AGRICULTURAL CREDIT AND COOPERATIVES IN GUINEA

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I. Background

The USAID program in Guinea during the period 1987-1988 is designed to support the Government of Guinea's (GOG's) economic reform program. The program consists of two integrated projects: the first "Promotion of Private Marketing and Distribution" (675-0217) is an ESF cash transfer of $10 million to assist in the implementation of economic reforms leading to a complete liberalization of economic activity in the agricultural sector. An important feature of the project is the GOG's contribution of the equivalent of $10 million to meet the need for domestic private sector credit. The second part of the two year program (Economic Policy Reform Project 674-0218) calls for provision of short term technical assistance in the areas of economic policies, marketing, banking, credit and agricultural credit, again with the objective of supporting the country's economic reform program.

USAID anticipates that the Private Marketing and Distribution project, by helping move the rural economy from the public to the private sector, will significantly increase agricultural production, marketing, infrastructure development and, as a result, rural well-being. Both the meeting of conditions precedent to the project and the flow of credit to producers, entrepreneurs and merchants are designed to accomplish this objective.

The specific reforms required as conditions precedent call for (1) unrestricted private sector rights to import, sell and distribute agricultural production inputs, including the disengagement of the state from these activities; (2) free and open trade in the marketing, purchase, sale and/or export of all crops; (3) removal of all government subsidies on sales of agricultural production inputs; (4) enunciation of a comprehensive credit policy; and (5) promulgation of revised commercial and investment codes.

Both the dollars and the local currency made available as credit under the Private Marketing and Distribution project plus the foreign exchange made available under other donor lines of credit will enable the private sector to take advantage of the policy changes noted above and assure a substantial surge in the rural economy. Potential uses of the USAID dollar and local currency lines are noted in the PAAD as follows: (1) initial credit demands for short-term loans to finance the import of consumer goods and food; (2) financing domestic transport, bakeries, construction equipment; (3) supplies, material and equipment for assembling or manufacturing agricultural equipment and tools; (4) purchase of imported agricultural inputs; (5) construction and equipping repair shops, garages, agro-industrial enterprises and service industries; (6) trading of local goods and services; (7) financing the purchase, collection, transport of export crops; (8) equity financing to small and medium enterprises which qualify for foreign currency loans under other lines of credit but which also require local currency financing; (9) medium term credit for land development.

USAID states its expectations from this project very clearly in its 1987 Interim Country Strategy Statement: "The long-term objective continues to be assistance in promoting economic growth, particularly through the promotion and diversification of the agricultural sector....the current program aims at the establishment of a policy framework and private sector environment needed to permit and sustain increases in agricultural production and marketing. The mission expects that policy implementation and the promotion of private sector marketing will stimulate a significant production response as farmers increase the amount of land under production and channel surplus output into Guinea markets rather than across borders."

II. Scope of Work of This Survey

The mission recognizes that policy changes and credit availability in and of themselves will not immediately effect a transformation of Guinean agriculture. There are a number of other factors in addition to credit and the elimination of policies which distort factor use. The 1987 CDSS lists a number of them such as road networks sufficiently rehabilitated that agricultural inputs can be delivered to farmers, and agricultural products collected from farmers at reasonable cost; and the active engagement of the private sector in input and service delivery, in agricultural transportation and marketing, as well as in production and processing.

But there are a number of more immediate barriers which will impede the flow from USAID's line of credit through the commercial banking system to the agricultural sector. Some of the more difficult problems are a certain reluctance on the part of commercial banks to make agricultural loans, stemming from previous experience with farm credit in Africa and from the banks' own sense of unfamiliarity with agricultural production, processing and marketing; the inability of many rural entrepreneurs and most farmers to provide sufficient and acceptable collateral for loans; the unfamiliarity of most sectors of the Guinean rural sector with commercial banking practices after 25 years of statism; the relatively high level of risk in agricultural production; the lack of a rural structure that enables producers to pool their resources and talents, thereby increasing access to farm credit. Furthermore, the marginal returns from the use of many yield increasing inputs (e.g., fertilizer and imported equipment) are too low to repay the loans used to buy the inputs. The situation results from the exceedingly high cost of imported inputs in the interior and the relatively low prices received by farmers for their production. Excessively high transportation costs for inputs and marketing further decrease the margin.

Recognizing the importance of some of these barriers to the flow of resources to the rural sector, USAID requested a study of agricultural credit in Guinea to result in a report outlining what preliminary steps could be taken in the area of agricultural credit to lead to liberalization of economic activity in the rural sector. The scope of work calls for investigation of the following points:

- traditional or local methods of credit and their potential for expansion;
- uses and mechanisms for agricultural credit on a regional basis;
- the GOG's plans for the development of cooperatives;
- the cooperative mechanism for credit management and its suitability given Guinea's unique situation.

In addition, the study would identify other areas and aspects of agricultural credit which would benefit from more research, and present scopes of work for each new study or research identified.

III. Methodology

The study is based on a review of documentation available at USAID, the Ministry of Rural Development and other donor agencies which bear on agricultural credit, production, marketing, rural enterprise and rural organizations; and on extensive interviews in Conakry and a large rural sector of the interior (Faranah, Kissidougou, Gueckedou, N'Zerekore and Kankan).

In the field the study team, consisting of a USAID consultant and a representative of the Ministry of Rural Development, succeeded in meeting with as wide a cross-section of the rural communities as could be arranged, including small farmers; planters; merchants; representatives of artisan, farmer, transporter and women's cooperatives; small businessmen, representatives of the Ministry of Rural Development; Petites et Moyennes Entreprises; and prefectural authorities. The information gathered was largely qualitative rather than quantitative. This information has been synthesized by the field investigators on the basis of their previous experience in Africa with agricultural production, marketing, credit and rural organizations, and is presented in this report.

IV. Characteristics of Guinean Agriculture Affecting Credit Availability

Third World countries usually establish as their priority development objectives an increase in agricultural production and an increase in the social and economic well-being of the rural population resulting from an increase in farmer income. Agricultural credit is a key factor in the achievement of these objectives. But it is only one of the factors necessary to that end. Other conditions which must exist include the availability of new technology; markets that supply new inputs and absorb production; relative prices of inputs and outputs that encourage adoption of new technology; institutions willing to lend to farmers; and farmers willing to borrow, invest and repay loans. Guinean agriculture falls short in a number of the above conditions. Some of the problems are caused by the structure of the country's agriculture, but many result from the experience of the past twenty-five years. All bear on the availability and use of agricultural credit.

The atomized structure of Guinean agriculture poses a major obstacle to individual farmers' accessibility to credit. Over 70 percent of Guinea's population live on farms of 2 hectares or less. The average size varies from 0.9 hectares in Fouta to 3.6 hectares in Kindia. Each of these 700,000 small farms support from 6 to 7 people. Such farms, while they produce mainly for subsistence, do market their surplus and, with improved techniques, have a potential for increasing their marketed surplus. However, the adoption of improved techniques imposes the need for credit for land improvement, seed, pesticides, fertilizer, tools, animal traction equipment and, in some instances, hired labor. However, small farmers as individuals hold little attraction for credit institutions, particularly commercial banks. They have not established their creditworthiness, they have few resources to offer as loan collateral, and the high cost of processing large numbers of very small loans is viewed by the banks as prohibitive.

A major impediment to credit access for all farmers, regardless of the size of their operation, is the confused state of land title registration. The most valuable asset that farmers might pledge as loan collateral is their land and its improvements, but only if they possess a clear title. Under the previous regime, the only title available was a "titre d'occupation," since all land in principle belonged to the state. At the present time the Service de l'Urbanisme, at the farmer's request and for a fee, will survey the property, draw up a map and issue an ownership title, "titre foncier." However, commercial banks are hesitant to accept the validity of these titles. Their hesitation is increased by the fact that under present Guinean law it is not possible in case of default to recuperate resources pledged as collateral.

The agricultural economy of Guinea has been very seriously affected by governmental policies of the First Republic over a period of twenty-five years. The disintegrating rural economy in turn seriously influences the climate for agricultural credit. Between 1970 and 1980, per capita farm production dropped at an average annual rate of 2.6 percent. Food import costs now annually exceed receipts from crop exports by $35 million. Earnings from export crops have dropped drastically and account for less than three percent of export earnings. Banana exports have dropped from 100,000 MT in 1955 to zero in 1985; pineapple exports have gone from over 10,000 MT in 1972 to nearly zero in 1985. Official coffee exports as well as palm oil kernels have suffered comparable declines. By the time of the fall of the First Republic in 1984, Guinea had reverted to a near subsistence agriculture. Plantations were neglected. Most of the coffee harvested was smuggled across the frontier to be sold in neighboring countries.

The decline of the agricultural sector can be largely ascribed to governmental policies which discriminated against the rural economy. The 1987 Guinea Interim Country Strategy Statement states the problem succinctly:

> "Farmers were taxed in kind, through labor, and indirectly through pricing and currency policies. The tax was a contribution to the state of 60 kilograms of rice per adult. Farmers were forced to contribute their labor on one or more of the 300 state-run collective farms. The extreme over-valuation of the currency and the artificially depressed prices for farm produce, coupled with the subsidized distribution of imported rice to civil servants in Conakry, constituted effective taxes against farmers in favor of urban consumers. In return farmers received almost no assistance, as agricultural inputs, expertise and credit were directed exclusively to the state farms .... State control of marketing, distribution and agro-processing further contributed to the inefficiency of the sector. Legally all surplus production had to be channeled through state marketing agencies and producer prices were fixed at levels well below market rates. Insufficient production from the state farms as well as from individual farmers deprived the agro-processing industries of raw

materials, and the penury of foreign exchange deprived the state farms and the industries of spare parts for tractors and machinery. Meanwhile the costs of transportation and distribution soared rapidly as fuel prices increased and the country's road system deteriorated. By the early '80s it was estimated that state farms and most agro-industries were operating at perhaps 20 percent of capacity."

