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Case Study

Agricultural Lending Practices:
Methodologies and Programs

CECAM
Caisses d'Epargne et de Crédit Agricole Mutuels

CECAM: A Cooperative Agricultural Financial Institution Providing Credit Adapted to Farmers' Demand in Madagascar

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SUMMARY

Financing family agriculture in Madagascar : the CECAMs' challenge

In Madagascar, sixty-two percent of the working population is involved in the agricultural sector. Rice and other food crops such as maize, cassava and groundnut, dominate the Malagasy agricultural sector and use the majority of the arable land. These crop are produced on small plots by families who consume most of their production. These subsistence crops suffer from a low yield. Industrial or export cash crops hold a significant economic place but less than 20% of the households involved in agricultural participate in their production .

The formal financial sector now consists of seven private banks. However, it is poorly developed in rural areas and is quasi inaccessible to small-scale producers. Rural financial markets remain dominated by informal lenders. Neighbouring farmers, merchants, traders and owners grant farmers with financial problems loans in cash or in kind (paddy), at annual rates of 120% to 400% a year, varying according to the relationship between the lender and the borrower. The collateral provided by the borrower consists of animals or equipment, a plot of land, or mortgage on the coming harvest. This ”*standing crop sale”*" may involve up to one third of the total crop harvested in highly populated areas. This informal rural financial sector would totals Mgf 250 to 500 billion a year ($ 40 to 80 million).

In 1993, farmers from the Central Highlands of Madagascar[1] (in the regions of Ambositra and Antsirabe) already organised in lending groups within the ”Association FITATA” and hoping to find a more sustainable solution to their financial problems, came together to create the "*Caisses d'Epargne et de Crédit Agricole Mutuels*" (CECAM), or Savings and Agricultural Credit Cooperative Societies. These farmer organizations have benefited from the assistance of the FERT Association, with the support of the Government of Madagascar and different donors. The group has expanded to nine of the twenty-eight regions on the island. The network group approximately 52 000 members, subscribers from 170 local facilities as of May 2003. During 2002, CECAMs have granted approximately Mgf 44 billion credits[2] (USD 7 million) against Mgf 36 billion in 2001 (approximately a 22% growth).

The CECAM network is characterised by three main features:

- **CECAM has a strong linkage with farmer organizations** : on the basis of various forms of producers' and farmer associations' groupings, CECAMs were structured progressively, using a **bottom-up approach** impregnated with an original cooperative philosophy which has been gradually built within the movement. From 1996, with the help of the adaptation of the Malagasy legal and regulatory framework for the bank sector, **CECAMs have organised themselves into regional cooperative societies** (URCECAM), with a legal status, for which each local branch is a profit centre, and both a counter for cash operations and a local elective branch for members democratic expression**.** A national team, the INTERCECAM, has from the start provided technical, conceptual and training support to CECAM, then to URCECAM. **A "*Fonds Interrégional de Garantie Mutuelle*"** (FIGAM) or **Interregional Fund for Cooperative Guarantee** has been set up by the six first regional units in a spirit of mutual solidarity to cover the credit risks that a regional cooperative society cannot take up by itself. It provides also a mean to organise the network internal control on credit management.

[1] Madagascar : 587 000 km², population : 16 million, GDP/hab : 240 USD
1 USD = 6 300 FMG, 1 euro = 6 900 FMG (february 2003)

- **CECAM' foundation rests on a cooperative basis made of stable equity capital** or share capital. Upon joining **each member contributes some fixed shares.** These shares may be released over the next three to five years period and will later increase proportionally based on the amount of credit granted. This share, which reached a total value of 7,2billion in September 2002 ($1,2 million), is held by the registered members and currently represents 16% of the network liabilities. This internal generated capital provides the network with stability, which helps it respect ratio prudential rules easily. Such stability ensures a sufficiently sound financial structure so that the Public Treasury has, since 1996, extended a credit line of € 2 million (increased by € 0.9 M in 2001). Savings have initially only played a secondary role as a source of funds which has, however, increased from 10 to 35% depending on the regions (Mostly in two urban CECAMs). It now amounts to a total of Mgf 14.3 billion liability, around double of the value of the share capital.

- **Credit is tailored specifically for farmers** : The five main types of credit that CECAM offers, are designed to meet the farmers needs especially with regard to loan duration and terms that should match the agricultural production cycles. The **farming credit** finances cropping or breeding costs over a 4 to 10-month period. The **cooperative hire-purchase system** inspired from the lease system helps procure small farm implements, domestic equipment, or capital goods for artisans or traders. The good, acquired through URCECAM (Financial Cooperative Society or Regional units of CECAM), remains the property of the latter as long as the borrower has not completely repaid the totality of the rents corresponding to his purchase, spread over 18 to 36 months. The credit for the **Village Community Granaries** helps farmers to store their products in a common granary between harvest time and the lean period. The **social emergency credit** is a small, very short term credit (two to four months), which prevents farmers to borrow from the money lenders in case of unexpected expenses such as social problem, lack of cash flow. **Commercial credits** serve the agricultural cooperatives, which carry for supply of inputs as well as collection, storage and grouped marketing of their members' products. Approximately seventy organizations grouping over 5 000 members use this type of credit at a rate of 24% a year. The total credit amount per organization borrower is between Mgf 10 and 300 million ($ 1,500 to 45,000) .

  From 1993 to 1999, the CECAM benefited from various sources of funding (German, French, Dutch, European Union, and World Bank, and from the continuous support of their **two main partners**: the **FERT** Association and the "*Caisse Régionale de **Crédit Agricole** Mutuel du Nord-Est*" (Reims, France), two agricultural organizations headed by leaders of the French farmers unions. Today these two organizations have joined under the name "Association ICAR" (International Association for Agricultural and Rural Credit), as a non-profit organization dedicated to support farmers financial institutions in developing country.

  In 1999, **a strategic development plan** (2000 – 2003) was drawn up according to which the network is expected to achieve to technical and financial autonomy by 2003. The plan was initiated during the first half-of 2000 by the setting up of the **Interregional Union** of CECAMs, UNICECAMs, which will aim at representing the URCECAM and at defining the network's strategic orientations. UNICECAM has acquired the **recognition** of the commission for the Bank and Financial Supervision **as a credit institution** (categorised as a Cooperative Financial Institution) for itself as the "central body" and for the six URCECAMs affiliated (see flow-chart - appendix 2).

Beside this “central body”, and on the basis of the current INTERCECAM (technical team managed under ICAR, without particular by-laws), a new "mixed" financial institution might be created as a limited company. It will associate in its capital regional cooperative societies, UNICECAM and other financial partners (no members of CECAM but sharing the Network Values and willing bring support to its development) This will form a “central bank” for the entire network. INTERCECAM will supply common financial services necessary for the whole of the network and technical assistance. As some delay has been observed in implementing the **co-financing** of this plan, secured in December 2000 **from the European Union** (8th FED for € 6.1 M) and from **AFD** (€ 3.1 M), it is now expected that full autonomy will be achieved **during 2001 to 2005.**

2. BACKGROUND TO THE AGRICULTURAL AND FINANCIAL CONTEXT IN MADAGASCAR

2.1. The agricultural context

Agriculture is the main sector of the Madagascar economy and contributes to approximately twenty-seven percent of the GDP (2000, current prices : INSTAT, 2001) and to forty-three percent of the exportation returns. Rice (40% of the value of the agricultural production) and the main part of the land is used for the other food crops such as maize, cassava, groundnut. These crops are grown by small-scale farmers who only sell a small proportion of their product : the main part is consumed at home or exchanged markets with local artisans and traders. Export cash crops such as vanilla, pepper, clove, cocoa are concentrated in the coastal areas (mainly the east coast, where CECAM was not allowed to extend its network up to 2002, see map Appendix 1).

Productivity remains very low and the yields of the major crops have practically not increased for thirty years (ROUBAUD, 1997). Seventy-three percent of the population live in rural areas and the agricultural sector employs approximately sixty-two percent of the working population. However, the investments in the sector remain extremely low (less than 1% of the value of the annual production) and receive only about 17% of the bank contribution to the economy, of which only a quarter is dedicated to production as opposed to three quarters to trade (Madagascar Central Bank, Dec. 2002).

However, the modernisation and development of an agricultural sector increasing urban markets or export requires increased investments (land and hydraulic developments**,** agricultural equipment, buildings for animal breeding and warehouses, ...) and inputs (improved seeds, fertilisers, pesticides and veterinary products). These inputs and investments will at least partly, be financed with credit.

