of the participants in project preparation and analysis. This has led to misunderstandings and misperceptions among lenders, borrowers and outside project preparation services (bureau d'etudes) about what constitutes adequate project documentation. Any future programming for SMSE's should carefully define these roles, de-emphasize the role of the third party project preparation facility, and increase lender and borrower participation in the project analysis.

### III.B. Savings Mobilization in the Informal Sector

#### III.B.1. Adequacy of Formal Sector Incentives for Savings Mobilization

As they are presently structured, bank savings deposit schemes offer informal sector savers few advantages. As noted, where savings facilities have been extended to attract urban small savers, account opening requirements have remained high (average CFA 25,000 to 35,000 - \$90 to \$125). Minimum balances must be maintained, and the remuneration has remained low at an average 6 to 6.5% on savings accounts.

Savings promotion by commercial banks has as noted, for the most part attracted government employees and bigger merchants as depositors, largely because of the high opening requirements. This has tended to exclude small savers among traders, artisans and other segments of the population.

Rural savings facilities have been slow to grow, and have been extended through branch banking in selected urban or market centers. Interviews with the banks indicate that while opening requirements are lower in the rural areas, remuneration also remains low.

Branch savings facilities discussed among commercial banks fail to address the most important requirements of small, informal sector savers as articulated in talks with Tons Villageois, traders and other rural residents. These are, in order of priority: (1) access to savings in emergencies and for other needs, (2) convenience of facilities, and (3) security of the money. Although remuneration is important, it is secondary to security and convenience.

Existing bank branch facilities are located in larger towns, inaccessible to most village residents, except by special trip.

The limited levels of liquidity present in rural areas don't generally accommodate present minimum deposit requirements. Existing branch banking facilities have tended to function as a one way financial transaction, between non-urban savers and commercial banks which do not intend to extend credit to most small savers in the near future.

In the past, BNDA has experimented with extension of mobile banking facilities in the Sikasso area, for the purpose of securing savings deposits among farmer groups. After a one year trial, the service was discontinued due to (1) high costs of extending and maintaining mobile services vs. the very small amount of savings collected, and (2) reluctance of rural families to place their savings with a stranger in a van.

Discussions with both BIAO and BOAM indicate that they are interested in trying mobile banking systems in the OHV Area. Both banks believe that the area is too close to Bamako to justify opening branches. Both also believe that BNDA perhaps approached system establishment in the wrong way. BIAO is developing minimum savings mobilization levels, income and cost figures for a potential mobile banking system which would serve - OHV Tons Villageois with twice monthly stops, and deposit withdrawal privileges at the Bamako offices. How liberal these privileges will be is not known at this time.

A factor as important as adequacy of formal sector incentives for attracting savings, has been the business attitudes with which service is delivered. As noted, the style and requirements of formal banking have tended to be intimidating to many rural residents, farmers and traders alike. Conversations with banking groups considering expansion into the rural savings market do not indicate substantial willingness to adapt traditional banking style to this factor.

### III.B.2. Savings Practices of Informal Savings and Credit Groups in Mali

#### III.B.2.a. Tons Villageois

As previously discussed, these village level producer groups generate limited amounts of liquidity through seasonal production and sale of cash and food crops. Interviews with a sampling indicate that they retain these savings for reinvestment at the village level, after paying off seasonal production loans to BNDA or the OHV program.

Savings may be held in small cash funds, which are used to extend credit to member families in emergencies. In a few better developed Tons, loans have been made in cash or in grain to other groups, to tide them over between harvests. Savings are also held in illiquid form, by village investment in common grain fields to supplement food supplies, and as noted, individual

investments in cattle and gold.

### III.B.2.b. Credits Mutuels

This form of savings cum credit group is just beginning to develop in Mali, and as yet there are no known examples of group use of formal bank savings deposit facilities. Several such groups are in the process of being formed, in Bamako, Segou and Sikasso.

The Credit Mutuel is generally structured for the explicit purpose of attracting the savings of members, which may be employees of the same organization or like small to medium scale businesses, and turning these savings into guarantees for purposes of securing credit from formal sector institutions. Equal monthly deposits are collected from each member until the group has reached a certain size deposit. Deposit funds are then often used as a group guarantee for bank loans to members' economic activities, functioning through a blocked group savings account.

A Credit Mutuel being developed by the Federation of Malian Employers would be used to provide group guarantees for loans to member businesses, primarily securing short term credits to commercial and trade activities. Under the Jeunes Diplomes (Recent Graduates) Program being developed by the FED, Credit Mutuels will be gradually organized among applicants for small business loans in Bamako, Segou and Sikasso.

Each small business borrower from the FED financed line of credit would be backed by a group of acquaintances with similar needs for credit, who would form a credit mutuel by depositing equal amounts to a blocked bank account, to be used to guarantee the loan accorded to the first borrower in case of default. With successful repayment of each loan, another member could take his turn at borrowing under the scheme. Each of these Credit Mutuel programs is just getting underway. No known Credit Mutuels are presently fully connected to a bank within a savings cum credit arrangement.

### III.B.2.c. Tontines

The Tontine is an informal savings and credit mechanism widely used in Mali, and throughout much of West Africa, to provide members with access to cash resources in the absence of formal sector credit. Tontines are typically set up on a voluntary basis, by a small group of people with a common interest in developing a forced savings mechanism, which can provide each member in turn with the funds to make desired purchases, or meet emergencies.

A Tontine is organized to meet the needs of a limited number of people, generally no more than 10 to 25. Ten to 12 members is more common, because the Tontine is often structured to function

on a 12 month cycle, providing each member with a monthly turn at accessing the group's collections for his personal use. The financial markets study team talked with a number of such Tontines in the Segou area, including (1) a salaried employees Tontine, (2) a teacher's group, and (3) an extended family Tontine.

Exceptional Tontines are larger ones organized among market sellers, which serve savings and credit needs over a shorter cycle (one week to a month), and serve many more participants. One market Tontine interviewed by the study team in Segou served 143 members, among women sellers of cloth and household products. Members of this market Tontine contribute to a monthly cash pool in which the collector decides who will receive the money based upon evident need. Sellers also pool merchandise and turn over the inventory to a different member each month to use in his/her business.