Agricultural credit under the First Republic was provided by the National Agricultural Development Bank (BNDA). However this state bank did not provide credit to individuals or the private agricultural sector. Ninety-five percent of its loans were to state-controlled farms and parastatals. The main objective of credit policy was financing the implementation and operations of government-planned projects by government-controlled organizations. The bank developed neither field staff nor the capability for competent project feasibility analyses, nor did it pay much attention to loan repayments. The government parastatals and industries to whom they loaned were in fact so poorly managed and operating at such a low level of capacity that they were unable to repay their loans. As a consequence, by 1985 the BNDA as well as all other state banks in Guinea were in effect bankrupt, brought down by a combination of poor management and illiquidity. The present government has allowed the state banking system to be replaced by a group of private commercial banks which began operation in late 1985 and early 1986.

The implications of the present condition of Guinean agriculture for making credit available to the rural community and for its effective use are substantial and are reviewed in the following sections of this report.

V. The Availability of Agricultural Credit.

The actual or potential sources of agricultural credit in Guinea at the present time are the commercial banking system, regional or commodity (e.g. coffee, cotton) development projects, production credit advances by traders and coffee export companies, and <u>tontines</u>.

A. The Banking System

The Guinean state banking system collapsed into bankruptcy in December 1985 and all state banks were closed. A procedure for chartering private banks was established and three such banks had opened their doors by January 1986. At the same time and as part of the reform of the country's financial markets, a new currency, the Guinean franc was established and exchanged at par with the old currency, the sylli. The new franc was in effect floated against foreign currency through the mechanism of a weekly currency auction administered by the Central Bank (CBG).

The Central Bank itself is undergoing a complete reorganization. Its autonomy has been increased and technical assistance to help with the reorganization and to train staff is being provided by the Central Bank of France. Although CBG's major responsibility is to regulate financial markets and carry out monetary policy, the ongoing reorganization has hindered its ability to fulfill these roles. In particular it needs to fix reserve requirements on bank deposits and provide refinancing windows for commercial banks. The latter is particularly important for increasing the availability of medium-term credit, particularly in local currency. The commercial banks are constrained from making such loans with their own funds by their need for liquidity. At the same time donor lines of credit available to date provide only for the foreign currency requirements of a loan.

The oldest commercial bank in Guinea is the Massraf Faysal al Islami-Guinee (DMI) established in 1983 before the financial reform. DMI is a joint venture between the Government of Guinea and DMI-Switzerland, capitalized at $3.6 million, of which 47% is held by its Guinean depositors. The DMI is an Islamic bank and as such differs from other commercial banks in not loaning at or paying interest. Rather, the bank participates jointly in its borrowers' enterprises. As the only Guinean bank to remain open during the 1985 banking crisis, DMI itself went through a difficult liquidity situation as clients attempted to withdraw their deposits and as state banks in which DMI had deposited some of its liquid assets were closed. The bank now appears to have weathered that crisis. (Deposit accounts numbered 5123 as of 1 January 1985 and the bank's balance statement at the beginning of 1986 came to 859 million FG. March 1987, 1 US$ = 416 FG.) The major activity of DMI is financing commercial trade under an instrument it calls "Morabaha". This is a contract under which a client requests the bank to purchase material or merchandise at market prices, and to resell it to him at the market price plus a fee for the transaction. In addition to food imports, DMI has invested in a number of small enterprises such as bakeries and soap manufacturing. To date, DMI has not made any agricultural loans. The bank does plan to establish branch banks in the countryside, one at Faranah and a second at Macenta. DMI is also interested in participating in the AID line of credit (the only line of credit for which it is eligible) for financing agro-industrial development. The bank director sees two possible difficulties in their participation, one being the requirement that the bank accept 100% of the risk. The second is the interest requirement. DMI has submitted the stated requirements for the AID line of credit to its religious council to see if they are consonant with Islamic principles.

The first commercial bank established after the recent financial reforms was the Banque Internationale pour l'Afrique de l'Ouest en Guinee (BIAG) which opened its doors in August 1985. BIAG is managed by the West African International Bank which holds 34% of its shares. Other shareholders are the Guinean government (51%) and the Swiss Societe Financiere pour les Investissements et le Developpement en Afrique (15%). It is capitalized at 10 million French francs. BIAG's lending is directed almost exclusively to short-term marketing transactions. BIAG is in fact guaranteed by the GOG a minimum share of 20% of the country's foreign transactions. According to its director, it is not interested in making agricultural loans nor is it planning to open branch banks. As of May 1987, BIAG was not participating in donor lines of credit.

The Societe Generale de Banques en Guinee (SGBG) is owned jointly by private Guineans who hold 45% of the shares and a group of European banks who hold 55%. These banks include the French Societe Generale, Credit Suisse, Banca Nationale del Lavoro and the Bayerische Vereinsbank. SGBG is capitalized at 15 million French francs. Within six months of its opening for business, its balance sheet amounted to nearly 9 billion FG.

SGBG is a business bank whose operational philosophy is strongly influenced by its Guinean shareholders, some 70% of whom are traders, many of them in the food sector. As a consequence, SGBG has tended to be more risk taking. Although most of its loans have been to provide commercial credit for the importation of foodstuff, the bank has provided some production credit to coffee planters. According to its director, SGBG has substantial funds available for medium-term credit but, at the present time, does not make such loans to the agricultural sector. The bank does intend to establish at least two branch banks outside Conakry.

The Banque Internationale pour le Commerce et l'Industrie de la Guinee (BICI-GUI) was established in January 1986 with a capitalization of $9.1 million. The GOG holds 50% of the shares of BICI-GUI which were bought through a loan from the World Bank and the European Investment Bank. Other institutional shareholders include the IFC, the European Development Fund, the Caisse Centrale de Cooperation Economique (CCE) and the German Entwicklung Gesellschaft (DEG). Private shareholders include the Banque Nationale de Paris (BNP), the Lambert Bank of Brussels and the Dresdner Bank. It is anticipated that 30% of the shares held by international investors will be bought by the BNP and 50% of the GOG's holdings will be acquired by private Guinean investors in the next few years. BICI-GUIS depositors numbered over 5000 in June 1986 with deposits totalling 7.5 billion FG. Its balance sheet at that time amounted to 11 billion FG.

Like the other private banks now operating in Guinea, BICI-GUI is strongly oriented in its credit activity toward the commercial sector which accounts for 95% of loan transactions. However BICI-GUI differs in one important respect from the other private banks: at this time it has been authorized by the World Bank and the European Economic Community as the only bank to handle these donors' lines of credit. This has led to the establishment within BICI-GUI of what is in effect a development bank window, which does consider medium- and long-term investment loans in a number of sectors including agriculture.

BICI-GUI is managed by the Banque Nationale de Paris and includes 18 expatriates on its staff. It has embarked upon an ambitious program of expansion into the countryside, investing over 3 billion FG in the construction of 10 branch banks at Fria, Boke, Kamsar, Labe, Kankan, Nzerekore, Macenta, Kissidougou, Mamou and Kindia.

Other international banks may establish themselves in Guinea in the near future. One that is actively investigating the opportunity is the Equator Bank with headquarters in Hartford, Connecticut. If it does set up operations in Guinea, its principal interest, according to members of its field team, will be international and internal commerce. Equator does not intend to establish branch banks.

A near unanimity of attitudes on agricultural credit emerges from discussion with the directors of private commercial banks in Guinea:

- The major focus of their lending activity has been and will continue to be commercial trade.

- Their reluctance to move into agricultural loans stems from
  - their own lack of familiarity with Guinean agriculture
  - the high level of risk perceived in agricultural loans
  - the inability of most farmers to furnish acceptable loan guaranties
  - the banks' illiquidity, given the lack of a Central Bank refinancing policy (many agricultural investments require medium or long-term credit)
  - the high cost of servicing large numbers of very small loans particularly in view of the banks' present lack of access to rural producers

- Those banks planning to establish branches in market towns feel that with the increasing familiarity this will give them both with agricultural production and producers, as well as their anticipated growth of deposits, their level of agricultural lending might increase.

- All bank directors indicated a willingness to consider increasing levels of agricultural investment if
  - farmers were organized into private (non-governmental) cooperatives formed around an economically viable agricultural enterprise
  - effective training, support and follow-up were assured to the cooperatives by an experienced development organization
  - a guaranty fund were available in the early stages of cooperative borrowing

B. Donor Lines of Credit

An important source of the funds flowing through the banking system for the import/export trade, internal marketing and economic development is the donor lines of credit made available by international and bilateral institutions such as the World Bank, the European Economic Commission, the French Caisse Centrale and AID. These funds have been made available both to support economic development and to encourage the policy reforms considered crucial to the achievement of that development.