2.2. The formal financial sector

In 1975, the financial sector became completely state-controlled in the form of three public banks[2]. However the Malagasy financial sector has gradually liberalised since 1990. A new bank law was enacted in early 1996, followed by a law bearing on the Cooperative Financial Institutions and a new insurance code in 1999. The three state-run banks were privatised and four new private banks opened. Only one bank operates with a majority of national capital. Others are owned by foreigners (mainly French and Mauritian). Bank services are accessible in towns only : only some fifty locations (over 1 300 districts approximately) are provided with bank branches
The overall volume of the bank sector remains small, with Mgf 4,961 billion deposits ($ 787 million), credits for Mgf 2,434 billion (around $ 386 million, Central Bank, December 2002). The bank sector remains essentially geared towards large enterprises and less than 10% of households have a bank account or a Savings bank account (public institution linked with the postal service from which it is gradually dissociating).
For small-scale farmers, bank services are almost inaccessible, less because of the level of the financial costs (23% to 27% in overall effective rate) than for excessive transaction costs (transport, red tape, formal collateral registration, ...). In such a context, less than 3% of farmers have access to formal financial services while over one third of rural households has debts with traditional money-lenders, at usurer's rates.

2.3. Traditional money-lenders prevail in rural financial markets

"Run into debts in order to survive", this seems to be the last resort for a large number of Malagasy farmers : a bad yield, a disease or the costs of a funeral may rush a family of small-scale farmers into a financial dead-end. To "save themselves", they have no other solution than to beg a relative, a neighbour, a trader or an owner to advance them the required amount of money to face adverse circumstances. In a survey by IFPRI in four different regions in 1992, 70% of the individuals interviewed had asked an informal lender for a loan in the course of the past two years, as opposed to 24% with formal lenders. The loan modalities significantly vary depending on the social relations between the lender and the borrower: kinship or cooperative assistance relation, trade dependence or land relationship, respective heritage, etc.

The loan may be in cash or in kind (rice most of the time). It may be repaid in cash or in paddy but very rarely in the form of other products. The interest rates increase with the degree of kinship or the social distance: while a father is willing to grant an interest-free loan to his son, the loan between distant relatives will be subject to a varying interest (from 30% to 100% a year) according to the amount, the repayment date and the kinship. The loan obtained by a small-scale farmer from a trader may be granted under stricter conditions, from 50% to 200%, or even more (rate estimates from ZELLER, 1993 and our own observations).

[2] BNI (industry) bought in 1990 by Crédit Lyonnais, BFV (trade) in 1998 by Société Générale and BTM (agriculture) in 1999 by Bank on Africa or BOA-AFH-Natexis – New Banks : BMOI/BNP, UCB and SBM and recently formed CMB opening in December 2002. The former postal savings services kept under state control but prepare a plan to get more autonomy, as CEM (Caisse d'Epargne de Madagascar).

Similarly, collateral demanded by the lender varies significantly: tacit agreements occur within the same family, they will consist of animals or equipment (radio sets, sewing machines or farm implements. Whenever possible in the case of loans between peers (neighbour farmers related by cooperative assistance relationship) to anomic. The prospective materialisation of the loan agreement will consist of an "advance payment" sale at a price, which is clearly at the disadvantage of the seller, if the latter has not given up his goods in the meantime.

Taking immediate possession of the good pawned is fairly common and no longer entitles the borrower to negotiate the price of the good. It is practised by traders or owners, who are generally referred to as *"mpanarivo"* or *"mpanambola"*, inaccurately translated into "usurers", and for whom granting these informal loans is a common activity.

When the misfortune of the borrower is such that he has no good left to pawn, he may still be granted a loan if he is willing to promise his next harvest collateral (known as a *"standing crop sale"*) or a plot of land. In the latter case, if the farmer defaults, the lender will be entitled both to keep both the land and to be paid back on the coming harvests, or even to take definite possession of it without any other formality apart from having the *Fokonolona*[2] "take note of the transaction". Thus, informal loan may promote the development of sharecropping and land concentration.

By extension of various sources and through our own enquiries, it can be estimated that the number of the families who have contracted debts may vary from 200 000 to 500 000 with high interest rates (100 to 400% of overall annual rates over an average of three to six months). The total of the commitments might be between Mgf 300 to 600 billion per year ($ 50 to 100 million). Generally speaking, it is more a matter of financing the survival of the population than financing production .

Resort to informal loans is included in a wider setting of social relations. This is a complex phenomenon, involving multiple functions. Lenders maintain a wide network of "clients" who use varying types of services: use of draught animals for paddy field trampling activities or ploughing, advance loan on seeds, food loans during the lean period, marketing the crop at a "preferential price", assistance and gifts on the occasion of a death or other family events, etc.

Conversely, it is common that the lender invites his clients to enlarged family parties (circumcisions, weddings, exhumations, etc.), forms of local redistribution, which are at the same time opportunities to strengthen relations which foster this hierarchical social system where granting credits is only one of the forms of dependence.

2.4. <u>Traders, financial intermediaries between banks and farmers</u>

The majority of exchanges in rural areas take place during harvest time. A significant small portion of these exchanges is carried out in cash. More commonly farmers – or even more likely their wives, – take small quantities of products to the markets (paddy, rice, maize, cassava, etc.) on to exchange for manufactured goods they need (cooking oil, soap, fabric, hardware, etc.). Though they come and go without a penny in their pockets, although they may have held some money between the time they sold their goods and the time they did their shopping.

However, liquidity is needed for the markets to function and the more intensive the transactions are during this season (volume/week), the more money circulates. This money is provided in downs ream rural markets through commercial bank loans to wholesalers and especially agricultural product merchants ("large-scale collectors", rice-millers, etc., which is then passed-on through the commodity chain to the farmer.

Indeed, merchants get the bulk of their bank support in the form of advance against stock security.

The four main commercial banks (BTM-BOA, BNI-Crédit Lyonnais, BMOI/BNP and BFV-SG) thus finance some hundreds of major merchants. The latter, in their turn, re-distribute this seasonal liquidity to their own network of collectors who work either by their own means, or with "regrouping agents" or "sub-collectors". The latter travel across the country, from hamlet to hamlet, to fill up sacks and carts and concentrate the goods in secondary markets where the boss's truck will come and collect them.

Each one of these agents strives to ensure the reliability of his provision network. To this end, one of the most privileged means consists in granting cash flow facilities to the lower agents, in the form of advances against crops up to two or three months before delivery. The price set, at the moment of the agreement, is all the more favourable to him as the repayment period is long. The interest rates practised in this type of credit may range between 10 to 20% per month of advance (120 to 240% a year).

In some highly populated rice-producing areas (e.g. small-scale flooded areas in the Central Highlands), it seems that one third of the rice is targeted for a *"standing crop sale"* during the lean years. This phenomenon does not only affect rice but a wide range of other products too such as mild-climate fruits (apples, peaches, ...) in the Vakinankaratra area. For some products (corn, barley, soy, tobacco, vegetables, first grade rice), the system of advance against crops may also be granted in kind by processing or export companies (seeds, fertilisers, etc.) against some commitment of delivery at harvest time.

On the basis of bank information, we can assume that the total amount of the bank sector liability that is re-distributed informally in the agricultural sectors as a whole is between Mgf 180 to 250 billion (i.e. approximately € 30 million), out of a total of Mgf 373 billion of the bank support to the economy or earmarked for the agricultural sector (September 2001Chiffres 2002).

3. THE GENESIS OF THE CECAM NETWORK

3.1. A financial institution founded by farmer associations

In the mid-eighties, a few groups of farmers formed a partnership with two NGOs, a Malagasy one (AVEAMM, under the leadership of the FFKM)[3] and another, a French one (FERT), to begin started looking for solutions to their financial problems. They first created lending groups (1986-1989) to whom AVEAMM granted loans, mainly to fund production expenses (short term credits for agriculture or stock breeding), then to purchase implements (medium term credits for ploughs, carts, harrows, draught animals).

[3] a list of abbreviations is provided at the end of this document

The main feature of this experience was the strong involvement of the farmers, at local level, in the selection who were trustworthy and competent in reviewing credit applications.

These groups of farmers then came together to form a regional farmer association (FIFATA, 1989) that decided to set up the first village savings and credit banks in the country (1990). This experience drew the interest of several donors. Who to helped mobilise human and financial resources to assist farmers their system designing financial services adapted to their needs. Thus, new credit products were tested and developed to finance the storage of the crops in Community Village Granaries (GCV) and the procurement of implements through the Cooperative Hire-Purchase system (LVM), a scheme inspired from the leasing system and better adapted to the Malagasy rural context than medium-term credit.