The key to functioning of a Tontine is the requirement that the saver be a member, and that he/she deposit a certain equal cash contribution monthly. Among non market sellers, this ranged from CFA 6000 to CFA 15,000 (\$21 to \$54) for each member; among market sellers CFA 1000 to 5000 (\$4 to \$18) plus merchandise. This monthly deposit is an absolute responsibility - and the obligation is respected with a high rate of regular participation.

Tontines surveyed collected significant amounts of savings - between CFA 71,500 and CFA 130,000 monthly (\$255 to \$465) on the average. Annualized collections from these examples would amount to CFA 858,000 to CFA 1,560,000 (\$3000 to \$5570), and would be potentially very interesting to banks, if Tontines would hold them on time deposits for a common (blocked) purpose.

A large market Tontine in the Segou area collected as much as CFA 120,000 (\$430) per month, or CFA 1.4 million annually (\$5000). Estimates taken by the FED among 30 active Tontines in the Segou area, indicate that these informal savings and credit mechanisms generate collections over a 12 month cycle of about CFA 130 million (\$464,000).

Tontines generate significant amounts of savings, within a flexible structure which can be readily adapted to meet members needs. They are also delimited in the amount and type of financial intermediation which they can presently achieve in the market.

There are several significant constraints to extending formal savings services to these groups. These include: (1) delimited amount of savings which can be attracted from limited membership groups, (2) the present structure, which is typically geared to providing cash flow for personal needs over a very short cycle, (3) lack of a common savings or investment purpose, (4) absence of a legal accord guiding group financial activities, (5) little

or no direct experience in negotiating bank services, and (6) general belief that banks would not be ready to work with Tontines or other informal groups.

The tie binding Tontine members is a loose one - no more than the common purpose of saving, for anticipated cash flow which will help the member satisfy an individual desire or family need. This purpose has not typically been transformed into a legally binding agreement, facilitating group transactions in the financial market.

Lack of a legal accord binding members to a common purpose has caused many Tontines to be hesitant to approach formal banks to set up deposit accounts, and credit mechanisms. A more inhibiting factor has been the belief by the majority of Tontine leaders interviewed, that formal banks are not in fact willing or ready to work with Tontines or other informal groups.

This belief has developed based upon limited contacts with banks to inquire about requirements for setting up group deposit accounts, or loans to individuals. None of the Tontines surveyed has set up a formal savings or credit relationship with a commercial bank, channeling their savings into more productive forms of financial intermediation.

One group interviewed in Segou, a 10-member teachers Tontine, is about to make the decision as to whether to set up a formal deposit account with a commercial bank. At the same time, several of its members are proposing group savings investment at some level, to facilitate starting of an integrated agribusiness venture. The step of opening a group deposit account will probably be undertaken, initially to assure availability of loans for members' short term cash needs. The investment step, and utilizing group savings to leverage any credit extended to such an investment, is proving to be a difficult step for this group at this time.

#### III.B.2.d. Small Investor Groups

Several groups in the Bamako and Segou areas have initiated capital subscriptions from members, in the form of monthly cotisations meant to be invested in such a way as to facilitate financing or investment in group or individual projects. One such group, La Financiere in Bamako, has followed a pattern set in other West African countries, by subscribing a base number of members who make equal monthly investments in a common fund.

Adapted from the Tontine structure, the group requires that each subscribed member provide a monthly deposit of CFA 6000 (\$21). When the fund has reached a target level, in this case 150 regular member/depositors and an accumulated fund of \$200,000 to \$250,000, the group will use the funds to (1) leverage bank financing for member business projects, and (2) eventually make limited direct investments on the group's account.

Negotiations are underway with commercial banks to deposit at an eventual monthly level of around CFA 1 million (\$3500), at the best rate obtainable. Commercial banks have thus far welcomed a regular deposit in such an amount. They had not concluded final terms with this group at this writing, and had offered rates ranging from marginal (at 5% to 6.5%) to negotiated rates of as high as 7.5 to 7.75%, dependent upon size of monthly balance and term for the blocked account. Negotiated rates on larger term deposits are typically higher than stated minimums.

As previously noted, another Bamako group, the Association of Malian Employers, is attempting to organize a Credit Mutuel among predominantly commercial businesses, which would subscribe up to 50 members and a minimum capital of CFA 50 million (\$178,000). Once secured, this fund would be deposited in a blocked account, to be used to provide guarantees facilitating access to commercial credits for member businesses.

At the present time, the subscription process has proved timetaking, and neither group has reached the subscription target. Largely for this reason, neither has been able to set up a formal credit relationship with a commercial bank.

### III.B.3. Potential for Replacing Informal Rural Savings with Formal Deposits

As noted, non-monetary savings continue to be held by individual families (rural and urban), by traders and other small businesses, and by Tons Villageois. These are largely in the form of cattle, houses and jewelry. The form of savings used reflects local practices and needs for investments which can be quickly converted to cash in an emergency, or opportunity to make a needed purchase at an attractive price. Savings are also held in illiquid fashion to deflect pressure from the extended family for cash assistance and loans of indeterminable duration.

The likelihood of getting individual rural families and small trader networks to replace illiquid savings with a form permitting more intermediation, is limited to non-existent. To succeed in attracting such savings in the form of deposits, banks would have to substantially alter their service structure. This would involve closely tying deposits to working capital lines for short term needs (one month or less) to attract small trading businesses. A substantial amount of family wealth would continue to be held in illiquid form regardless of how well banks would be able to penetrate rural areas, because of low average liquidity, family pressures and difficult access to urban centers and market towns.

Among the village level producers cooperatives, such as the Tons Villageois, there is some potential for extending bank savings services to rural residents as group depositors, and linking these with credit services to the borrower group. One of the

near term opportunities to extend banking services to Tons villageois, lies with some of the better developed village cooperatives in the OHV area.