All of the donor lines of credit provide hard currency to constitute balance of payments support and enable an increased flow of foreign exchange to facilitate private commerce and the rehabilitation of industry and agriculture. Foreign currency in sold to entrepreneurs at a weekly auction held by the Central Bank. The more important characteristics of these donor lines of credit are presented in Table I.

The IDA line of credit of 4.17 million DTS was signed in September 1986 and became operational in December 1986. Because it predated the operational dates of the other donor programs, most of the bankable loan requests received to date have been assigned against it. However, it is the most restrictive of the lines of credit, excluding as it does both agriculture and commerce. BICI-GUI is designated to handle loans under the IDA line of credit.

The European Economic Community line of credit does not exclude agriculture. It is oriented toward small private enterprise development projects requiring less than 50,000 ECU. The interest rate on subsidiary loans at 9% is also lower than other lines of credit. Imported goods must be of EEC origin. As with the IDA program, BICI-GUI has been designated to handle loans under the EEC line of credit. Another feature of the EEC credit line attractive to agricultural borrowers is a payment deferment period of five years for long-term investments.

The line of credit of the French Caisse Centrale de Cooperation Economique permits participation to all of the Guinean commercial banks with ties to the French banking system (BICI-GUI, SGBG and BIAG). The Caisse Centrale program contains in effect two separate credit lines, one for loans of less than a million French francs intended particularly to finance commercial investments, the second for loans of from one to ten million French francs directed toward investment in small and medium enterprises. All sectors except housing are eligible for participation. Any goods imported through these loans must be of French origin.

BICI-GUI has also signed an agreement with the National Bank of Paris which makes available a total of 50 million FF as a credit guarantee to Guinean importers ordering French equipment from French suppliers. Data furnished by BICI-GUI also indicates a future line of credit of 7 million DM to be made available by the German DEG.

The AID program makes available $10 million in two tranches. The unique feature of the AID line of credit is the agreement by the Government of Guinea to make available an equal amount of Guinean currency for commercial, industrial and agricultural development loans. Although it is anticipated much of the first year's program will be invested in short-term commercial credit, AID's intent is that as high a proportion of the funds as possible will flow toward agricultural development. Participation is open to all Guinean commercial banks, and lending is open in all sectors except urban housing.

As of March 1987 only the IDA program was operational, although agreements for the EEC and CEE were anticipated momentarily and discussions on the AID line of credit were moving ahead actively.

A report issued by BICI-GUI indicates that as of 30 December 1986, a total of 44 projects had been presented for line of credit funding. Of these, a total of 19 had been approved for IDA funding, eight of which were for investment outside of Conakry. In addition, ten projects were approved for funding from BICI-GUI's resources. Another 77 projects were under discussion. Loan requests to date are divided by sector as follows: transportation 19; agriculture 36; small enterprise development 40; fisheries 5; construction 3; various professional enterprises 17; commerce 14; and miscellaneous 16.

In reviewing applications for loans using donor lines of credit, BICI-GUI makes note of the following serious obstacles:

- The most important obstacle to loan approval under donor lines of credit has been the lack of sufficient local funds on the part of borrowers which are required to complement the loan. These borrower funds may be needed for any or all of the following purposes (in addition to any contribution which might be required under the loan):

- o the establishment of a place of business;
- o import duties (18% of CAF value for equipment, 38% for cars, trucks);
- o various taxes and expenses (5%);
- o insurance and other setting up expenses.

Required borrower resources may amount to 25% to 50% of the total cost of the project in all.

- The lack of sufficient collateral, or the inability to provide acceptable collateral

- Poorly designed projects

- Inadequate financial/economic analyses of project feasibility.

A substantial number of projects currently under review by BICI-GUI can be identified as directed toward agricultural development for agro-industrial development. According to BICI-GUI's December 1986 report, of more than 60 applications being studied, 10% are for the establishment of agricultural processing industries (e.g., milk plants, a sawmill, a feedmill) and another 23% for agricultural investment in vegetable, poultry, fruit, flower, rice and coffee production.

C. Tontines

The tontine is an informal system of group savings found in many parts of Africa, in many ethnic groups, and at all levels of society. In its most common form, each member of the tontine makes a uniform contribution on a regular basis with each member in turn eligible to receive the contributions as a loan. All members are expected to continue to make contributions until all members have had the opportunity to receive a loan. Members may use their loan for any purpose they choose. The life of the tontine depends on the number of members and this can vary from as few as three to fifty or more.

Tontines appear to be widespread in Guinea and were reported to exist in all of the areas visited by the credit team. Their use is apparently much more widespread among merchants and civil servants, however, than among farmers. In fact, farmer tontines were found only in the Nzerekore area, where they were reported to be used to finance agricultural enterprises. A tontine of merchants in Guekedou was reported to have 88 members and a treasury of 3 million FG which are used for loans to members. The widespread existence of tontines among certain more favored levels of rural society is felt to be another indication of the existence of a substantial level of rural savings. It should be looked at in greater depth since it may present the opportunity (under favorable circumstances) for rural credit deepening through the formation of cooperative/credit unions where circumstances are favorable.

D. Agriculture Production Credit in Regional Development Projects

Regional and commodity development projects are the nearly exclusive source of agricultural production credit in Guinea at the present time. In many cases, projects also make available medium-term credit for equipment, tools, and land improvement. The formation of farmer groups as an instrument for disbursement and repayment of credit is also a common feature. Regional and commodity development projects also provide other services which are complementary to running an efficient credit program: research to develop and test profitable packages of practices; farmer support though an extension system; and the ordering and timely delivery of improved seed and fertilizer.

One such regional program is the Agricultural Project of Gueckedou (PAG) supported by the World Bank since 1980. The project is specifically directed toward assisting small farmers in rice production in the prefecture of Guekedou and 2 sub-prefectures of the neighboring prefecture of Kissidougou. Credit formed an important subcomponent of the first five year program and by 1984 between 5 and 6 billion sylli of improved seed and fertilizer were being advanced to 4,123 participating small farmers. In addition, medium-term loans for equipment and land improvement amounting to over 1 billion sylli were advanced to 225 producers. During the early years of the project, administration of the credit component was assigned to the Prefectural Rural Development headquarters in Gueckedou. PAG's experience with credit repayment in the early years of the project was disappointing, dropping as low as 53% in cash repayment for production credit to individual farmers in 1983. At the time of an evaluation in late 1984, records were in such bad shape that no estimate could be made of medium-term loan reimbursements. Part of the problem arose from inadequate recordkeeping of input distribution. Another problem was the GOG insisting on repayment in rice, with farmers discontent with the price offered and withholding repayment.

The PAG project has been renewed for a 5-year period and a tighter audit and control system has been developed. During the second phase an interest rate on loans will be fixed at ten percent. Short-term credit (one year) will be extended for fertilizer, improved seeds and small tools. Medium-term credit (three years) will be available for rice decorticators, coffee treatment material, cement and for hiring labor for land improvement. Repayment of medium-term loans will be at the rate of 25% annually following each harvest. Prices of inputs will be gradually raised to equal the real cost of goods delivered to the farmer. Project management staff anticipate that prices at this level will reduce the amount of fertilizer ordered by producers. The credit default rate for the second 5-year period of the project has been projected at 10%.

The project will further encourage farmers to form farmer associations (groupements) both to facilitate the administration of the credit system and to give producers additional responsibilities, particularly in marketing their production.

During the first three years of the second phase of the PAG project, loan repayments will be deposited in the project's credit account. However it is planned that as soon as a viable national agricultural credit system is established, the project credit balance will be transferred to the national system which will then be responsible for the distribution of credit to project participants. It would appear that PAG project designers and managers are not considering or exploring the possibility of credit management by a commercial bank but are awaiting the re-establishment of a governmental agricultural credit bank.

Another agricultural development project which has been under way for several years is the Haute-Guinee Rural Development Project of the Compagnie Francaise de Developpement des Fibres et Textiles (CFDT). CFDT is a private French company with some government shareholding (compagnie mixte) and the major project objective is the production and export of cotton fiber. The project nevertheless takes an integrated approach to rural development and provides farmers with technical assistance, inputs and material for both cotton and food crop production. In its 1987-1988 growing season, CFDT staff project they will reach over 4000 farmers growing 2240 hectares of cotton, 122 hectares of peanuts, 770 hectares of rice, and 678 hectares of corn in the Kankan, Dabola, Mandiana and Siguiri area.

The project advances fertilizer, improved seed, and pesticides on short-term credit against repayment at harvest. Repayment of cotton is in raw cotton and repayment rates are nearly 100% except in cases of complete crop failure. Repayment for improved seed furnished for food crop production is in kind and reimbursement rates are lower. However, CFDT reports an overall repayment rate of 93.8% for the 1986-1987 season. Medium-term (3 year) credit is also available for the purchase of equipment, principally animal traction equipment. Farmers are required to pay 25% of the value of the equipment at the time of purchase. The project also will rent this equipment by the day. Although the project would like to charge approximately 9% interest on these credit advances by building the interest into the price of the goods, the GOG has not yet permitted such action.

Fertilizer used in the project has to date been supplied from a grant by the FED and is sold to farmers at about 60% of its value delivered at Kankan. The project however will soon need to start buying its fertilizer which will result in an increase in the price to farmers.

The Haute Guinee project does not work with nor attempt to establish farmer associations as such. The project will work with any village in the project area as soon as five villagers sign up as cooperators. One farmer in the village group is then appointed as a representative of the group vis-a-vis project staff. For the long-term, the possibility of farming associations is envisaged for the purchase of larger items of equipment which could be bought and used collectively. The project director indicated an interest in the transfer of the credit program to one of the commercial banks being established in Kankan if mutually satisfactory procedures could be arranged.