The relationship between CECAM Network and the other farmer organizations is also a strong feature which contributes to the identity of the Network. It is both a source of activity (loan to farmer cooperatives for 8% of the total amount of disbursed credits, fostering the agricultural mission of the network with crossed links (presence of representatives of agricultural organizations in the board of directors of the Regional Units and contribution of CECAMs in the federations of agricultural organizations) and lobbying strategy to negotiate joint operations with the Government or donors (negotiations on procedures for obtaining land tenure titles of property, on the State support to agricultural investment, on how to get long-term subsidised credit lines, …). However, the relation may also be a cause for tension in so far as some agricultural organizations leaders will influence the decisions of the network in terms of credit policy, in the interest rates or in the granting of some risky credits. The balance between "mission" and "governance" is to be permanently maintained in a dynamic fashion by analysing the difficulties met, one by one. This helps find solutions to promote the funding of agriculture without threatening cost-efficiency of the financial tool. ICAR have made consulting missions to help governance and advise regional and central CECAM leaders in the matter. This privileged relation will be strengthened in the current "institutionalisation" process. In the Board of the Directors of the Central Body, 2 seats out of 12 will be reserved to representatives of agricultural organizations (a farmer union and a confederation of trade cooperatives).

3.2. An extension sustained by the authorities and different European partners

In 1991, the Ministry of Agriculture of Madagascar invited the promoters of this experience to extend it to other regions. This allowed, as from 1992, access to a credit line linked to a development project of maize cropping. Previously, credit was entrusted to a state-run bank of agricultural development which was not able to use it.

Since 1993, the "*Caisses Villageoises*" of FITATA have organised themselves in a more autonomous way and they have taken up the name of CECAM ("*Caisses d'Epargne et de Credit Agricole Mutuels*" or Savings and Agricultural Credit Cooperative Societies). Their development continues to be supported by FERT, with the support of the BIT/ILO thanks to resources from the German Ministry of Cooperation (BMZ/RFA). The Malagasy Government has requested the extension of the CECAM network to new regions and the expansion of its activities for stock breeding. The implementation in new regions were initially funded by World Bank credits (2 regions) and subsidies from European Union (FED, 2 regions), France (AFD, 1 region) and Germany (GTZ, 2 regions). In 1995, the European Commission became the main financial partner of the CECAMs.

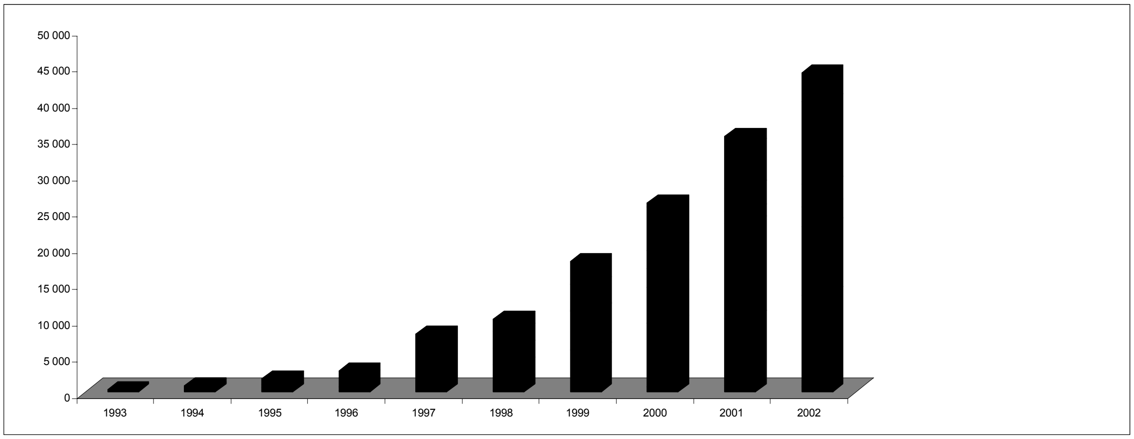
At the end of 1996, after new banking and cooperative financial institution laws were enacted, CECAMs grouped into six Regional Units to form themselves into Cooperative Financial Institutions. They received technical and financial supports from European agricultural cooperative bankers of *Rabobank* (NL, 1995), and then from "*Crédit Agricole Mutuel*" (FR, 1997-1999).

3.3. CECAMs become the first provider of credit to malagasy farmers

In 1999, the CECAMs thus became the first financing institutions of agricultural producers in Madagascar. They reinforced this position in 2003, with 170 local branches in nine regions. The choice of the seven first regions where CECAM network started its activities was not free but decided by the government and donors who organised a geographical distribution of the five main micro-finance institutions. Areas where CECAM started are a mixed of high density but poor population in the Highlands and low density in the Middle west (richer) and on the West Coast (poorest area of the country). They initially excluded the richest areas of Antananarivo surroundings and East Coast where are concentrated cash crops production as vanilla, litchis, cloves,... Those richest areas were reserved to the Savings and Credit Unions supported by the World Bank. Since the political change in 2002, all MFIs are now free to expand in new areas. CECAM decided to consider the demand, opening new local branches in high agricultural potential areas as “Lake Alaotra region” (main rice land area of the country) were other financial institution failed for ten years in meeting farmers needs. CECAM network managed this last extension on its own resources, trough a internal generated development fund. This fund receives 10% of the annual increase of shares and 10% of the annual benefits made by regional units.

In May 2003, CECAM network grouped approximately 52 000 individual members (mainly heads of family, with 85 % of farmers) and more than four hundred farmer associations or farmer commercial co-operatives with over 5 000 member-households. The total membership represents approximately 6% of the global regional population but can reach 30% of the households in villages where CECAM exists. In 2002, the CECAM network granted credits worth approximately Mgf 44 billion (USD 7 million), with an overall repayment rate of 95.6% (despite difficulties in some regions affected by the consequences of the political crisis when the main roads were cut off during six months, see appendix 7 for portfolio quality) CECAM network represents 40% of the local branches of the whole micro-finance sector, 42% of the total of loans granted in value and 48% of the number borrowers (see appendix 9 for general presentation of Micro-finance in Madagascar).

Table 1 : Total credit disbursed for last ten years (in Mgf million)



Loans are funded through its equity capital (Mgf 6.7 billion, \$ 1,1 million) and through resources borrowed from the Government (Mgf 18.8 billion, or \$ 3 million, on basis of a credit line granted by EU to the government) or from commercial banks (Mgf 7 billion, \$ 1,1 million). Because the savings collection is purposefully limited in rural areas, it only represented one sixth of the total liabilities (Mgf 14.8 billion, \$ 2,3 million) in September 2002, although this figure means an increase of 90% compared with September 2001 (this point will be discussed below, see §4.2).

The interest rates on the credits vary from 18 to 48% a year, with an average of 30% for the main credits (GCV and LVM). Inflation rate in 2002 was 14.8 %. In 2002, the operational self sufficiency (after provisions and without subsidies) was approximately 92% and should exceed 100% in 2004 for the first 8 regional units and their central bodies. The use of EU/Public Treasury soft loan will be reimbursed from 2003 to 2041. After the development programme has been implemented, the overall sustainability excluding subsidies should be reached presumably in 2005 or 2006 with around 200 counters (local branches of regional cooperative societies), 80 000 members and a credit portfolio outstanding of Mgf 70 billion (USD 11 million). These estimates include the total of the operational costs (including depreciation, provisions, training, technical support of the central bodies to regional units, external audit, etc...).

Table 2 : the last steps toward financial self sufficiency
Data in interest rate index : 2001 – 2005 growth
CECAM as a whole, basic scenario, inflation 9%

Exercice Costs coverage stage	2001	2002	2003	2004	2005
Interest income (customer loans)	36,5%	34,1%	32,7%	32,7%	32,7%
Financial margin (including central level)	33,3%	29,5%	27,8%	29,8%	29,3%
Financial margin (post FIGAM and risk cost)	26,8%	26,4%	23,3%	24,7%	24,4%
Cooperatives direct operation figures	-1,3%	-0,6%	3,5%	7,9%	10,3%
Off subsidy consolidated operation figures	-14,8%	-15,9%	-7,6%	-0,6%	3,1%

All the regional units are headed by national executives under the control of farmer representatives elected in each village. The international technical assistance provided by FERT/ICAR is gradually decreasing from 1.3 man year for the whole of the network in 2002 till the finalisation of the international TA contract in 2005, marking the completion of the empowerment and the achievement of operational self sufficiency for the CECAM Network.