Interviews with sample Tons by the study team, indicate that there is some interest in negotiating deposit accounts with a bank among the better developed Tons. These include groups which are already taking and reimbursing BNDA seasonal production credits, and have sufficient although seasonally varying liquidity through production activities, to open and maintain an account.

To successfully extend such services to Tons Villageois, within a transaction which satisfies both parties to it, interested commercial banks will have to develop a system for penetrating rural areas which meets the following minimum requirements of the saving groups:

- (1) Access to their savings, through frequent servicing stops or withdrawal arrangements through branches (at least once every two weeks)
- (2) Convenience in the form of easy deposit and withdrawal
- (3) Security of the money, through careful handling and perhaps a form of deposit insurance
- (4) Reasonable remuneration

Any system established in rural areas will have to above all, deliver reasonably high quality service, but with an approach which inspires confidence in the banking system. This will require adapting bank attitudes and service approaches to the rural milieu in which they are to work.

On the bank side, service extension will require establishing certain thresholds for feasibility. These will include (1) a sufficient base of customer groups which can regularly deposit significant sums of money, (2) a minimum sustainable level of savings deposits to cover costs and generate funds, (3) a service delivery plan which meets borrower groups needs, and feasibility requirements, and (4) the most cost effective package of mobile services, maintenance, personnel and insurance.

Tontines, as a structure for mobilization of savings in non-urban areas, demonstrate a not insignificant potential for replacing informal rural savings with formal deposits. However, in their present form, most are not specifically adapted to setting up a formal depositor relationship with a bank.

The savings base represented by Tontines could be attracted to the formal banking system, under certain circumstances and given time. This would, however, depend upon the ability of the Tontines, and their prospective bankers, to alter their practices

and expectations in such a way as to make possible a transaction which is profitable for both parties.

At the Tontine end, development of a satisfactory bank savings deposit relationship would have to lead to availability of cash flow for individual members when needed. This would require the following:

(1) Adaptation of the purpose of the group, from one of revolving use of a savings pool by individual members, to satisfy their desires by taking a turn at acquiring the money, to that of saving for the purpose of financing of loans providing cash flow for individuals, or perhaps for group needs.

(2) Development of a legal charter or mutually binding purpose, as a vehicle permitting joint deposit of resources, and as necessary, pledging of such resources against the repayment of credit obligations.

(3) Expansion of membership, in cases where the objective of the group might evolve into one of securing financing for individual or group investments which are project oriented (production, services, commerce).

(4) Overall adaptation of collective and individual attitudes toward financial obligations, geared to group savings and possible eventual use of such savings to secure member or group credits.

On the banking side, formal credit institutions would have to consider modifying their practices in the following ways:

(1) Development of an open and carefully tailored policy for working with informal savings groups.

(2) Allowance for some flexibility in group access to deposits; i.e., a base deposit minimum for a savings account, with withdrawal privileges for a certain percentage of resources deposited for member use or emergencies.

(3) Development as the need evolves of a structured caution *mutuelle* mechanism, using group savings as a form of security for loans to individuals or the group.

(4) Establishment of an understanding with the group that if financial obligations are met on the deposit side, other services will be available.

By striking this kind of working relationship, banks could tap into considerable savings capacity. At the same time, the intermediation achieved could benefit from the strength of moral obligation engendered by these informal sector mechanisms.

In order for this moral strength to be transferred to such a

formal sector relationship, Tontines would have to make the significant jump to saving for a purpose more tied to the benefit of the group than for use of savings purely for personal purposes. It is possible that use of savings facilities would have to be tied to assured continued availability of credit as a benefit to the group and individual group members. For most Tontines interviewed as part of this study, the motive to deposit member savings in a bank and direct them to projects requiring credit, is a considerable way off.

#### III.B.4. Amount of Intermediation Which Takes Place Between Informal Sector Savings and Formal Sector

Given the limited success of some informal sector groups in beginning to carry out some intermediary functions at minimum risk, and donor agency interest in utilizing informal sector savings arrangements to promote greater intermediation, the formal sector has demonstrated some willingness to work with informal savings groups. Several major examples of existing linkages are the following:

(1) BNDA direct lending to Ton Villageois. As noted, BNDA has extended direct credit to a number of Tons in the OHV area, using its own funds on a non guaranteed basis. The results of this experience have been generally good. This is attributed largely to the fact that borrower screening and project analysis have been done by staff of a Rural Development Organization (RDO) like OHV, which is thoroughly familiar with the operations, capabilities and financial requirements of the borrower groups. In prior lending to cooperatives, where the BNDA has sought to duplicate this experience without technical assistance from donors, repayment results have been disappointing to bad, prompting BNDA to consider retrenching from such lending without donor technical support program to do the screening and analysis work.

(2) Tontines are known to have started discussions with commercial banks on a small scale. At least one employee Tontine in Banako reportedly uses deposit facilities. Little is known about such arrangements, but it is evident that the bank role would be mostly as depository institution. Whatever intermediation and risk pooling has been carried out, it seems to have been done by the Tontines themselves, rather than the formal financial sector.

(3) Investor groups (Financiere, Federation of Malian Employers) are working toward finalizing member monthly deposits and capital subscriptions, in order to set up a formal relationship with a bank, through which they could arrange loans to members guaranteed by a group guarantee. These arrangements are not yet culminated. The formal banking sector has as yet indicated only limited interest in working with these groups, primarily a reflection of the limited level of monthly deposit base reached. There is a threshold level of monthly deposit which attracts

bank interest, probably at around CFAF 500,000 (\$1800).

Summary observations which can be made on existing informal to formal sector links include the following:

(1) The group guarantees offered by Tons Villageois have been shown to be worth less, without the technical analysis provided by donor groups to screen borrowers and projects.

(2) Banks are reluctant to get involved in further lending to Tons Villageois without such technical backup by Rural Development Organizations, or guarantees. They would ideally like to serve as providers of services, rather than intermediaries in such credit arrangements. A realistic means of involving the banking institution with more of an intermediary function, might be the hiring of a private sector analyst to do project screening for the bank, but paid by the bank.