A large regional project at the implementation stage is the Rural Development Project of Kissidougou (GTZ), supported financially by the German government. This integrated project will work directly to support the local Guinean agricultural services in developing all aspects of agricultural production in the Kissidougou prefecture. Inasmuch as the GTZ project is just getting underway, the staff is still conducting studies, planning, and organizing their activities for the coming three years. A credit program to support the flow of inputs, material and equipment is being designed. If the supply of inputs can be handled through traders, it will be done to the extent possible. However, the project staff sees advantages in the development of farmer organizations with the help of local village headmen. The staff has also given some thought to establishing the credit program through a contract with BICI-GUI, with the project identifying farmers or associations to receive credit, making the necessary financial analyses and providing the necessary follow-up. If the bank were to require a guarantee fund, the project is in a position to institute such a fund.

The FAO Decentralized Rural Development Project in the Fouta Djallon has just entered its six month pre-implementation planning phase and the details of project organization are even less precise than in the GTZ project. However, the project is an interesting one, not least of all for its farmer-oriented goal -- "to improve the local rural economy by increasing the capacity of the people in the project area to decide, to plan according to their own needs and potential, to undertake their own program, to manage the development operations undertaken, and to maintain the structures and economic and social infrastructure which the project establishes." In the spirit of allowing local producers to define and plan their own project, the exact design of community organizations and the organization of a credit component are not yet determined. However, it is anticipated that the project will be implemented through the formation of producers' associations. Provision has also been made in the budget for a working fund that will allow for the establishment of a project-administered credit program.

A project (not yet at the implementation phase) whose structure is based on the supply of credit and the organization of producer groups is the World Bank's Livestock Sector Rehabilitation Project, which sets for its objective the rehabilitation of the Guinean cattle herd. The five year project will attempt to achieve this by the establishment of herdsmen's associations, creation of an input supply center and the provision of a credit component.

The pilot credit component would help finance the following activities:

- setting up private veterinarian practices
- setting up animal production farms (cattle, sheep, goats)
- loans for herder groups for the construction of storage, water points, dipping tanks, etc.,
- loans for setting up retail shops, pharmacies for the sale of livestock medicines, small veterinary equipment, and mineral licks.

Rate of interest on these loans would vary between 8% and 12%. Loan applications would be passed on by a credit committee of the prefectural livestock services and would then be sent to a commercial bank for approval and loan disbursement. The terms and conditions of the credit program would be the subject of a subsidiary loan agreement between the GOG and the commercial bank, approved by the World Bank. The line of credit in the project would be managed by the commercial bank.

Herdmen's associations made up of approximately 700 producers each would form the organizational basis of the project. Although the project document does not label them as such, they would in effect be cooperative structures "created in the form of non-profit making entities not subject to taxation... with the objective to purchase and distribute inputs, provide veterinary services, and marketing...management by executive committee elected by members ...with access to credit for investments that can be jointly owned and used by the group...with members jointly responsible for the associations' debts." As an incentive for the formation of such groups, the project would provide each group with an initial stock of livestock inputs with the sales proceeds including a 15% profit margin going into the associations' revolving fund. In addition, the project would make credit available to the group for investment in infrastructure.

This brief and far from inclusive review of regional development projects in Guinea leads to several conclusions.

- credit is a necessary input for agricultural development
- credit programs are difficult to manage and reimbursement rates can be disappointing except where the project controls the marketing
- most projects presently manage their own credit program but project managers have expressed interest in transferring this to the banking system, either commercial or governmental, when such a system comes into existence in project areas
- farmers groups are seen as a useful and complementary instrument in the functioning of a credit system
- the majority of Guinean farmers do not have access to project funded credit programs

The World Bank's SCET-AGRI report of August 1986, taking note of the latter point and pointing out that credit needs will increase, recommends the establishment of a credit structure outside the project system on a pilot basis in one or two prefectures. The credit mechanism would be based upon the organization of farmers associations, in this case to function not only as cooperatives but as savings unions (groupements de caution mutuelle). The line of credit would be placed in a Guinean bank (unspecified whether commercial or national) which would assure management of the credit program. Field personnel would be furnished by a PVO working under the direction of the bank. Interest would be worked out with the bank but would range between 12% and 15%, including the bank's share.

This recommendation is essentially similar to the schema proposed at the conclusion of this report for the establishment of an agricultural credit network in Guinea.

E. Trader Forward Financing of Production Credit

Conventional wisdom holds that in most of West Africa a large part of cereals production credit is advanced by traders and merchants. The advance may be in cash or in kind, to be recuperated by the trader in kind at harvest, the terms of trade generally thought to be grossly unfavorable to the producer. When queried on this practice, producers, merchants and government officials in all geographic regions of Guinea covered by the credit team responded that, although the practice existed, it was not widespread and was limited in most cases to family-related groups. Because of the family relationship interest rates were thought not to be exorbitant. A number of reasons were cited for the limited extent of merchant production credit: that many merchants were themselves in an illiquid situation following the demise of state banks in which their funds were blocked; that producers, except when there was a family connection, avoided the arrangement for fear of exploitation; or that sufficient time had not elapsed since the government relaxed strict control of internal marketing by private merchants to allow the practice to develop.

The major coffee buyers, SOGECAF and Index, do not at this time advance production credit although some producers say that SOGECAF has promised to institute this practice. SOGECAF has up to the present given coffee seedlings of improved varieties to any planters who have requested them. SOGECAF has also made available teams of workers, including a coffee technician, to carry out plantation rehabilitation. Up until this year, this service was offered to any planter who requested it. However, in the future, it will only be available to planters who sign contracts with the export firm. SOGECAF also trades metal roofing and cement against coffee, delivering the material to the farmer at the time of coffee pickup.

Index does not offer these services. It has however indicated a plan to establish a boutique, starting it with imported items from Liberia or elsewhere, and to use part of the profits on these imports to pay a higher price for coffee than the current official price.

VI. Demand for Agricultural Credit

There has been no in-depth study carried out in Guinea to date on the effective demand for agricultural credit. Nor was this credit study team able to carry out any formal type of sample survey in the time available in the field. However the team did interview a large number of farmers, planters, artisans and merchants, both collectively and individually, in five major prefectures and in Conakry. The responses to questions on credit needs and availability may be summarized as follows.

- An overwhelming need was expressed by both farmers and planters for production credit to buy seed, fertilizer and to hire labor for land improvement.

- Large farmers, planters and merchants in all regions pointed to the total lack of spare parts to repair trucks, tractors and farm equipment, as well as the need for new machinery and equipment.

- All meetings were attended by representatives of artisans, mechanics, transport workers, and women textile workers who had organized in associations. These groups indicated a need for machinery, equipment, spare parts, and operating funds for their particular sector.

- All groups and individuals except merchants stated that they had no access to credit for any of the above purposes.

- Only merchants were aware of the opportunity for credit presented by donor lines of credit. Those who had investigated their possible use stated they felt they lacked the resources required by the credit lines for front money. A major concern of most merchants was the extent to which their funds remained tied up in the bankruptcy of the state banking system.

- A few large farmers and planters had acquired land titles under the new system of registration and thought they were valid for collateral purposes. Most other farmers felt they could acquire such titles.

- There was near unaninimity on the part of the above groups in expressing a willingness to organize in associations or cooperatives for the potential such organization offered for increasing access to credit.

- There was total unaninimity that the free market price of inputs, particularly fertilizer, given prices farmers receive for their crops, dampened demand to near zero. As late as May 1, 1987, the directors of SEMAPE, (which now fixes its prices at CIF Conakry plus transport to the field) reported that no fertilizer had been delivered to the field from their warehouses for use in the current growing season.

Although there is clearly a very high level of need for agricultural credit indicated in the above statements by rural producers as well as by the prostrate condition of the Guinean rural economy, it will take time for this need or desire for credit to be translated into effective demand. Factors tending to reduce the demand for credit include the following:

- little field tested production research and information is available upon which farmers can base decisions on levels of inputs to apply;

- the commercial network for importation and distribution of agricultural inputs, machinery, spare parts, etc., is underdeveloped;

- free market prices for imported inputs are high relative to market prices received by farmers;

- export markets with the possible exception of coffee have been lost, and internal trade in agricultural output is greatly limited by the high cost of transportation;

- most farmers have little access at the present time to the newly established commercial banking system; at the same time the commercial banking system has limited interest in extending agricultural credit to small farmers with few resources where risks and loan costs are judged to be high;

- there is a lack of farmer based organizations capable of reaching farmers with credit, inputs and providing other services.

Some very strong forces are in motion, however, which at least over the longer-run will greatly increase the need for increased levels of agricultural credit. One of these forces is the decision of the Guinean government to liberalize and privatize the national economy. A second is its perception that agriculture is the major sector of the nation's economy and must be encouraged to contribute a greater share of the national income. Given the almost prostrate condition of Guinean agriculture at this time, greatly increased financial inputs will be needed:

- to renovate old plantations and establish new ones;
- to replace tools, equipment and machinery;
- to renovate and modernize existing agro-industries;
- to improve the national road system and modernize the transport fleet;
- to search out new export markets; and
- to encourage the formation of new agricultural processing enterprises, rural service industries, trading companies and rural cooperatives.