4. THE FIRM CHOICE OF A STRONGLY AGRICULTURAL ORIENTATION

The unique aspect of the CECAM Network lies in the fact that it has developed its main activity, credit distribution, by gearing it towards agricultural and stock breeding needs in an almost exclusive fashion. This orientation is of course linked to the way in which the Network was founded recalled earlier and to the agricultural mission of its Malagasy founders and their European partners. With the growth and the present diversification of the membership, the issue of maintaining such orientation is raised. As soon as the network began admit other trade categories, the lower risks, the growing and especially faster return on the non-agricultural economic activities and the stronger influence of traders, civil servants and small entrepreneurs have quickly changed the balances between financed activities and between social groups which take part in the management of the Network orientation. The ongoing institutionalisation process will be an important step during which not only the maintenance or the decrease of this preferential calling may be decisive, but also the organization of the internal relationships between trade groups and its influence both on the orientation and the management of the Network, and on its "governance". To ensure this agricultural orientations, by-laws were adapted in a positive discrimination way : each elected committee must have at least 75% of farmers (more than a half of their income has to come from sales of their own farm production whether crops or animals products). At each level, the chairman is always farmer, excepted in the two CECAM opened in main towns to collect savings. His responsibility is to ensure that agricultural credit is considered in priority and other activities received loans according to the available resources.

On the basis of the practical comparisons of the CECAM Network and the usual "standards of best practices" known in the international world of microfinance, it is important to stress three unique features of the CECAM Network which contributes to its success and whose absence in other microfinance institutions may explain why some microfinance institutions so poorly meet the farmers' and breeders' specific needs : the three features are the characteristics of the credit offered, a cooperative system based on capital collateral and human resource (and not on the prior mobilisation of the savings in cash) and a strong involvement of the farmers in the orientation, the management and the monitoring of the institution.

4.1. A credit offer adapted to the farmers' needs

Most international microfinance specialists recommend that the borrower be initiated through short-term loans with preferably weekly or otherwise monthly instalments. Such a credit offer is not compatible with most crop or stock breeding production cycles. Most crops require four to six months minimum between the beginning of the production expenses and the harvest times. Many require still longer periods (cassava, sugar cane, coffee, fruits,...). Similarly, stock breeding, prevalent in Madagascar, requires a two or four year cycle

The 5 major types of credit products of the CECAM Network have been designed interactively with the groups of farmer founders and have led to products which are very well adapted and articulated around the following five types of credit .

4.1.1. **Farming credit** finances the input expenses (labour, seeds, fertilisers,...) or stock breeding expenses (purchase of feeds, veterinary inputs, young breeding animals) and the cycle of the credit is adapted to the production cycle (payment by instalments that match the crop seasons, repayment during the harvest month). This adaptation is managed at regional level and at the level of each sub-agricultural region. The term may vary between four to ten months, the amount from Mgf 100,000 to Mgf 5,000,000($ 15 to 800) and the interest rate from 30 to 36% a year (2.5 to 3.0% a month). The maximum amounts given here and below corresponds to the village level : bigger amounts can be granted by the regional level or after agreement with the central unit, managing the FIGAM.

4.1.2. **Cooperative hire-purchase (LVM) of farm implements :** in view of the production cycles mentioned earlier, the funding of farm implements, which may not be paid off over one harvest season, requires medium term credits. Because the required implements are low value utility items medium term bank credits prove to be inappropriate. Since 1992, CECAMs have tested and developed a lease or rather hire-purchase model. The model first financed farm implements (plough, cart, harrows,...), then it was extended to draught oxen and dairy cows to end up with rural artisan implements (paddy husking machine, wielding units, vans,...) and domestic equipment (bicycles, sewing machines, solar light system, refrigerators, television sets,...). When a member of the CECAM wishes to procure such material, he starts by filling an application form to be approved by the "*Comité Local d'Octroi de Credit*" or the local credit committee. After this approval, he chooses the equipment himself and pays CECAM a first rent (minimum of 20% of its value for a new good, 40% for a second hand good, 25 for dairy cows or oxen). URCECAM (*Unité régionale des CECAMs*) then buys the equipment and draws up a lease contract in favour of the member who thus becomes a tenant for 10 to 36 months. When the member's income allows it, the instalments are on a monthly basis but most of the time, the payment schedule is adapted to the crop cycle with three to four payments a year. These instalments or rents integrate the paying off of the principal (at least 80% of the value of the good) and an annual interest rate of 30%. This interest can be reduced to 24% if the borrower had a preliminary “savings plan” to prepare the payment of his first rent.

After the payment of the last rent, a transfer deed allows the beneficiary to become full owner. In this process, the first security is the good itself, which remains the property of the URCECAM until the last payment. Moreover, the group solidarity guarantee provided by a group of neighbours may be requested. They commit themselves to monitor that the good is adequately maintained and that it is not sold off or destroyed before complete payment. The local representative from the CECAM “*Comité de Contrôle*” (KMM) or Supervision Committee equally contributes in the control. This type of social local monitoring which ensures the commitment of CECAM leaders is part of the cooperative identity of the Financial Institution, contribute to increase the security and to reduce costs.

4.1.3. **Storage credit in the Village Community Granaries (GCV)** : in view of the Malagasy agricultural calendar, paddy harvesting is concentrated over three months approximately. During this season, the transport and payment capacities of traders are well below the farmers' supply. Six months after harvesting, prices increase from 40 to over 130% in the past ten years. However, since 1999 this range of rates has exhibited a clear tendency towards reduction, following the liberalisation of imports which prove all the more competitive that they benefit from subsidies from the outset and customs facilities at arrival.

Most small-scale farmers, who experience food insecurity situation, are then forced to buy rice as they have sold their rice at harvest time in order to secure some cash necessary for expenditures, which occur after harvest time (traditional festivals, weddings, circumcisions, exhumations,...).

Getting some inspiration from a product tested by BTM in the ODR/FIDA project, but also from the warranty of the crop stocks practised by some European agricultural banks, the CECAM Network has developed a credit offer adapted to farmer needs: it funds the storage of the harvest in Village Community Granaries (GCV). The farmers are invited to group and store their rice in a common building (village ware house) keeping the individual property o each bag, precisely identified. This warranty stock is a common surety, a kind of collateral which allows CECAM to grant an individual loan to each member of the group. The credit is not linked to a particular project, even though the borrowers are encouraged to finance some short cycle breeding or some off-season cropping. The amount lent per kilo of paddy stored lies between 50 to 75% of the harvest value. The repayment, 5 to 8 months later, with a 3% interest a month, is made easier through the increase of the price between harvest time and the lean period, giving the farmers a net added value through the storage and the credit of 25 to 80%. Beside its obvious economic interest, this service contributes to maintain the village rice stocks, there contributing the local market stability, to facilitating the food security of the rural population and to ensuring availability of the seeds for the next season. In 2001, the CECAM Network granted 8 996 GCV credits amounting to a total of Mgf 13 billion (over $ 2 million) repaid at 99.7% within 30 days after the due date.

4.1.4. **The social emergency credit** is a product offered by CECAMs to fund urgent cash-flow needs (health expenditures, family events,...). It is designed as a very short term credit (2 to 4 months) and with a maximum amount (Mgf 100,000 to 400,000 according to regions, $ 15 to 60). The interest rate varies from 3 to 4% a month. The main feature of this credit is that it may be obtained very rapidly to meet emergencies.

On the opening days of the local counters, it can be obtained within the same day by a joint decision of only two people (1 representative and 1 employee). On other days, the maximum period is forty-eight hours. This is why members call it "**rescue credit**". It helps them avoid resorting to usurers and gives them several weeks to find a solution that will help then pay back the loan. The CECAM Network is now working out an extension of this product to a cash flow credit (type of overdraft facility) the amount of which would be linked to the shares held by the member.

4.1.5. **Commercial credits to farmers organizations :** farmer groups or cooperatives organise themselves in order to improve their capacities to negotiate the purchase prices of their inputs (seeds, fertilisers, implements) or the selling prices of their crops. To this end, they group their trade operations and very often need to buy inputs in bulk quantity to obtain economies of scale or wholesale benefits. The CECAM Network grants these groups or cooperatives commercial loans to finance the stocks.

About 70 organizations comprising more than 5 000 members have benefited from such credits since 1998. They are granted with rates, close to those that banks give to major merchants (24% to 27% per year). They represent 14% of the overall loan portfolio and 0.3% of the number of credits granted. The amount by unit varies from Mgf 10 to 300 million ($ 1,600 to 48,000).

4.1.6. Other services that are being tried and refined with the participation of the farmers representatives are : **credit for purchase of land, for stock breeding and storage building construction, fruit tree plantation**, or **other sustainable crops** (with grace period on principal repayment, according to the period of time necessary before fructification varying or spread instalments), as well as **insurance products.** Those new products are designed in partnership with farmer organizations which could provide services to promote those activities (obtaining land titles for farmers, providing training or technical assistance for agriculture production or marketing).