(3) A major element in direct dealings between the informal and formal sectors, is believed to be the perception that the borrower will continue to have need of bank services. In the absence of such need, the traditional ties that work so well in informal credit arrangements, do not appear to serve the formal institutions in good stead.

(4) Formal financial institutions have generally failed to copy the strength of moral guarantees which are the base of trust in informal credit arrangements. This suggests that there still exists a major gap between the formal and informal sectors, which donor and formal institution efforts have done little to bridge.

In summary, there are few present linkages between the informal and the formal financial sectors. Those which are being forged, have benefitted from donor technical assistance (as in the case of commercial credits extended from BNDA to Tons Villageois), or are in the process of being discussed based upon arrangements which will somehow meet the requirements of both parties to the transaction. The process of reaching mutual accomodation will take time.

#### IV. Capacity of Informal Financial Institutions to Undertake Financial Intermediation for Productive Investment

The major informal and semi-formal financial institutions that can be considered functional in Mali are:

- Cooperatives, which are organized at the village level with well-defined membership and enjoy recognition as legal entities.
- Tons villageois, which are organized and primarily depend on traditional ties and loyalties to enforce claims.
- Tontines, which exist in rural areas and urban centers and are usually linked to professional or family groupings.
- Credit mutuels, which are investor groups organized for the express purpose of providing individual members with loan guarantees, which none of them could raise on their own.

The major advantages that these institutions enjoy over their formal counterparts are:

- They are voluntarily organized by a group of people who perceive that cooperation between them is needed to attain a specific end, which typically entails a financial (fund-raising) function.
- Their operating costs are typically lower, since they usually rely on volunteer work and donated workspace and use less complex procedures.
- They rely on moral suasion in a manner that formal institutions cannot, because:
  - o The ties that unite their members are traditional and therefore more linked with honor and duty.
  - o There is a clear perception between members that their individual success is linked to the survival of the institution.
  - o There is a strong tendency for all members to watch those who borrow against the group's savings, bringing group pressure to bear on the borrower.
  - o Because most members know each other reasonably well, information costs are minimized.

There is no question that informal institutions in Mali have gone some distance toward promoting a greater level of monetary savings. For many individuals (notably villagers) these institutions are the only outlets for any monetary savings. Unlike formal institutions, they are not perceived as being alien or as being run by individuals they regard as intimidating. The questions that must be asked in the Malian context regarding these institutions are:

- Can they proceed, unaided by formal institutions, to utilize the savings they accumulate to provide financing for productive investment purposes, and can they do so using efficient allocative criteria?

- Can these institutions survive the pressures engendered by the continuing economic difficulties, the unstable macroeconomic and policy environment, and the social evolution of the groupings which constitute their membership?

The answers based on experience to date are mixed. Clearly the lack of experience among members is a hindrance to allocative efficiency in the case of most village organizations and most Tontines. As far as credit mutuels are concerned, there is no evidence to date that they have collected enough dues from members to get started in earnest within a substantial deposit relationship with a formal bank, and an investment program as a group. Some of the ones the team interviewed appeared anxious to qualify for financial (and, secondarily, technical) assistance from donor agencies.

The future evolution of these institutions remains problematic. It should be noted that village associations of the formal and semi-formal type have fared best when they benefitted from significant assistance from government or donor agencies (e.g. OHV). There is a tendency for many of these organizations to develop ties with formal institutions. BNDA has been especially active in extending credit to these associations in the context of its rural penetration efforts. There it must be said that BNDA's experience has been negative in the case of most cooperatives outside the scope of government programs. The most successful example has been the tightly regulated semi-formal CMDT program.

Tontines are also believed to be trying to make use of formal sector institutions as depositories of their funds, but thus far there is no evidence that they have begun applying a project evaluation procedure in any way comparable to the ones used by banks. It is doubtful whether they employ such rigorous procedures at all.

This raises a point that is crucial in examining the intermediary role of these institutions: There is less of a guarantee that they will be immune from improper decision-making influences (e.g. nepotism, favoritism, bribery). In the particular case of the credit mutuel, they are fulfilling a useful function by enabling smaller businessmen and new entrants to compete with larger, better established ones. At the same time there is no guarantee that, once they have promoted themselves as a "second-tier" group of investors, they will not themselves become exclusivist and discourage the entry of new entrepreneurs into the market. Professional associations have historically have had a tendency to develop into closed shop unions.

V. **The Extent to Which the Formal Banking Sector is Equipped to Handle the Transfer of Credit Functions from Public Enterprises**

Preliminary research suggest that there is some interest on the part of financial institutions to assume at least part of the credit functions currently fulfilled by public enterprises (notably under the OHV and PRMC programs). The following should, however, be noted:

- Interest is mostly confined to low risk lending (at the outset at least), and usually is conditional upon some arrangement with donor agencies favorable to the banks, typically the provision of funds at low cost and with supporting technical services in project analysis and borrowing screening.

- Interest is nearly universal among banks, and does not particularly depend on the bank's past specialization or lending experience. Thus BIAO and BNDA are interested in financing the low risk portion of the OHV program. This is also a reflection of the problems surrounding lending to commercial sector borrowers at present, which is prompting banks to seek alternative customers.

Regarding the capacity of banks to assume credit functions in these areas, it is clear that lack of experience is a problem for some of them. BNDA is by far the most experienced bank in financing cooperative credit programs, but its experience, when not backed up with technical support in risk evaluation from donor agencies, has been problematic. BIAO, BMCD and BOAM have all had some experience with donor-assisted cooperative lending. That experience is limited and it is clear that they are venturing into areas that are beyond the scope of their avowed specialization. To this problem, the following constraints may be added:

- In the case of BNDA, lack of funds for short-term credit is a major constraint. Not coincidentally, this lack of funds is largely a reflection of the erosion of the bank's capital base as a result of large provision on doubtful loans. This problem can be remedied in the short term through insuring BNDA access to the credit line set up for purposes of transferring the OHV program to financial credit institutions. In the medium and long term BNDA's ability to continue to finance OHV loans will depend on the extent to which it can preserve its capital base, or, alternatively (and less likely), to mobilize additional capital at sufficiently low cost.