Most of the above-listed tasks in rejuvenating Guinean agriculture need not depend upon the government budget, but can be financed by a well run system of agricultural credit.

VII. Programming Options to Improve the Rural Sector's Access to Credit

Key points from the preceding sections of this report are summarized below as a basis for discussing the options available for increasing the rural sector's access to credit.

- Credit is required in rural Guinea for export and internal marketing of agricultural production, the importation of inputs, agro-industrial investment, and agricultural production.

- The availability of agricultural production credit is severely restricted except in regional or commodity development project areas. Production credit is needed for purchase of improved seed fertilizer, pesticides, small tools, spare parts, land improvement and preparation, labor, in some cases buildings and irrigation equipment, and often for larger items of equipment whose use can be pooled by a number of producers. While traditional subsistence agriculture can survive without these inputs, agricultural development in the sense of an increase in agricultural output requires their introduction. However, small farmers have very limited access to the financing necessary for their purchase. The reasons are many. Three-quarters of the Guinean population make their living from farming an average of 2 hectares of land per family. Individually they do not have the resources necessary to pledge as collateral for commercial bank credit. Risks of crop failure are relatively high, making reimbursement of loans difficult if not impossible in some years. Commercial bank credit terms are not well adapted to agricultural credit requirements.

One of the most serious problems is that caused by the high cost of imported inputs in comparison to the prices received by farmers for their product making the marginal return from the use of imported inputs not significantly higher than the marginal cost incurred by their use. (Farmers usually require marginal returns to exceed marginal costs by a factor of two or three before they will voluntarily introduce a new input or technique.) At the present state of agricultural research in Guinea, little is known about the physical response in yield to improved practices that would enable farmers - or planners - to calculate physical and monetary returns.

- With the introduction of real market pricing for inputs, demand for some important inputs, e.g. fertilizer, will decline sharply. Increased production over the next few years will come from increasing the area under cultivation rather than yield increases.

- Usually a farmer's most valuable resource to pledge as a guarantee is his land. Although Guinea has established a land title registration system, these titles are not accepted by the commercial banks at this time as collateral. Equally serious for the banks is the fact that under Guinean law it is really not possible to foreclose a loan.

- There are in all areas of the country a small number of planters and farmers with larger operations and greater resources. In many instances, these producers are also traders or local businessmen. To the extent their resources allow them to furnish a guarantee acceptable to the bank, they will have access to bank credit. This is indicated by a number of requests for agricultural production loans currently under review at BICI-GUI against donor lines of credit.

- There is a strongly felt need in the countryside for agro-industrial development. Reopening the cannery at Kankan is a case in point. Agro-industrial development will require fairly large investments and bank credit and the prevailing view in the field is that Guineans capable of financing such development, e.g. local merchants are not perceiving or responding very quickly to existing agro-industrial investment opportunities.

- There are at least three requests on file at BICI-GUI (for establishment of milk processing plants, a sawmill and a feedmill). With the opening of the CEE and CCCE lines of credit, the rate of agro-industrial investment should increase since their terms are more flexible than the IDA line of credit and since the CCCE credit is specifically directed toward small and medium enterprise development.

- Marketing credit is available from commercial banks, indicating the general creditworthiness of commercants and the banks' predeliction for short-term loans. Some 95% of current loans by the commercial banks at this time are for import, export and internal marketing.

- The establishment of branch banks (currently underway by BICI-GUI and being planned by SGBG and the Islamic Bank) should gradually improve rural credit availability as deposits increase, as banks become more familiar with the agricultural milieu and as mutual confidence and credibility are developed.

- The establishment of branch banks will offer the opportunity to marshall rural savings in demand and savings accounts in the immediate area of the branch. However, here again these services will not be available to most producers who live too far from the provincial towns where the branches will be established.

- Since the dissolution of the old structure of state enterprises and of state "cooperatives", many rural producers (farmers, planters, artisans, commercants) have organized themselves into associations of a cooperative nature and have applied for, and in some cases received, official recognition under the law.

- Even with such recognition cooperative groups do not have access to bank credit at this time.

- The GOG's official policy is to encourage the development of private cooperatives as an instrument of rural development, and a new cooperative law is under review for signature. This will make cooperatives at least legally eligible for bank credit.

- The bottom line is that under present circumstances, little or no commercial bank credit or other bank services will be available to most individual Guinean small farmers to meet their agricultural production needs in the forseeable future without the initiation of specific actions to encourage the banks to move in this area. As things stand, there is no reason to assume that the majority of agricultural producers will benefit from the second tranche of AID's line of credit.

The situation outlined above suggests a number of programming options which might make financial resources flow more smoothly toward rural investment, such as the reestablishment of an agricultural development bank; design and implementation of additional area development projects with a credit component; support to a rural credit union program or the implementation of a cooperative movement including a credit union facility. Each of these alternatives is considered in turn below. It should be noted that the "options" discussed below are not necessarily mutually exclusive.

A. Re-establishment of an Agricultural Development Bank

Developing countries tend to establish state agricultural development banks. Guinea's Banque Nationale de Developpement Agricole (BNDA) is an example. They perceive the need for such a bank as a means to service economic activity in rural areas (services which commercial banks are often reluctant to undertake), thereby enabling the country to attain its agricultural development objectives. They also perceive that the characteristics of agricultural production require different credit terms than are available from commercial sources. It is often thought that an institution is required to adapt to such characteristics by offering lower interest rates, less stringent collateral requirements and more flexible repayment schedules.

Both motivations, while rational in themselves, tend to undermine the long-run viability of the institution. In fulfilling their agricultural development support role, such banks tend to become a funding pipeline in support of goals defined by other institutions. Usually the bank's funds are channelled to final borrowers on the basis of evaluations carried out by employees of other agencies, who often are also responsible for loan recovery.

In this situation, the development bank does not really act as a bank nor does its staff acquire banking skills in loan evaluation, risk management or loan recovery. In many instances, the development bank does not develop outlets in rural areas, an indication that wholesaling of funds to development projects was perceived as its major role from the start. As a consequence the bank fails to develop contacts with its final borrowers which might lead to a bank-client relationship built on trust and confidence. Although it disburses funds, it does not perform the other important functions of a bank, that is, evaluate the creditworthiness of its clients and the risk of their proposed investments, assure a serious loan recovery effort, and provide for the mobilization of deposits.

When the greater part of the bank's funding comes from international donors, the bank tends to become borrower dominated since the funds provided are usually for the implementation of some donor supported project. Considerations of creditworthiness, risk and loan recovery take second place to the priority of the supplier (and, in effect, the borrower) of funds to achieve project goals by supplying selected farmers with new inputs.

The financial viability of the development bank is further undermined by the perception (again influenced by its clients) that producers can only afford credit at interest rates substantially lower than the cost of delivering and recovering the loan.

Many of the above factors were at play in the difficulties encountered by Guinea's Banque Nationale de Developpement Agricole, whose financial position had become so precarious by 1986 that the government closed it down along with all other state banking institutions. Since its closing, a group of private banks have been established to replace the former state system. While these have moved very quickly to fill commercial credit needs, they have not (except in limited cases noted earlier) moved towards playing a complete role in furnishing agricultural credit, particularly production credit.

In view of this lack, the question arises, should an agricultural development bank be re-established at this time? While the inadequacies experienced by agricultural development banks noted above are not necessarily inevitable, it is recommended that such a re-establishment not be considered for the present, for the following reasons:

- The new commercial banks in Guinea are active and growing and while they have moved into agricultural credit in a very limited way and under special circumstances, most have indicated an interest in this area if certain problems can be resolved, particularly in the area of credit guarantees. Other factors arguing for an increase in their agricultural lending are their plans to establish branch banks in rural areas; the anticipation of establishment by the Central Bank of a policy for refinancing medium-term credit; and its growing participation by these banks in agricultural loans financed under donor lines of credit. This latter phenomenon has been characterized by BICI-GUI in fact as the establishment of a development loan window within BICI-GUI.

- There is no reason to presume that many of the factors listed earlier which contributed to the demise of the earlier BNDA would not be present in a reincarnated development bank. The major source of funding would continue to be international donors whose priority would continue to be the financing of their development projects in the country. The new development bank would continue to suffer from borrower domination, with project designs, evaluations and decisions on credit recovery carried out by the final borrower. There would appear to be no incentive to encourage the development of outlets in local areas, nor the buildup of banking skills by the development bank. In fact, the high cost of developing such a network as well as the non-availability of experienced personnel would be a positive disincentive to the establishment of a structure in the field oriented to loan evaluation, risk management and loan recovery.

- Agricultural credit needs as well as credit risks within regional or commodity development projects can continue to be met by the projects themselves as they are at present. To the extent the projects feel it desirable to do so, contractual arrangements for handling the project credit component could be negotiated with a commercial bank within the project area. (Most projects will find such facilities available in the near future.) The only major impediment to such an arrangement at the present time is the question of risk which might be handled under a project guarantee fund.

- Despite the promising growth experienced by the new commercial banking sector, financial markets in Guinea are weak. Only a part of money in circulation has been mobilized by the banks and the ratio of deposits to money is still low - 0.45% as of July 1986. According to a recent study of the Guinean banking system, this reflects the continued lack of confidence of the public in the banking system, the absence of a savings mobilization policy by the Central Bank, the policy of the banks not to pay interest on bank deposits, and the absence to date of branch banks outside Conakry.