Table 3 - CECAM' major credit products : distribution and repayment

(2001 + 2002)/2 [1]	LOANS DISBURSED (annual)			% REPAYMENT (365 days) [2]
	Number	Millions USD	%	
Farming (crops, animals, …)	12 062	1,822	27,55%	95,04%
Storage (granaries)	7 967	1,876	28,37%	99,28%
Implement (hire purchase)	1 892	1,438	21,75%	95,79%
Commercial (individuals)	625	0,369	5,58%	95,60%
Commercial (cooperatives)	88	0,519	7,85%	98,55%
Emergency (social)	4 677	0,143	2,17%	97,70%
Others (land, buildings, trees, …)	559	0,444	6,72%	93,04%
TOTAL	27 870	6,612	100,00%	95,58%

1 USD = 6 000 MGF
(1) average between two years, to correct 2002 political crisis effects.
(2) on loans disbursed in 2000 and 2001, as at December 2002

4.2. A cooperative based on share capital, collateral and human resource

The CECAM Network has been designed first to provide credit services to farmers. From the outset, it used a majority of external resources (soft credit lines) but later it has developed the cooperative concern for credit system ownership by the members. This system empowered members because they were required to put their own resources at stake and participate in the processes of granting and monitoring decentralised decision making by electing representatives.

To qualify for a credit, farmers must first become CECAM member. For this, they must be admitted as a society member by the Committee, pay the modest subscription fee of Mgf 10,000 to 20,000, i.e. $1.5 to 3), then contribute to the shared capital stock of the cooperative society through inputs in capital.

The original cooperative financial mechanism has been designed and implemented to form this share capital, which is the financial basis to the Network. According to the Malagasy tradition in the construction of community buildings (church, school, health centres,..), each member has to bring in his "share of bricks" (*anjara biriky)* in the construction of the building in the form of a fixed value "**partnership share**", worth Mgf 25,000 to 150,000 ($ 4 to 24) according to regions, and payable over 3 to 5 years.

Next, each application for a credit is accompanied with the payment of the individual contribution. These are the "**variable partnership shares**" which strengthen the equity base of the CECAM (the shares are proportional to the amount of the credit requested, at a rate of 5% to 2% of the value borrowed).

These share capital contributions of the members, which are mandatory and non refundable as long as the contributor stays member, are of course financed by the prior cash savings of the members. The CECAM can also mobilise savings in the form of deposits, fixed term or voluntary, paid at 5 or 12% a year according to the amount and term.

These partnership shares are registered and can only be repaid or transferred in case of the member's resignation or death. The share capital thus formed by the members is therefore extremely stable. As of September 2002, it represented 16% of the resources and enabled the CECAM Network to respect the prudential ratios without any problem.

The overall volume of the internal resources (subscribed capital + savings) mobilised by members rapidly increased between December 2000 and September 2002, from Mgf 10.4 to 21.5 billion ($ 1,6 to 3,4 million).

However, two major features restrict the savings mobilisation in rural areas :

- Low monetarization of rural trade : circulating in rural areas and the farmers' confidence in cash are relatively low. This situation is made worse by the inflationist period (between 1994-96) with inflation rates superior 60% per year;
- The propensity to save in other forms than cash is relatively high in Malagasy rural areas, especially on the Highlands where livestock (zebus, pigs, poultry,...), stocks of crops, or purchased commodities (sugar, cooking oil, salt,...) are favourites among farmers and preferred to savings in cash. The remuneration of savings (5 to 12% by CECAMs, 3 to 5% in banks) remains lower than the return rate from productive investments (inflation is 14.1% slide over the last months, source INSTAT, December 2002 after 35% plus in 1994-1995. The Central Bank intervention rate has decreased from 9% down to 7%, rates much lower compared with Treasury Bonds 6 month return rate which is rather at 14%).

In fact, even systems based on the principle of forced prior savings face this issue : rural people think that, at best, it is a constraint imposed to qualify for credit and, at worst, an organised spoliation at their expense . When they compare the interests received on savings with the profits made by using this money in their business, it means clearly a lost or at least an additional cost to access to credit services. They fell "forced prior savings" as a false pretext of educating them to save up, at which they are obviously better than many wage earners since they have to live a whole year on the income from one single yearly harvest.

Comparative analysis of the various micro-finance institutions track record in Madagascar shows clearly that **repayment rate are better when there is no link between prior savings and amount of credit granted**. An hypothesis to explain this result is provided by discussion with farmer groups : When this link exist, they consider access to credit as an acquired right (I paid 1 to get 4) and there is no clear commitment in the preparation and implementation of the project funded by the credits. At financial institution level, credit screening and management seem better when credit stay disconnected from savings.

Despite this context, the CECAM Network strives, with growing success, to mobilise free and voluntary savings to help members accede to the self-financing required to qualify for some credits (LVM). This is easier now due to surplus incomes drawn from the production or storage.

The relevance of or the necessity to increase the savings mobilisation is currently under study. Tests carried out in 2000 and 2001 in three regions have confirmed that urban or institutional savings would be far easier (and less costly) to mobilise than rural savings. These tests were extended and intensified in 2002 in Antsirabe and Antananarivo (70% of the collection, i.e. Mgf 9 billion) with an objective of collecting Mgf 13 billion in 2003 ($ 2 million).

This original system of making up stable capital for the cooperative society has enabled the CECAM Network to present a financial structure that is sound enough for the Public Treasury to decide in 1996 to extend it a long term (30 years) soft credit line which was until then devolved in the state-run bank for rural development (BTM). While the latter, had only used € 70,000 of the € 2.5 million available from 1991 to 1995, the CECAM Network managed to commit the equivalent of € 2.3 million from 1996 to 1999. Thanks to the variable partnership shares proportional to the credit, each loan granted generates a capital increase and therefore the equity available, which will thus improve the cooperative society's solvency and creditworthiness.

With a share capital around Mgf 7,2 billion ($ 1,2 million) in December 2002, long-term capitals reached Mgf 28 billion ($ 4,4 million)versus Mgf 7 billion in 2000 ($ 1,1 million). CECAM Network was therefore able to extend its activity by resorting to loans on the commercial bank market for steadily increasing amounts from 1993 to 2002 (Mgf 7 billion or $ 1.1 million, Mgf 14 billion planned for 2003, $ 2,2 million). These short term (6 months) loans provide supplement stable resources (capital, savings and credit line) to finance the seasonal peak of credits outstanding which corresponds to harvest time (May-June) and the storage period (July-December).

Obtaining this type of bank funding is coupled with ware house receipts on the stocks gathered by members. As explained previously, the stock of paddy brought in to CECAM by the borrowers and their collateral add up to the share capital to form a cooperative basis to the Institution.

However, **human resource** provides the first key for success : the main strength of CECAM Network lies in the quality of the daily collaboration between the elected farmers local (at village level) and regional representatives on the one hand and the professional staff on the other. These elected leaders act as voluntaries, simply get compensation on the rate of farm workers to pay for the time spent and travel costs. They bring in the knowledge of the borrowing members and represent the network cooperative ownership . They aim at promoting its trademark, its mission at the farmers' service and are highly concerned with its sustainability and its autonomy. They take an active part in monitoring the operations and the collection of delayed repayment if they have been involved in the deciding on the grant. Salaried staff bring in some professional commitment which is more and more geared to a bank-like management, concerned with controlling risks and costs in order to achieve the objectives which is to render each unit self sufficient (CECAM and regional Unit). All these stakeholders enjoy a very significant human capital investment : the annual budget for training and education amounts to US$ 125,000 for an overall staff cost of US$ 650,000 and a cost of US$ 130,000 for the elected leaders.

4.3. A gradual and growing institutionalisation to strengthen the financial structure of the Network

The formal institutionalisation process of CECAMs started at the end of 1996, nine years after the distribution of the first credits (1987) and four years after the opening of the first local branches in the current CECAM set up (end of 1992). This period has helped slowly build an original and endogenous culture of enterprise. In this process, grass roots farmer associations have played a crucial role.

The associative experience typical of farmer founders of CECAM in term of credit management has provided the raw material. The latter was next enriched and catalysed by specific inputs injected by European partners of the Network, FERT, then the "*Caisse Régionale de Credit Agricole Mutuel du Nord-Est*" (Reims, France). The two partner organizations have a common feature. They are run and headed by leaders of the French agricultural unionism. This alliance took up an institutional shape of the "cooperative agricultural credit bank" type only after the enactment of the new legal and regulatory framework of Credit Institutions in Madagascar and of Cooperative Financial Institutions (Law enacted in December 1996).