- For BIAO and BOAM, the major problem is the BCEAO's credit ceilings, which are binding despite the availability of sufficient short-term funds. The only solution BCEAO seems willing to contemplate is to have donors fully assume the credit risk, the banks being involved only as providers of services. This would effectively remove credits extended from the credit ceilings. Here it might be added that all banks (including BNDA)

are quite content to play the servicer role, rather than carry out the intermediary function that donor agencies would like them to play.

- As far as credit evaluation ability is concerned (and this will become increasingly important in the latter years of the DHV credit program), it must be said that banks' experience with the evaluation of cooperative credit suggests that they have not found ways to duplicate the informal sector's mechanisms for minimizing information costs and invoking binding moral guarantees in credit arrangements. More specialized staff and a greater amount of rural outreach will be necessary over time if the formal financial sector is to perform the function of risk evaluation, and to reduce risk by building trust more effectively.

## VI. The Possibility of Undertaking Financially Sound Expansion of Bank Staff to Expand the Banks' Intermediary Role

In all the banks surveyed, the level of staff training was found to be good to excellent. Problems remain with current bank staff which could hinder the expansion of the banks' intermediary role. These include:

- With the possible exception of BOAM, bank staff training does not appear to be adapted to the reality of the Malian marketplace. This is illustrated both by bankers' general timidity in dealing with "unknown" customers (in Mali, a huge percentage of the potential clientele) and by their relative aloofness, which puts off many SMSE and rural investors.

- There is at best a very modest degree of specialization among bank officials in the area of loan evaluation. In all the banks we surveyed, the process of dossier evaluation was concentrated in the head office, and individual credit officers rarely had a clearly defined area of responsibility.

- There is no evidence that the advancement pattern for bank officials in any way fosters the least amount of risk-taking. In particular, it appears that in most banks a fairly bureaucratic promotion pattern was the norm, suggesting that avoidance of risk in credit extension could set a moderately competent bank official on an optimal career path.

These problems would not be remedied automatically if bank staffs were expanded. At the same, there is scope for some expansion in bank staff, particularly in more specialized credit officers. For such expansion to be financially sound, the following is necessary:

- Partial subsidization of staff expansion programs is essential, since banks consider their investment in staff involved in credit evaluation to be extremely costly.

- Training for new staff members should, whenever possible, be on-the-job and more practical than theoretical. Seminars for the training of bank officials could be funded by donor agencies, but they should be heavily adapted to the environment in which bank officials are expected to operate.

- A set of professional goals should be defined for all new bank staffers, and these should leave significant room for initiative. At the same time staffers specialized in areas which are new to their bank (and hence relative high-risk) should be shielded to some extent from the unfavorable impact of developments beyond their control.

## VII. SHORT-TERM RECOMMENDATIONS (1 to 3 years)

1. The financial markets study team believes that, while the climate is propitious for far-reaching policy reforms, and while the private sector shows significant promise, USAID should proceed very cautiously with policy intervention. In particular, the mission should avoid:

- Raising expectations about the extent of donor assistance and guarantees to the point of encouraging financial institutions and private entrepreneurs to hold out for greater assistance.

- Conditioning the formal financial sector or the private sector to depend heavily on donor assistance on a long-term basis.

- Encouraging financial institutions to turn into managers of donor credit lines rather than financial intermediaries.

- Tampering with informal credit arrangements unless USAID is engendering alternative formal ones that are more efficient, farther-reaching, and possess equal moral strength. -

2. We find that the time is right for a fundamental shift in USAID's bargaining position with formal financial institutions. Thus far, formal financial institutions have come to regard donor agencies as little more than a source of funds and technical assistance, in return for which they do not feel particularly compelled to assume additional risks. Indeed, given the less than fortunate results of some banks' experience with activities promoted by donor agencies, there is a real danger that financial institutions will develop increasingly into commission-remunerated managers of credit funds, rather than genuine intermediaries. USAID's bargaining position with formal financial institutions should be built along the following lines:

- Extend credit guarantees only with the requirement that the financial institutions participate more actively in the project evaluation function - in effect, assuming some of the project analysis function of the project preparation services (bureaux d'études). Equally important, financial institutions should be encouraged to engage in systematic follow-up of projects they have financed. This could be promoted and sold if banks were prodded to undertake longer-term lending.

- Do not offer credit guarantees which significantly exceed 50% of the amount of the actual default, without good reason. Where banks are being induced to penetrate new areas, they should be assuming some real risk in so doing. Otherwise allocative efficiency is endangered.

- At the same time, take care not to use credit guarantees to force banks to deal with unprepared candidates, especially where these are being promoted in the context of a program having objectives that have little to do with the financial sector (e.g. the Voluntary Early Departures and the recent graduates, or Jeunes Diplomes). Appropriate training must be provided to

credit applicants in areas where it is needed to enable them to engage in profitable, well managed entrepreneurial activity.

- Encourage banks to undertake long-term lending and to diversify risk. In this regard the use of Progressive Risk-Taking (PRT) credit arrangements (see below) could be seen as a possible alternative to standard guarantee arrangements, both as a risk sharing mechanism to introduce a new client group to formal bank services, and as a means of inducing the lender to become more skilled in servicing the client as he assumes progressively more risk.

-The major function provided by USAID in the credit candidate-selection process should be the screening of example candidates to assure that the banks are provided with the good credit risks USAID wishes to assist. Project evaluation and the determination of individual borrower creditworthiness should be increasingly undertaken by banks.

3. The experience of encouraging banks to lend to disadvantaged borrowers (e.g. recent graduates, cooperatives or Voluntary Early Departures) has been less than fortunate. This may reflect the fact that candidate selection did not include adequate consideration of their ability to engage in an entrepreneurial career. To remedy this, the following approach is recommended:

-Include, as an integral part of any credit guarantee program intended to assist an SME borrower group, a management training program. This might take the form of a Management Development Center, providing training to candidates in the basic skills needed to plan and run a business - in business planning, accounting and financial management, operating within a Business Plan, marketing, forecasting and plan revision. Any such center should be financed on a shared cost/shared risk basis by participants including the lenders, the entrepreneurs and, where applicable, providers of guarantees or other funds.