In conclusion, it would appear undesirable to promote the creation of a costly parastatal banking system at this time, but to attempt to encourage entry of commercial banks into agricultural lending through special programs such as the existing or future donor lines of credit; the development of guarantee funds; contractual collaboration between commercial banks and development projects; the fixing of realistic rates of interest which cover the cost of loan administration; and the formation of producer organizations in rural areas along cooperative lines.

All of the above actions could be undertaken at substantially lower total costs than the re-establishment of a new development bank. If, after a period of five years it appears that these measures are inadequate to meet growing requirements, consideration could be given at that time to the need for establishment of a development bank.

B. Production Credit through Regional Agricultural Development Projects

The previous section may appear to criticize area or commodity development projects for their role in agricultural credit. This was not the intent. While the method by which funds are channelled to projects has often caused problems for development banks, well run credit components of such projects are an effective means for funding small producers' credit needs and moving them out of subsistence agriculture. In fact, project credit is the only credit presently available to Guinea's small producers. Project credit programs have the additional advantage of providing necessary technical support and making available the physical inputs for which credit is needed. Credit components of a number of major agricultural development projects are described in an earlier section. It seems likely that the Government of Guinea, either on its own or with the support of the donor community, will continue to implement agricultural development projects. In each case, credit needs and how to supply them should be studied closely and a credit component designed to meet those needs included in the project design.

In this respect it is recommended that credit components in existing projects be modified and in new projects be designed to allow eventual transfer of the credit function to the commercial banking system. Such a transfer will relieve project management of this function and permit the growth of a direct bank-producer client relationship. One step in this direction which can be undertaken now would be to standardize credit terms among projects, particularly interest rates and reimbursement schedules, to conform as closely as possible to terms which will eventually be required by commercial banks. A second important step would be to encourage project managers to promote the growth of the informal groupements, through which most of them now carry out their programs, into independent farmer run cooperatives organized under the forthcoming cooperative law. The formation of economically viable cooperatives is a key step in breaking the agricultural production credit impasse.

C. Reliance upon the Growing Commercial Banking System

The three commercial banks BICI-GUI, SGBG and BIAG have enjoyed a striking growth since their establishment a little over a year ago. According to figures supplied by the Banque Centrale, deposits have increased from 1.4 billion FG in January 1986 to 11.9 billion in January 1987. Loan portfolios have grown from 0.4 billion FG to 9.5 billion FG during the same period. (Deposits and loans in hard currency have been converted to FG.)

BIGI-GUI is in the process of setting up ten branches in the major regional cities. SGBG and the Islamic Bank also plan to establish branch banks. To the extent that funds are available both from the banks' own resources and from the various donor lines of credit, the demands on the banking system for commercial credit are being met. It is worth noting that many commercants at this point in time continue to finance their operations with their own resources. This situation may change considerably as branch banks are set up.

Small and medium agro-enterprise development as well as large scale planters and farmers also have access to credit to the extent they can furnish acceptable collateral and, in the case of hard currency loans, to the extent they can come up with the required "up-front" money (from 20% to 50% of the value of the imports). The comparatively small number of agro-industrial loan requests currently under study by BICI-GUI indicates that the requirement of front money is a serious constraint. Where the borrower is otherwise eligible for a loan, one solution might be the use of the AID line of local currency credit to finance up-front money, to be repaid during the grace period allowed by the hard currency lines of credit.

Is sufficient foreign exchange and local currency available to support the growing demand for credit? The commercial banks estimate that, considering the demand presented by loan applications that are acceptable, there are sufficient foreign exchange funds to carry through 1987. Although Guinea's foreign currency earnings are expected to improve as agricultural export markets are gradually re-established, it seems likely that further donor budget support financing of lines of credit will be required over the next few years. Local currency availability will be determined by the growth of bank deposits; the banks' willingness to finance somewhat longer-term loans for Petite et Moyenne Enterprise credit (at present, the limit appears to be 24 to 30 months so that the bank may maintain an acceptable level of liquidity); and the adoption by the Banque Centrale of a policy to refinance medium-term credit. The Central Bank is studying a plan to provide refinancing to banks, reportedly 200 million FG for ordinary loans and 500 million FG for the next agricultural crop season. A more aggressive effort by the banks to encourage deposits would also increase the availability of currency.

A further impediment to PME loan access is the difficulty entrepreneurs experience in developing their applications to a point acceptable to banks. While the bank and PME can offer assistance in developing and analyzing financial statements, technical or engineering design, specification of machinery and equipment, plant layout, etc. present more serious problems. The technical services of BARAF are available to former government employees. Other entrepreneurs must engage the services of private consulting firms. These do exist in Conakry, but their services currently appear beyond the means of most loan applicants.

Reliance on the commercial banking system to finance agricultural development falls down completely, however, in the matter of agricultural production credit to Guinea's small farmers and planters. These represent 91% of the country's farm operations and three-quarters of the total population. If agriculture is to contribute an increasing share to the Guinean economy, a mechanism must be developed to enable these producers to rise above a near subsistence level of production. Agricultural credit is one of the tools necessary to this process.

As has been discussed earlier, the major impediments in this area are the inability of these producers as individuals to furnish collateral satisfactory to commercial banks, and the reluctance of banks to accept the risks they perceive in agricultural production, risks arising from the uncertainties of climate, the ravages of insects and diseases, the fluctuations of farmer prices, the limited financial management experience of borrowers, etc. Are these barriers to the flow of agricultural credit through the chosen intermediary, commercial banks to the majority of Guinea's farmers insurmountable?

It is the opinion of this consultant, as well as most of the farmers, planters, artisans and government officials he has met, that the development of producer organized and managed cooperatives offers a high potential, low cost, and at least partial solution to the credit problem.

D. Cooperatives as an Instrument of Credit Access

Cooperatives offer producers the following opportunities, all of them bearing on the problem of credit access:

- to pool their financial resources as one source of credit guarantee
- to pool their intellectual and physical resources for the identification and implementation of economically viable enterprises
- to bring to bear the principle of group solidarity and peer pressure in the matter of fulfillment of obligations
- to develop over time a level of confidence and credibility with the banking system as the cooperative gradually establishes its economic viability, increases its use of banking services, and fulfills its financial obligations

For the above to happen, a number of preconditions must be met and actions taken.

- the group must decide for itself that it wishes to organize as a cooperative
- the group must perceive and choose a viable economic activity around which to organize. Note that this may or may not be at the beginning some aspect of agricultural production. It may be the buying of a piece of equipment which can be used individually by members or non-members for a fee; it may involve the group marketing of the members' crops; or it may well involve simply the opening of a boutique of essential consumer items. The key factor is that the activity is a potentially profitable enterprise and the group itself perceives it as such.
- the cooperative must be formed and operate entirely outside the sphere of influence or control of government officials
- outside assistance must be made available in the early stage of cooperative formation in the form of training of officers, conseils d'administration and managers, as well as some technical assistance in planning and starting the enterprise, preparation of loan applications and follow-up
- provision of a guarantee fund in the first years of a cooperative's life in order to start a credit relationship with a commercial bank

It is only fair to observe that the track record of "cooperatives" in Africa is not impressive. However, in almost all cases these were not true cooperatives but parastatals carrying out government imposed programs.

Guinea's experience has been especially bleak to the point that some observers feel farmers are now indifferent, if not hostile, to the idea. Our observations in the field do not confirm this. At Faranah, farmers and planters themselves suggested that pooling their resources in a cooperative group was the only way they might become creditworthy. In all of the prefectures visited, we met representatives of dozens of cooperatives - women, artisans, farmers, planters, transporters, craftsmen. In all cases they were already officially registered or had applied for their license. In all cases, they had formed together in a cooperative because they could foresee advantages in doing so, one of them being the hope for easier access to credit. Other advantages they anticipated were economies of scale in purchasing inputs and marketing their product.

E. Private Cooperatives Plus Associated Credit Savings Unions

A field trip around the Guinean countryside would tend to reinforce the widely held assumption that rural people have little capacity for savings. There is however considerable evidence to the contrary. For instance, during the recent currency conversion, the level of conversion in Conakry was only about one-third of the level outside the capital.

At the present time, outside of Conakry there is no way to marshall rural savings as a potential source of loan capital and for a net increase in capital formation. The opening by BICI-GUI, SGBG and the Islamic Bank of their branch banks will give traders and producers in the bank's vicinity the opportunity to open demand and savings accounts, increasing the bank's capacity to lend and the depositor's opportunity to borrow. Unfortunately, most of Guinean small farmers live out of reach of these services.

Their own savings, however, are a potential source of loan capital for small farmers, particularly for small input items, and for consumer or emergency needs, where the amount of the loan is too small to interest a commercial bank. The establishment of credit/savings unions associated with a developing cooperative movement suggests itself as a logical programming choice. A credit union can operate very cheaply, relying on voluntary membership labor, and repayment records are very good.

It seems advisable to defer formation of a credit/savings union until after the cooperative with which it is to be associated is well underway with its selected enterprise. By that time, cooperative officials will have accumulated sufficient skill and experience in management and accounting skills and will have gained the confidence of the membership. Again, it is imperative that if a cooperative is to establish a credit/savings union, the idea and decision must come from the members themselves and not be imposed from the outside.