The prevailing choice, consisted in granting **the regional level (URCECAM)** the privilege as the first level of institutional formalisation. Each URCECAM is therefore set up in the form of a regional cooperative society by grouping several thousands of members. **The village branches** are mere pay-desks for counter operations and cooperative sections, which appoint their delegates in the General Assembly of the Regional Units).

If this local level does legally work under the authority of the Board of Directors of the regional cooperative society, it, however, remains the entity where the institution's cooperative spirit materialises through the selection of the members and, especially, in the credit decision. No loan may be granted without the agreement of the **Local Credit Committee**. This structure is based on the conviction that the people who are in the best position to appreciate the credit risk of a farmer are the other farmers from the same village : they know their neighbour, his lands, his crops, his livestock and his daily life, the professional and family aspect of it. This **inter-knowledge** between farmers is one of the **foundations** of a cooperative-based agricultural credit system.

At community level, the local committee is in charge of insuring repayment on due time (to call for guarantors or to take and sell collateral when repayment is delayed).

In this sense, the credit system remains directed by the decisions taken at local level and its construction sticks to the bottom-up approach, from the village up to the regions and, now, from the region up to the **Inter-regional Union of CECAM (UNICECAM)** set up in April 2000 and approved in May 2000 as a legal financial institution by the *"Commission de Supervision Bancaire et Financière"*, the supervisory body under the Central Bank authority.

From the outset, the services required by CECAM, and the regional cooperative societies (training, accounting, monitoring,...) have been provided by a **team** of Malagasy executives based within the Association FERT and called **INTERCECAM**. The INTERCECAM team facilitated interregional training and working sessions, grouping elected representatives and CECAM employees from different regional cooperative societies.

To ensure cohesion within the Network, an **Interregional Fund for Cooperative Guarantee** (FIGAM) has been set up associating six regional cooperative societies (URCECAM) and their FERT partner. The fund partly covers the credit risks which cannot be born by a single regional cooperative society, in view of its equity capital available. FIGAM thus consists of an interregional mechanism of financial solidarity that ensures the creditworthiness of each affiliated cooperative society. The Management Committee of these funds has been charged with preparing the setting up of the Interregional Union, which is now the third operational level of the Network (and the second formal one). On the basis of each URCECAM's growth estimate, a four years development plan of the Network has been drawn up (2000-2003); it was revised in 2001 to a five-year plan for the years 2001-2005.

The institutionalisation model retained provides that the Interregional Union of CECAMs set up in the form of a cooperative association, and will have as a function the task of representing its members (the regional cooperative societies) and defining the policy and the strategic orientations of the Network. With it and on the basis of the current INTERCECAM team, a **Central Financial Institution** will have be created in 2003; it will provide the technical and financial services required by the Network as a whole.

This institution might be set up in a "mixed" form of a joint capital society joining the regional cooperative societies, their interregional union as well as other financial partners. The latter might be Malagasy or European financial institutions (in particular Association FERT and several regional offices of the French cooperative Group "Credit Agricole"). Such a model may help to achieve several objectives at the same time :

- the technical strengthening of the organization and "bank" operation of the network in associating "stabilising" technical skills to management of the cooperative bodies;
- the financial strengthening of the CECAM Network by reinforcing the equity structure of its central unit and by helping it to access more easily State and donors support (leverage effect);
- the gradual progress in the empowerment of Malagasy farmer leaders, along the development of their skills, their authority and their financial capacity. Foreign partners may in this way gradually withdraw. Such gradual divesture might be starting from the fifth year after the final step of institutionalisation, depending on the financial strength acquired, at a rhythm possibly differentiated according to partners.

CONCLUSION : Eight lessons learned from Madagascar CECAM experience.

1) To **secure the agricultural orientation** of the CECAM Network, farmers have organised in the by-laws a system whereby the different committees are elected through a collegial system : it secures **farmers' majority and the Chair in all the committees**. Reassured by these provisions, they have accepted to open membership to other professional categories , therefore contributing to the diversification of loan portfolio outside the agricultural sector. This limits covariant risks of both climatic and commercial types and strengthens the efficiency of the institution.
2) **Farmers keep their fundamental role in the credit decision** : no credit is granted without the prior approval of a local committee of farmers elected by their peers. They study the applications, listen to the advice of a professional staff, assess the borrowers' personal and professional qualities, his capacity to achieve the project proposed, the values of the collateral provided, and ensure a monitoring which promotes good repayment rates. The performances of each local committee are stimulated by an adjustment of their empowerment which depends on the repayment results. This requires permanent and strong investment in the training of elected leaders at local and regional levels.
3) **Internal capitalisation** based on equity shares proportional to the credit obtained helps strengthen the financial structure and promotes "ownership" by members. The demand for financial services in Madagascar rural area mainly involves credit and very little savings.
4) **Avoiding linking prior savings and credits** granted has helped get **better performances** in credit repayment compared with those registered by networks based on savings collection.
5) **Hire-Purchase**, financing on mid-term farm implements has enhanced a leasing type system which is based on a long term soft loan provides by Government and donor (European Union).
6) **The institutional building** of CECAM network has avoided to set up local formal body at village level and **has preferred regional level** as a first level of legal constitution. The regional level, comprising the representatives of each local CECAM, helps peers appreciate the performances of each CECAM. This method helps competition among CECAMs. It promotes stability of the institution by allowing regional regulation of local conflicts or mismanagement. Moreover, it helps strengthen internal control, reduces some administrative costs and makes easier the integration of the network at national level.
7) At the **network central level**, the central agency will be created in the form of a limited liability capital company, as a private commercial bank. The CECAM regional units will be holding the majority but different Malagasy and foreign partners will also bring in capital and skills. The model retained combines authentic basic **cooperative management at village level** (guarantee of efficiency for the distribution of small scale credits in rural area) and a **genuine banking competence** thanks to partners, such as European and Malagasy financiers and bankers **at central level** and representative of farmer union and trade cooperative**.**
8) The creation of **an interregional mutual guarantee fund** run by a committee of regional elected farmer representatives and technicians specialists in credit risk **strengthens the network cohesion and stability**, and creates an internal monitoring mechanism, a system of pressure and incentives to improve the quality of regional cooperative societies governance. As a way forward to farmer's success, more attention is paid to credit risk control and to the management track record.

LIST OF ABBREVIATIONS USED

ADEFI	:	Action pour le Développement et le Financement des micro-entreprises (Action for the Development and the Financing of micro-enterprises)
ADMMEC	:	Association de Développement du Mouvement Mutualiste d'Epargne et de Crédit (Association for the Development of the Mutualist Movement for Savings and Credit)
AECA	:	Association d'Epargne et de Crédit Autogérée (Self managed Association for Credit and Savings)
AFD	:	Agence Française de Développement (French Agency for Development)
APIFM	:	Association Professionnelle des Institutions Financières Mutualistes (Trade Association of Mutualist Financial Institutions)
BAD	:	Banque Africaine pour le Développement (African Bank of Development)
BFV	:	Banky Fampandrosoana ny Varotra (Banque pour le Développement du Commerce reprise par la Société Générale)
BIT	:	Bureau International du Travail (International Labour Office)
BMOI	:	Banque Malgache de l'Océan Indien (Groupe BNP) (Branch of BNP Group in the Indian Ocean)
BMZ	:	Bündes Minister Für Zusammenarbeit (Federal Ministry of Cooperation – Germany)
BNI	:	Banque Nationale pour l'Industrie (National Bank of Indudtry bought out by Crédit Lyonnais)
BOA	:	Bank of Africa (African Financial Holding – Natexis Banques Populaires)
BTM	:	Bankin'ny Tantsaha Mpamokatra (Rural Development Bank bought out Bank of Africa)
CECAM	:	Caisse d'Epargne et de Crédit Agricole Mutuel (Savings Bank and Agricultural Credit Union)
CIDR	:	Centre International de Développement Rural (International centre of rural Development)
CRCAM-NE	:	Caisse Régionale de Crédit Agricole Mutuels – Nord-Est (Reims, France)
DCE	:	Délégation de la Commission Européenne (European Union Delegation)
EUR/€	:	euro (unit of the European Union currency)
FAO	:	Food and Agriculture Organization
FED	:	Fonds Européen pour le Développement (European Development Funds)
FENU	:	Fonds d'Equipement des Nations-Unies (UN Equipment Funds)
FERT	:	Formation pour l'Epanouissement et le Renouveau de la Terre (Education for the Grwth of the Earth)
FIDA	:	Fonds International pour le Développement Agricole (International Funds for Agricultural Development)
FIFATA	:	Fikambanana Fampivoarana ny Tantsaha (Association for the Progres of Farmers)
FMG/Mgf	:	Malagasy Franc
GCV	:	Grenier Commun Villageois (Village Community Granary)
ICAR	:	Internationale de Crédit Agricole et Rural (CRCAM –NE + FERT)