-Require loan applicants benefitting from USAID guarantees to complete this training to an acceptable level of skill mastery, and to participate actively in the preparation of their project dossiers, assuming part of the function now currently fulfilled by the project preparation services. Ideally, credit applicants should pay partial costs of the training as an investment in the project being financed.

-Encourage a greater degree of involvement in more clearly defined activities with a higher value-added component, by entrepreneurs benefitting from donor guarantees. While this may increase the riskiness of their business, this is partially compensated by the fact that they have preferential access to leverage. At the same time, it encourages them to become more actively involved in the day-to-day management of the business - in effect, to be seen by banks as being more "serious".

4. The project preparation services have scored a very limited success in their attempts to provide assistance to both investors and financial institutions in project evaluation. While we feel

that these services should be encouraged to play a supportive role to both groups, it is imperative that both investors and banks become more actively involved in the project evaluation function. The project preparation services should be developed more along the lines of project research institutes, whose main functions would be to carry out the more time consuming studies which lending institutions and borrowers cannot complete (market and technology costing). They should serve to process information that could be used by investors and financial institutions in project evaluations, and is difficult to obtain in the course of normal business in Mali.

5. Progress Risk-Taking (PRT) loans are one possible way of encouraging greater financial sector involvement in activities USAID wishes to promote. These loans would be administered as follows:

- For loans with a maturity of five years or longer, extended by a commercial bank for SMSE small industrial projects or productive agricultural schemes, a higher initial guarantee would be provided for the first year of the loan.
- Thereafter, the amount of guarantee coverage would be progressively diminished.

The advantages of this kind of arrangement would be the following:

- It would increase access to credit by entrepreneurs interested in launching more ambitious, and usually more value-added enterprises.
- It would encourage banks to penetrate new sectors by lowering the initial riskiness of long-term loans, without at the same time eliminating the incentives for the bank to scrutinize the projects it finances.
- It would facilitate the development of customer relationships between the formal financial institutions and a new group of borrowers. By the time the bank is called upon fully to assume the credit risk, it will have had the opportunity to know the borrower and feel more confident about dealing with him.

6. USAID should make entrees wherever possible through existing programs where a borrower group has been established. This would limit the bureaucratic confusion and the duplication of effort that can only derail the progress of the ongoing reform program. While there is an acute need for specialized financial institutions, the creation of such institutions should not be the object of USAID efforts before the restructuring of BDM has been completed and its future role has been decided.

7. Encourage mobilization of rural savings wherever possible, but do not view this as an end in itself. We are not at all convinced that success in mobilizing rural savings by Malian banks, will lead to greater access to credit by rural entrepreneurs. What should be promoted is a greater degree of financial intermediation in the countryside. Among the vehicles

that should be considered to achieve this end are:

- A mobile banking system. Experience suggests that such systems are quite costly. Reasonably frequent visits are necessary if rural savers are to feel they have sufficient access to their funds. The process of building confidence and significant, sustaining levels of savings mobilization, is time taking, and costs must be kept as low as possible.

- The use of very small bank branches (little more than a guichet), as an alternative or a complement to a mobile banking system, should be considered. A very careful comparison of cost effectiveness should be done before selection of any alternative.

- The development of Target Savings Programs (TSP's) for rural and most informal savings groups. Under such programs, savers would be encouraged to accumulate savings up to a threshold level, at which point they would qualify for a loan for a specific productive purpose, which could be to finance:

- Agricultural equipment
- Animal traction
- Stocks
- Fertilizers
- Small trucks
- Convenience stores stocking basic needs

8. USAID should move to introduce an increasing segment of the rural producer groups (Tons Villageois) into the formal banking sector, using vehicles including the following:

- A Compensating Requirement for AID guarantees (up to 20%). The bank would provide an amount equivalent to 20% of funds covered by USAID to a loan fund to be used for new agricultural borrowers.

- Partial guarantees on loans for new borrowers, or new uses of investment funds in rural areas. These could work like PRT's, perhaps beginning with a guarantee at a certain proportion of the actual default, and reducing risk sharing progressively until the lender is fully at risk.

## VIII. LONG TERM POLICY RECOMMENDATIONS (4 to 7 years)

As the basis for a sound, longer term strategy for financial markets intervention in Mali, it is recommended that USAID work with the GRM to effect the following changes in policy, to encourage more investment in productive activities and more diversification in the economy:

- Eventual phase-out of sectoral credit ceilings (for example, credits ordinaires vs. marketing credits), enabling the Central Bank to enforce stiffer and more enforceable penalties for exceeding overall credit ceilings.
- Increasing of banks' overall credit ceilings to take into account external funds that banks obtain from donors to partially guarantee loans for specified productive purposes.
- Easing of interest rate ceilings. There is a true shortage of credit under the given rate structure, a problem which at present stems from many factors, of which low rate ceilings is only one. However, once - vehicles like those recommended have been used in the short to medium term to open up the availability of credit to more borrower groups, the Central Bank will eventually have to consider the easing of rate ceilings.
- Assistance by USAID, as appropriate, in policy discussions relating to the development of financial markets and of the monetary and credit systems.

## IX. Recommendations on Further Information Needed (Short Term)

Findings of this study team indicate that further information will be needed in the following areas, to assist USAID in carrying out recommended financial market strategies:

- Further information on the potential for rural savings mobilization using branch banking networks.

- Attitudes toward saving and savings mobilization in rural areas.

- Incentives structures within bank advancement systems which could be used to encourage staff to do more thorough project analysis, more risk taking, and more follow up after project loans are made.

- More detailed information base on the credit repayment record of target sectors, including Tons Villageois and Associations Villageoises, other cooperatives, Credit Mutuel Schemes and SMSE borrowers.

- Extent to which banking regulations are applied and respected, particularly with regard to credit ceilings and penalties for surpassing them.