VIII. Government of Guinea Policy on Cooperatives

The Government of Guinea has not yet conceptualized the role it would like to see cooperatives play in the open economy as it finally develops. There are clear indications, however, that cooperatives are expected to play an important role, particularly in agriculture. One indication of this is contained in a recent paper by the Secretary General of the Ministry of Rural Development which notes, after reviewing very succinctly the problems faced by Guinean farmers in obtaining financing: "It seems evident to the Ministry of Rural Development that it will be mandatory, in order to reduce the cost of credit and share the risks, to introduce a structure at the farmer level (producer groups, village groups, cooperatives) which would be able to assure the progressive carrying out of a maximum of operations....For this reason, the department has an intense interest in the development of a rural structure and has submitted to the Government a proposed law on pre-cooperative and cooperative organizations, and expects that all the projects it carries out will give priority to this structuration."

The law referred to by the Secretary was drafted with the assistance of the Fredrich Ebert Foundation and emphasizes the private nature of cooperatives. In its preamble, it states "by definition and by nature, cooperative societies are voluntary organizations, freely formed by individuals or associations motivated by their interests and working in common. They are autonomous organizations with private rights playing an important role in the amelioration of living conditions of cooperative members, outside of any direct interference of the State."

The ordinance has been staffed through the various ministries and is presently awaiting the signature of the President.

Cooperative activity in the Ministry of Rural Development is carried out by 10 professionals in the Direction de la Cooperation et Mutualite Rurale. They have mapped out a five year program for informing the rural sector on cooperative organization and structure and with the help of the Fredrich Ebert Foundation have conducted week-long seminars in 6 provincial cities. They are presently analyzing applications by cooperative groups for official approval and have granted to date 30 such "agreements." They also played an important role in the drafting of the proposed cooperative law. The office, however, is almost without financing adequate to carry out its five year plan.

Under the proposed cooperative law, the Director will assume the following responsibilities:

- advise and audit cooperative and pre-cooperative organizations
- conduct education, training and research in cooperative matters
- oversee the strict application of law concerning cooperatives and pre-cooperatives in Guinea

The cooperative design proposed in the following section conforms to the responsibilities defined for the Direction de la Cooperation by the cooperative law.

IX. A Cooperative Model for Consideration

The design of a cooperative program in Guinea should take into account the following points:

- As a result of the agricultural policies of the previous government, agricultural production is at a very low level. Foreign and domestic markets have been lost, plantations have not been maintained, interregional transport costs of surplus production are very high. The return to market pricing has meant better prices to farmers but has greatly inflated the cost of inputs. Increased production will come slowly in the next few years and for crops largely from an increase in the area cultivated. Now, while the demand for credit remains fairly low, is the appropriate time to develop the structure that will enable the country's small farmers to support the growth in production that is hoped for over the next few years.

- Guinea has a small cadre of technicians with a comprehension of private cooperative organization in the Direction de la Cooperation et Mutualite Rural. Their organization, activities and responsibilities are outlined in the previous section. Project design should utilize and develop this talent to fulfill its proper role in the cooperative movement, but in a manner which does not inflate the existing structure.

- The program design should allow the project structure at the end of the project to fold into and be supported by the growing cooperative movement, avoiding the aggravations of recurrent costs.

- Although convincing evidence exists that there is great interest in cooperative organization in a number of sectors despite past experience, the program should be tested on a trial basis before nationwide implementation.

With the above in mind, the following project model is suggested for consideration:

- Initiate the project in one province where
  - o agricultural production potential is high
  - o a commercial branch bank is to be established
  - o project related credit programs are not presently available

  Potential areas are Kindia or N'Zerekore, except for the prefectures of Kissidougou and Gueckedou, which have major project credit programs (GTZ and PAG)

- Engage the services of an ONG to implement the project, and to provide administrative and technical support.

<u>During the six month start-up period</u>:

- Engage staff. For a program at the provincial level, an adequate staff would consist of 1 to 2 expatriate technicians with experience in business management, finance and cooperative organization; two members of the cadre of Direction de la Cooperation to be seconded to the project; 2 to 4 Guinean professionals with experience dealing with farmers and training experience in business or coop management, to be hired directly by the project.

- Train staff both through on-the-job training and short-term formal training.

- Establish the administrative/logistic system; order supplies, equipment, transport, arrange housing, office, etc.

- Begin survey of existing cooperatives and identification of potential cooperative groups interested in the program.

- Establish a protocol with the area commercial branch bank on the functioning of the guarantee fund.

<u>During the life of the project</u>:

- Select existing cooperatives or start new cooperatives where members understand, are interested and motivated to organize, and can identify potentially profitable enterprises as their principal activity.

- Work with selected cooperatives, training members, administrative councils, officers, and managers; develop, standardize and introduce accounting procedures and records; assist in preparing loan applications; provide follow-up of enterprise management, accounting reimbursement, coop-bank relations.

- Collaborate with bank in analyzing and approving loans and where guarantee fund must be brought into play.

<u>At the end of the pilot project</u>:

- Conduct evaluation and, if the results are positive, modify the design on the basis of experience. Transfer the project to another province or several provinces as available resources permit.

- The Guinean project employees to remain in the pilot area to continue assisting cooperatives they have organized, to be paid by contributions from assisted coops on an agreed-upon basis. At this point, in addition to continuing duties outlined above, these advisors could begin work on the formation of cooperative unions or federations where feasible.

- The cadre from the <u>Direction de la Cooperation</u> to move to the newly designated province and, on the basis of experience gained in the pilot program, implement the project. A decision on the further need of technical assistance can be deferred until this time.

The selection of cooperatives to assist need not and probably should not be limited to groups of small farmers. Although the project objective is to give small farmers access to credit, the project goal might be considered to be the regeneration of the local rural economy. All local rural producers with credit and organizational problems - artisans, women textile workers, mechanics - might be considered eligible and encouraged to participate to the extent resources permit.

Nor should the project insist that cooperatives choose agricultural production as their major enterprise. Groups of small farmers may not select an agricultural enterprise to initiate their cooperative. They may feel that their greatest need and potentially viable enterprise would be a store for primary necessities, small tools, etc. However, as they gain experience and and their cooperative's resources grow, they may perceive economic activities in crop marketing, the purchase of inputs, processing, or the opening of a credit and savings union.

Guarantee Fund

The establishment of a guarantee fund with the bank or banks represented in the project area is a necessary feature of this design. Agricultural development in Guinea as elsewhere will require substantial levels of agricultural credit. Commercial banks, at least for the present and quite possibly over the longer-term, will be the most important source of such credit. However, it must be remembered that commercial banks are financial intermediaries, not risk takers. Based on past experience, investment in African agriculture is perceived as carrying a certain level of risk. Furthermore, the commercial banks newly established in Guinea have almost no experience with agricultural enterprises. Guinea's farmers, planters, and rural artisans and mechanics have few resources to offer as collateral which are acceptable to the banks. Moreover, in start-up situations, banks are reluctant to accept any level of risk, regardless of the apparent financial creditworthiness of the client. Some inducement must be provided to convince commercial banks to participate. A guarantee fund deposited with the participant banks would provide such an inducement during the initial stage of the program. The directors of the four Guinean commercial banks have stated categorically that they will not offer unsecured loans to small farmers and cooperatives. On the other hand, all have indicated that they would be interested in considering an agricultural loan program where farmers are organized in non-governmental cooperatives backed by technical assistance, training and a loan guarantee fund.

The guarantee fund would consist of monies physically deposited into a time deposit at the participant bank(s) and blocked in favor of the bank according to terms agreed upon and formalized in a financial agreement between USAID and the bank(s). Another formula could be the use of a letter of credit issued by USAID not involving the physical transfer of funds. The USAID letter of guarantee would stipulate payment by USAID in case of loan default. These funds, or letter of credit, would serve as a collateral guarantee to the bank and enable it to make loans without incurring any financial risk. In case of loan default, the bank can reimburse itself by debiting the guarantee fund account, according to the terms of the financial agreement.

Terms for such reimbursement must be clearly stated in the agreement. The bank can reimburse itself only after a defined period of time and only after having gone through an attempt at loan recovery. The agreement should specify that the bank can debit the guarantee fund six months after the loan has been declared in default and place the amount in a reserve fund for another six months. Recovery efforts would continue during this period. If at the end of the year's time the loan has not been repaid, the bank can then indemnify itself. If the cooperative succeeds in making subsequent repayments, the repayments would be incorporated into the guarantee fund account.

The guarantee fund is not used for making loans. The bank uses its own resources such as its deposits or borrowings from the Central Bank. The guarantee account generates annual interest the proceeds of which can be credited to a separate account used as a calamity fund for the participating cooperatives. Use of the calamity fund is also the subject of a written agreement and would be limited to needs arising from natural disasters such as drought, brush fires, insect infestations or other such events.

The source of financing for the guarantee fund may be either a project budget line item or counterpart funds. Use of the latter formula clearly avoids the difficulty presented by U.S. treasury regulations TF RM6-8050.30 which requires that all interest earned on U.S. government funds be returned to USAID. However, in either case, REDSO legal counsel has ruled in the case of the Niger cooperative project guarantee fund that since guarantee funds were a grant to the GON and were not destined to revert to USAID and since the funds were immediately converted into local currency that the referenced treasury ruling did not apply.

It is assumed that the guarantee fund would cover 100% of risk at least during the start-up phase of the project. As cooperatives develop their reputation for good management and creditworthiness with the banks, and as their own resources increase, the guarantee level can be gradually lowered and the balance of the guarantee fund transferred to new cooperatives.