IFM	:	Institution Financière Mutualiste (Mutualist Financial Institution)
IFPRI	:	International Food Policy Research Institute
INSTAT	:	Institut National de la Statistique National Institute of Stastics)
KfW	:	Kreditanstalt für Wiederaufbau (Development Bank RFA)
LVM	:	Location Vente Mutualiste (Mutualist Hire Purchase)
PATFR	:	Projet d'Assistance Technique en Finances Rurales (Project of Technical Assistance in Rural Finance)
PIB	:	Produit Intérieur Brut (Gross Domestic Product)
PMF	:	Programme Micro Finance (Microfinance Programme of the Ministry of Finance).
PMMO	:	Projet de Développement de la Culture dans le Moyen-Ouest (Development Project for Farming in the Mid-West)
PNUD	:	Programme des Nations Unies pour le Développement (The United Nations Development Programme)
RFA	:	République Fédérale d'Allemagne (Federal Republic of Germany)
SBM	:	Standard Bank of Mauritius
UCB	:	Union Commercial Bank (Mauritius Commercial Bank)
UE	:	Union Européenne (European Monetary Union currency)
USD/$	:	United States Dollar (US currency)

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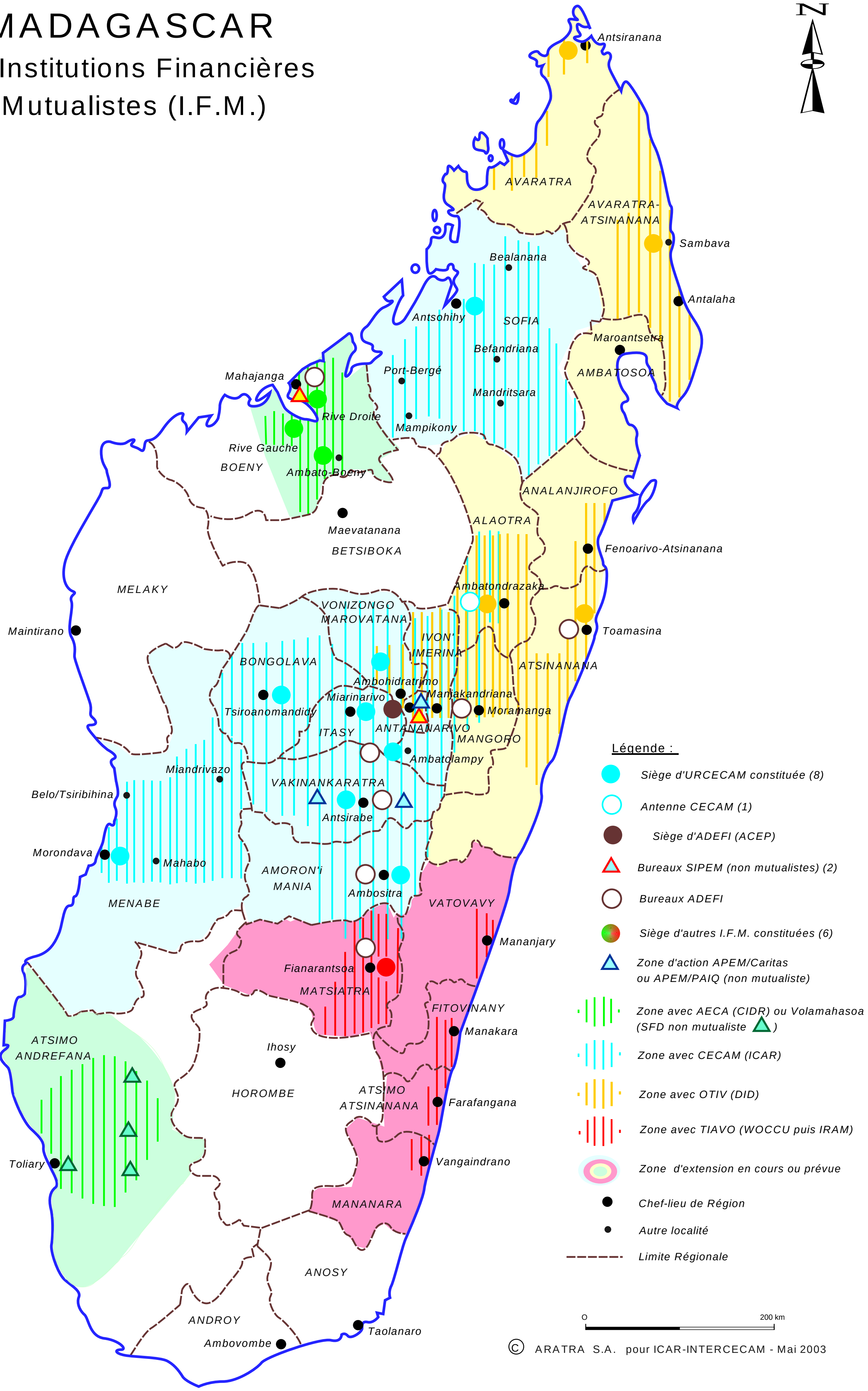
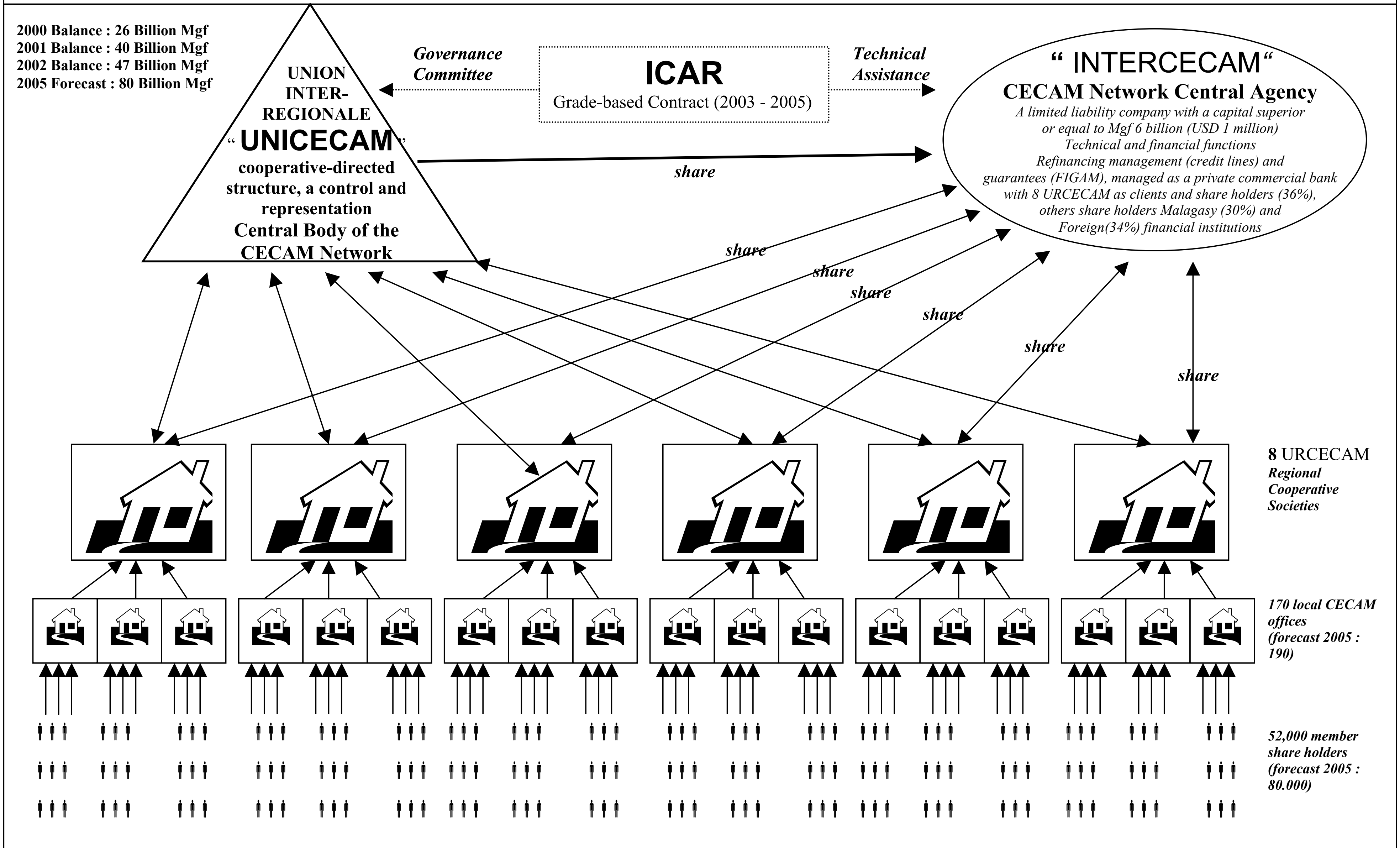
APPENDICES

MADAGASCAR

Les Institutions Financières Mutualistes (I.F.M.)