APPENDIX TABLES

GENERAL TABLES

TABLE I  
MALI - Basic Data

Area, population, and GDP per capita

Area  
 Population (1985)  
 Growth rate  
 GDP per capita (1985)

1,240,190 square kilometers  
 8.1 million  
 2.8 percent  
 SDR 133

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u> Prov.
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(At current prices)

Gross domestic product

Total (in billions of CFA francs)

	411.7	421.7	470.1	493.1	372.0
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(In percent of GDP)

Consumption	95.7	98.1	99.8	104.8	95.9
Gross domestic savings	4.3	1.9	0.2	-4.8	4.0
Investment	20.5	20.5	18.5	-19.4	21.4
Resource gap	-16.2	-18.6	-18.4	-24.2	-17.4
Primary sector	58.9	55.0	51.9	49.9	...
Secondary sector	9.7	11.0	11.7	13.4	...
Tertiary sector	31.4	34.1	36.3	36.7	...

(Annual change in percent)

Real GDP	5.9	-4.2	-0.1	-1.7	9.6
Nominal GDP	8.2	2.4	11.5	4.9	16.0

Prices

Implicit GDP deflator	2.2	6.8	11.6	6.7	5.3
Price index of foodstuffs in Bamako					
Controlled market	9.1	13.6	5.1	13.8	...
Uncontrolled market	2.2	9.8	12.6	7.5	...
Composite index	3.7	10.7	10.9	8.3	...

Source: LMF

Table II. Mali: Interest Rates, October 1982-

(In percent)

	Oct. 1982- May 1984	June 1, 1984- March 20, 1986	March 20, 1986- Sept. 22, 1986	Effective Sept. 22, 1986
<b>Central bank</b>				
Preferential discount rate	2.5-3.5	8.0	7.0	6.0
Ordinary discount rate	6.0	10.5	9.5	8.5
<b>Lending rates</b>				
Crop financing and agricultural export credit	7.5	9.0-10.0	8.0-9.0	7.0-8.0
Public enterprises	9.5	10.5-15.5	9.5-14.5	8.5-13.5
Private enterprises	10-18	10.5-15.5	9.5-14.5	8.5-13.5
<b>Deposit rates</b>				
Sight <sup>1/</sup>	3	— <sup>2/</sup>	—	—
Savings deposits	5	8.5	7.25	6.50
Time deposits <sup>1/</sup>				
Less than 6 months	4	7.25	6.75	5.75
6 months-1 year	5	8.50	8.00	7.00
1-2 years	5.5	9.50	9.00	8.00
Over 2 years	6	9.50	9.00	8.00

Source: Data provided by the BCEAO.

<sup>1/</sup> Minimum rate for deposits above CFAF 2 million.

<sup>2/</sup> Since January 1, 1985, deposit money banks are no longer required to remunerate sight deposits.

BANK TABLES

Table III. Mali: List of Deposit Money Banks at End-December 1986

	Shareholders	Year established	Capital (CFAF million)	Deposits 1/ (CFAF billion)	Number of branches
Bank of Development of Mali (BDM)	Government: 100 percent	1968	2,550	41.0	13
Bank Nationale de Développement Agricole (BNDA)	Government: 55 percent Caisse Centrale de Coopération: 20 percent BCEAO: 15 percent BDM: 10 percent	1981	1,000	3.9	7
Bank Internationale pour l'Afrique Occidentale au Mali (BIAO-Mali)	BIAO: 77 percent Private national shareholders: 23 percent	1980	975	21.8	4
Bank Malienne de Crédit et de Dépôts (BMCD)	Government: 51 percent Crédit Lyonnais: 49 percent	1979	800	11.4	3
Bank Araba Libyo Malienne	Government: 49 percent Foreign Arab banks: 51 percent	1982	500	2.5	1
Bank of Africa-Mali	Private national shareholders: 70 percent Private foreign shareholders: 30 percent	1982	650	3.1	1

Source: Data provided by the BCEAO.

End-December 1986

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Table IV: The Malian Banking System - June 30, 1986

	Credits	Deposits		Refinance
		Private	State	BCEAO
BDM	72.2%	36.9%	91.9%	100%
BIAO	8.3%	30.1%	-	
BMCI	10.5%	19.6%	1.5%	
BNDA	5.0%	3.5%	1.8%	
BOAM	1.1%	5.2%	-	
BALIMA	1.6%	1.1%	1.8%	
Total (millions, cfa)	77090	56318	11691	29397

Source: CIFGB

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## TABLE V

BIAO: Balance Sheet  
BILAN AU 30/09/1987

ACTIF

Caisse - Trésor Public - CCP - BCEAO	1.093.487.076
Banques et Institutions Financières (nos prêts)	12.297.137.292
Banques et Correspondants (comptes débiteurs)	6.610.474.947
Portefeuille d'Effets Commerciaux	949.399.985
Comptes clientèle à découvert	8.702.645.649
Autres crédits à court terme	396.633.722
Crédits à moyen terme	914.486.794
Crédits à long terme	402.308.976
Débiteurs divers	2.927.705
Comptes de régularisation - Actif	1.406.159.287
Immeubles et Matériels et Mobiliers "valeurs immobilisées"	1.593.384.507
Titre de participation et de filiales	1.500.000
Portefeuille "valeurs en recouvrement"	3.433.689.108
<b>Total</b>	<b>37.804.235.048 -</b>

PASSIF

Banques et Institutions financières (nos emprunts)	5.637.339.245
Banques et correspondants (comptes créditeurs)	5.089.859.641
Comptes de dépôts	6.129.322.233
Comptes courants	543.036.450
Comptes bloqués en garantie	9.013.264.117
Comptes d'épargne	2.773.439.244
Comptes à terme	559.000.000
Bon de caisse	574.817.167
Créditeurs divers	3.312.594.981
Comptes exigibles après encaissement	904.474.675
Comptes de régularisation - Passif	337.334.642
Provisions	1.500.000.000
Capital	147.933.353
Réserve légale	165.113.991
Report à nouveau	315.597.308
Bénéfice de l'exercice (1)	
<b>Total</b>	<b>37.804.235.048</b>