For the longer-term, even within the life of the project, successful cooperatives could begin constituting their own guarantee fund. As cooperatives generate capital funds through their entrepreneurial activity, they could place them in a savings or time deposit blocked in favor of the bank. The level of the guarantee required (whether 100% or less) would depend on the nature of the relationship between the bank and the cooperative and the degree to which the bank considered the cooperative to be creditworthy.

Again for the longer term, as cooperatives accumulate capital a system of mutual funding might be designed to assist cooperatives establish their own guarantee fund. The funding could be drawn from the existing guarantee fund, or from counterpart funds or from any designated USAID budgetary source and given on a matching basis to any cooperative in the program which legally capitalized its savings into capital stock.

This capital stock can serve as an individual guarantee fund for the cooperative, thus freeing a corresponding amount from the global guarantee fund on deposit at the bank. Eventually all successful cooperatives could have their own guarantee funds and operate autonomously. The global guarantee fund would remain only to the extent it is needed to cover the loans of new cooperatives.

If the project establishes and adheres to a strict standard for the establishment of economically viable cooperatives, and carries out a serious program of officer training and support there is no reason to fear a precipitous drop in the guarantee fund due to loan defaults. In the first two years of experience with a guarantee fund in a cooperative program similarly structured to that described above (Niger), there has been no resort to the guarantee fund because of bad debts.

On the other hand, a high rate of inflation poses a more serious threat since, persisting over time, it quickly diminishes the extent to which monies in the fund can guarantee borrowed funds. Rate of inflation at the level experienced in Guinea the past several years would soon vitiate the guarantee fund. However, the rate of inflation in the country appears to have diminished significantly recently. Nevertheless even a 10% level of inflation would act to reduce the effectiveness of the guarantee fund during the life of the project. Since the project itself cannot control the inflation rate, it must present a means to counteract inflation's effects. It is suggested that the project design estimate the level of guarantee funds that would be required over the life of the project as well as the effect of projected increases in the level of inflation. Monies for the guarantee fund would be released annually following a review to assure the adequacy of the level of guarantee funding to meet the above contingencies. An agreement with the Government of Guinea to support the guarantee fund through the use of counterpart funds would facilitate accommodation to any shortfall caused by the effects of inflation - not only because of ease of administration but because sales generated counterpart funds are generally protected from inflationary effects unless the government controls prices below the inflation level.

Implementation of a project of this type will require close cooperation and coordination, not only with the banks and the donor organization, but also ith the interested offices of the Ministry of Rural Development, with local business and merchants, with area development projects having credit components and other organization interested in Guinean cooperative development such as the Fredrich Ebert Foundation.

The objective in presenting the design suggested above was to devise a means whereby small farmers might gain access to agricultural credit. Cooperatives can achieve that aim. But the benefits to be gained from a successful cooperative movement reach far beyond the acquisition of credit as one of the tools of farm production. Perhaps the most important advantage of a thriving cooperative is that it gives its members a degree of countervailing economic power in the world in which they live which they do not have as individuals.

At the level of national interest, cooperatives present the opportunity to engage brains, motivation and energy of a very large sector of the population in the development of the economy - an activity in which, during the previous government and in the present transition period, they are largely passive.

X. The Need for Additional Studies

Two aspects of agricultural credit which can be identified for more detailed study are:

A. The supply and demand for agricultural inputs, with emphasis on

- the effect on demand, by category of input, of the relative real market prices of inputs delivered to the producer and the farm gate prices he receives on his output;

- the institutional structure for the delivery of inputs, particularly the viability of existing parastatals in this area, possible alternatives and how these alternatives might be implemented.

B. An in-depth study of rural finance, savings and investments in selected areas of Guinea.

USAID has already identified the need for an agricultural input study and defined a scope of work.

In the event that USAID or another donor should consider favorably the recommendation of this report to support the development of a rural credit system associated with the organization of rural cooperatives, it is suggested that, prior to implementation, an in-depth study of rural finance be undertaken. Since any agricultural credit/cooperative program would in its first stages in all probability be undertaken on a pilot basis, the rural finance study could be carried out in several prefectures which appear promising for a credit/cooperative undertaking (the study has proposed Kindia and Nzerekore as possibilities). However, if resources are available, a study of the type proposed covering the entire country would be extremely valuable to overall rural development planning.

The rural finance study should include the detailed presentation, based when appropriate on statistically valid surveys, of

A. Agricultural credit advanced over the past three years in the study area by commercial banks and their newly established branches, and by regional or commodity development projects, indicating number, types, and sizes of such loans, purpose of loan, profile of recipient, terms of loans and repayment history and transaction costs by lending institution for making these loans.

B. Access at the household and rural association level to institutional credit. The study will measure access of households and associations to institutional (bank/development project) loans over the past three years; amount types and income level distribution of the loans received by farmers in the most recent production year; terms, conditions and procedures associated with these loans; and the borrowers transaction costs in obtaining these loans.

C. Use by rural households of informal borrowing, including frequency of such borrowing size, source, payroll and terms of loans by income level of borrower. Among households serving as sources of such informal lending, frequency, terms and size of loans by income level of lender, and their access to formal sources of credit.

D. Study of the role of retail and wholesale merchants in rural finance, detailing their geographic distribution; level of liquid assets and value of stock; source and form of credit; types of products bought and sold; average loan size as borrower; percent making loans to others; percent with credit making loans to others; average loan size as lender; term structure as borrower; term structure as lender; relationship to borrower; form of reimbursement as lender; percent making local purchases; percent selling locally; percent in export trade; percent in import trade; percent in tontines; percent playing money-keeping role.

E. Savings by rural households in formal institutions (commercial branch banks or postal savings), informal groups or associations, noting level of savings, seasonal fluctuations in savings levels, income level of depositors; level and use of non-financial savings through purchase of livestock, cereals, durables.

F. Existence and function of tontines in rural Guinea and their savings role, detailing geographic distribution, size, characteristics, level of operations, operating rules; vocation of membership, level of savings activity; and the relationships which exert between tontines, their purpose, relative wealth, and the nature of their membership.

G. The study will determine if "money-keepers" play any role in Guinean rural credit and saving and, if so, the qualifications and characteristics they possess to play their role, the nature and terms of savings/lending services provided, level and seasonal fluctuations of savings held, purposes for which money loaned.

In addition to the survey and analyses requested above the study will discuss in detail the policy implications of their findings with action recommendations based in those findings, particularly with reference to rural financial deepening, increasing the flow of agricultural credit to the agricultural sector, the feasibility of credit union formation and the need for banking services beyond those currently available and how these might best be provided.

Many institutions are competent to conduct this type of investigation. It is suggested that Ohio State University has conducted a number of such studies in Africa in recent years and is particularly qualified both in experience and personnel in studies of African rural finance.

Table I

CHARACTERISTICS OF THE PRINCIPAL DONOR LINES OF CREDIT

CHARACTERISTICS/ SOURCE	IDA	CCE	CCCE	BND-COFAC	AID
Total Amount	4,170,000 DB	4,150,000 ECU	(1)45,000,000 FF 50,000,000 FF	50,000,000FF	$10,000,000
Sector	All except Agriculture, Housing, Commerce	All except Housing & Commerce	All except Housing	All Sectors	All except Housing
Objective	Equipment plus working funds in foreign exchange	Eqpt. plus working funds in foreign exchange	Eqpt and working funds in foreign exchange	Equipment	Equipment, working funds in foreign exchange, commerce
Origin of goods financed	All countries	CEE	France	France	
Beneficiaries	Guinean nationals or enterprises controlled by Guinean nationals	Guinean nationals or persons originating in an ACP country Enterprises controlled by Guinean nationals or by citizens of an ACP country	Guinean or French nationals Enterprises controlled by Guinean or French nationals	Enterprises legally established in Guinea	
Amount of Subsidiary Loans	Ceiling: $2,000,000 Target: Projects of 1 to $300,000	Ceiling: 50,000 ECU	Ceiling: (1) 1,000,000 FF (2) 10,000,000 FF	Minimum: 400,000 FF	Undetermined
Minimum Level of Borrowers Contribution	20 to 30% of total costs including local money costs	Left to bank's discretion but approx. 20% of total cost	Left to bank's discretion but approx. 20% of total costs	15% of FOB of CAF value of commercial contract FOB or CAF, according to nationality of transporter	Left to bank's discretion
Exchange Risk	Borrower	Govt. of Guinea	Govt. of Guinea	Borrower	
Commercial Risk	Govt. of Guinea	Govt. of Guinea (with a guarantee fund of 10% of the line of credit)	1)Govt Guinea 70-80% 2)Primary Bank Guarantee Fund 20-30% 3)Primary Bank 10%	Primary Bank (BICI-GUI)	Primary Bank 100%
Interest Rate	TREP + 2% = 12%	9%	Approx. 13%	Approx. 15%	Approx. 12.5 to 15%
Maximum Length of Loan	15 years	12 years	15 years	7 years	1st tranche 1 yr. 2nd tranche: med. & long-term
Maximum Repayment Deferral	2 years	2 yrs - 5 yrs	5 years	2 years	
Designated Bank	BICI-GUI	BICI-GUI	BICI-GUI, SGBG, BIAG	BICI-GUI	BICI-GUI, SGBG, BIAG, DMI
Remarks					GOG will release amt. in FG for credit needs in local currency