(1) Après prélèvement pour le Fonds Social OPA : 10.668.305

HORS BILAN :

a) <u>Engagements en faveur des Int. Financiers</u>	
- Cautions, avals, endos, autres garanties	479.945.721
b) <u>Engagements reçus des Int. Financiers</u>	
- Cautions, avals, endos, acceptations des I.F.	3.644.636.563
c) <u>Engagements en faveur de la clientèle</u>	
- Ouverture de crédits confirmés	1.461.878.003
- Cautions et avals, obligations cautionnées et autres garanties d'ordre de la clientèle	8.984.532.094

TABLE VI

BIAO: Profit and Loss Statement

COMPTE DE PERTES ET PROFITS AU 30/09/87

DEBIT

- Charges exceptionnelles ou s/exercices ant.	50.557.637
- Dotation de l'exercice aux comptes de provisions hors exploitation	2.886.000
- Amendes et pénalités	1.245.500
- Impôts sur les bénéfices	291.812.416
- Bénéfices net	333.366.113
	<hr/>
Total	679.867.666

CREDIT

- Résultat d'exploitation de l'exercice	650.409.981
- Profits exceptionnels	29.457.685
	<hr/>
Total	679.867.666

# Bilans

au 30 septembre 1985 et 30 septembre 1986

TABLE VII: EMCD: Assets

## ACTIF

	30 SEPTEMBRE 1985	30 SEPTEMBRE 1986
Caisse - Instituts d'Emission - Trésor Public - C.C.P. ....	3.948.596.182	1.224.185.675
Banques et Etablissements financiers :		
• Zone Francs CFA .....	124.776.008	74.712.247
• Autres pays .....	1.077.274.485	501.344.697
Crédits à la clientèle :		
• Créances commerciales .....	664.848.716	1.120.818.702
• Crédits à moyen terme .....	507.498.985	578.039.315
• Crédits à Long Terme .....	72.422.107	78.110.357
Comptes débiteurs de la clientèle .....	6.365.014.637	8.369.893.287
Chèques et effets à l'encaissement .....	5.869.924.532	6.759.450.903
Comptes de régularisation et divers .....	840.221.894	13.474.126
Dépôt bloqué C.C.P. ....	65.000.000	65.000.000
Compte bloqué Trésor Public .....	200.000.000	200.000.000
Immobilisations .....	538.334.488	767.714.845
	20.271.910.034	19.748.742.154

## HORS-BILAN

Cautions et avals .....	6.560.613.322	4.925.157.590
Crédits confirmés .....	1.382.857.284	3.223.389.214

TABLE VIII: BMCD: Liabilities

**PASSIF**

	30 SEPTEMBRE 1985	30 SEPTEMBRE 1986
<b>Banques et Etablissements Financiers :</b>		
• Zone Francs CFA .....	59.525.973	24.160.392
• Autres pays .....	961.843.535	387.457.211
<b>Comptes Créditeurs de la clientèle :</b>		
• Comptes commerciaux .....	4.487.332.804	4.733.914.008
• Comptes de Particuliers .....	2.083.043.511	1.496.146.752
• Autres comptes à vue .....	2.536.600.000	1.978.497.831
• Comptes d'épargne .....	410.787.785	640.906.506
• Comptes à Terme .....	2.072.509.432	1.935.819.279
Comptes exigibles après Encaissement .....	5.724.981.141	6.662.476.767
Comptes de Régularisation et Divers .....	651.284.178	405.690.990
Provisions à caractère de réserves .....	105.000.000	105.000.000
Réserves .....	283.255.823	138.572.081
Capital .....	800.000.000	1.000.000.000
Report à nouveau .....	304.132	429.596
Bénéfice de l'exercice .....	95.441.722	241.670.741
	20.271.910.034	19.748.742.154

TABLE IX: BNDA: Deposit Accounts

TABLAU N° 9 : REPARTITION DES COMPTES D'EPARGNE ET DE DEFETS

Montants en millions F.CFA

	Au 30.09.85		Au 30.09.86		Au 30.09.87				
	Nbre:crédi- :teurs	Solde: %	Nbre:crédi- :teurs	Solde: %	Nbre:crédi- :teurs	Solde: %			
dépôts à terme	16	1033,6	39,6	13	910,5	47,9	15	309	19
dépôts à vue									
• Comptes d'épargne	1663	206,4	7,9	2114	355,3	18,7	2967	511	31
• comptes ordinaires et autres dépôts à vue	369	1372,8	525	300	634,2	33,4	744	324	50
<b>TOTAL</b>	<b>2048</b>	<b>2612,8</b>	<b>100,0</b>	<b>2427</b>	<b>1900</b>	<b>100,0</b>	<b>3726</b>	<b>1644</b>	<b>100,0</b>

B.N.D.A

BILAN AU 30.09.1987  
(Après Affectation du Résultat)

A C T I F	30.9.86	30.9.87	P A S S I F	30.9.86	30.9.87
Comptes Banque Centrale CCP	1.915.218.986	195.114.602	Comptes de dépôt à vue	989.559.032	1.335.543.336
Comptes chèques et correspondants	28.365.595	62.778.120	Créditeurs divers	448.391.133	207.087.597
Comptes débiteurs à court terme	12.124.501.846	14.203.212.594	Opérations pour cpte Etat	336.853.734	1.040.947.908
Comptes débiteurs à moyen terme	1.520.542.578	1.587.335.374	Dépôts à terme	910.532.953	308.872.240
Comptes débiteurs à long terme	698.367.675	1.005.298.770	Emprunts à long terme	1.798.675.709	12.478.068.085
Opérations pour cpte Etat	336.853.734	1.040.947.908	Comptes d'ordre	145.683.913	198.116.448
Créditeurs et débiteurs div.	51.953.747	48.540.421	Fonds de garantie	297.343.814	166.474.934
Comptes d'ordre	78.749.351	65.721.228	Report à nouveau	73.343.939	3.082.664
Immobilisations	68.545.053	81.152.556	Capital Dotations Subventions Réserves et Provisions,	1.822.714.338	2.551.908.361
	16.323.098.565	18.290.101.573		16.823.098.565	18.290.101.573

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