GENERAL ORGANIZATION OF THE CECAM NETWORK (UNICECAM = Central Body

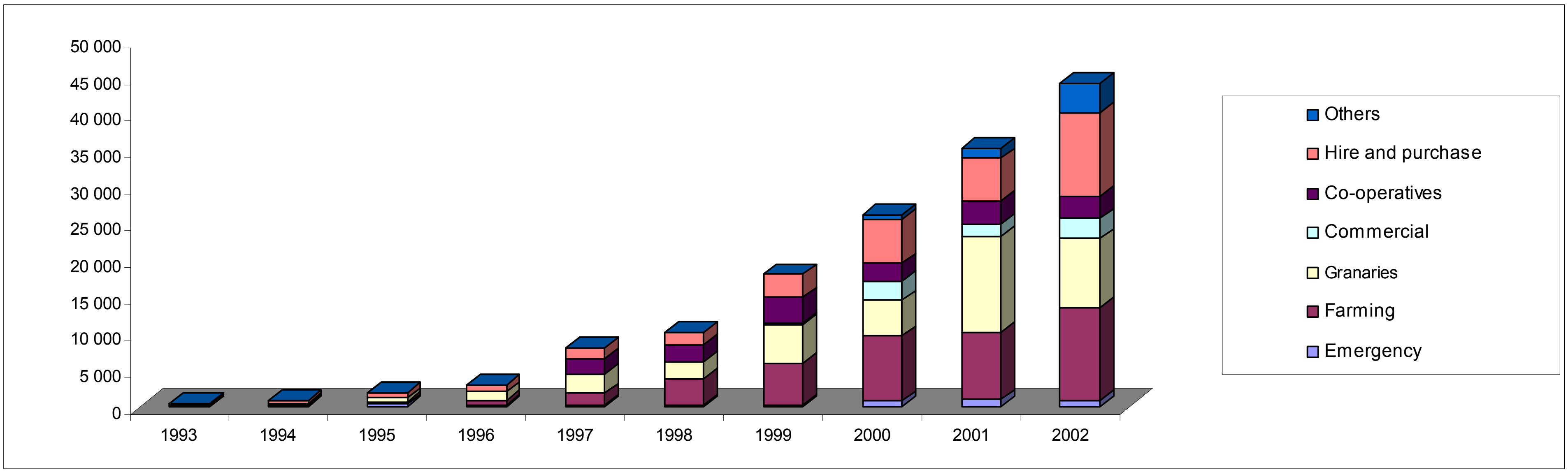


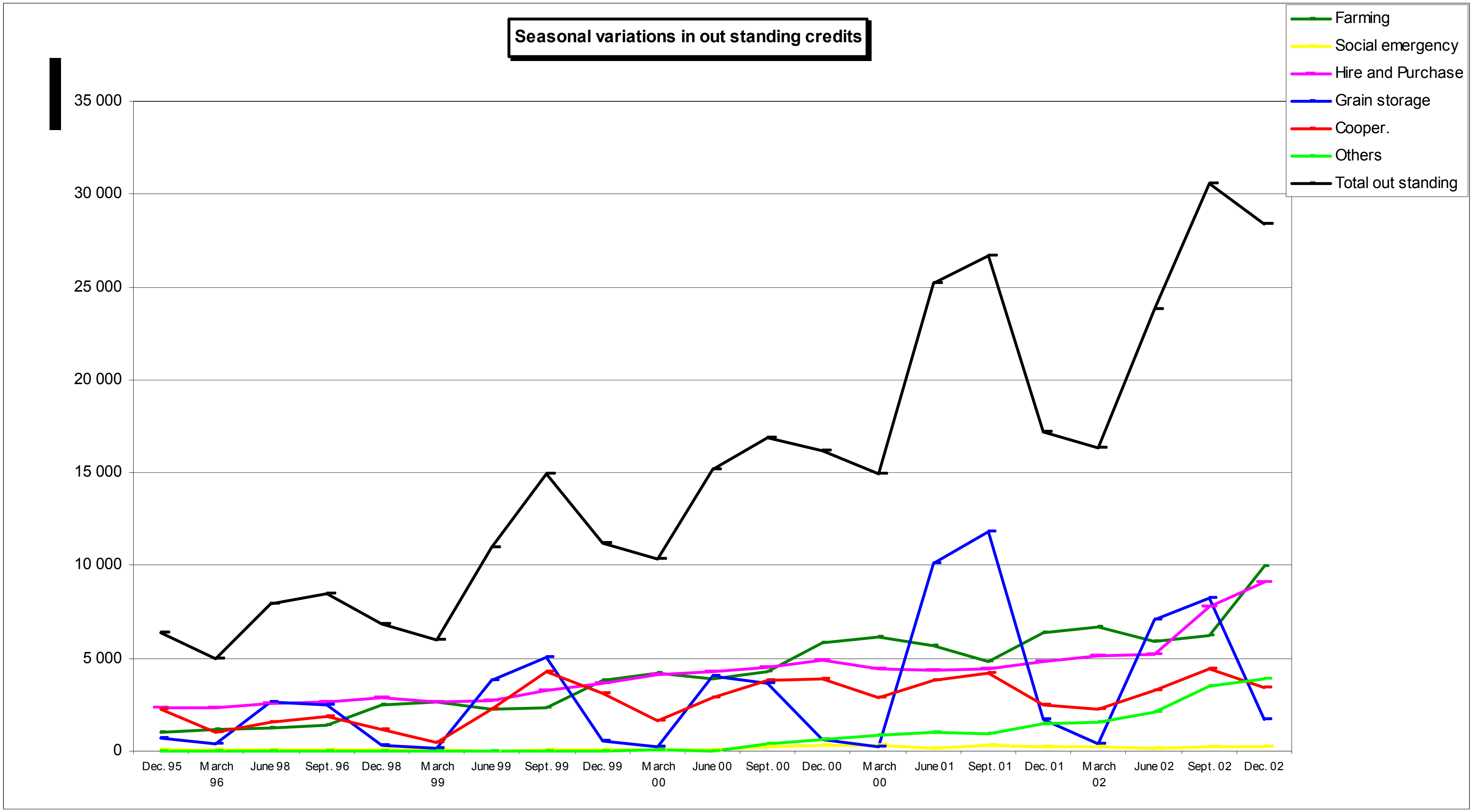
BillionMgf : €1 = Mgf 6 800 (March 2003)

CECAM - Madagascar

DISBURSED CREDIT FROM 1993 to 2002 : 147 billions

millions of MGF	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	**Total**
Emergency	35	154	261	170	161	167	174	705	910	810	**3 547**
Farming	183	0	338	574	1 562	3 553	5 650	8 841	9 244	12 614	**42 560**
Granaries	25	185	475	1 183	2 615	2 330	5 300	4 906	13 057	9 455	**39 531**
Commercial	0	0	0	0	0	0	176	2 608	1 704	2 722	**7 210**
Co-operatives	0	0	0	0	2 170	2 386	3 575	2 449	3 171	3 059	**16 811**
Hire and purchase	79	484	788	1 029	1 510	1 615	3 139	6 000	5 813	11 447	**31 903**
Others	0	0	0	0	0	0	0	617	1 340	3 994	**5 951**
TOTAL	**322**	**823**	**1 861**	**2 956**	**8 018**	**10 051**	**18 014**	**26 128**	**35 239**	**44 101**	**147 514**




Seasonal variations in out standing credits
Farming
Social emergency
Hire and Purchase
Grain storage
Cooper.
Others
Total out standing
35 000
30 000
25 000
20 000
15 000
10 000
5 000
0
Dec. 95
March 96
June 98
Sept. 96
Dec. 98
March 99
June 99
Sept. 99
Dec. 99
March 00
June 00
Sept. 00
Dec. 00
March 00
June 01
Sept. 01
Dec. 01
March 02
June 02
Sept. 02
Dec. 02

**The Village Community Granary
or "Credit GCV"**

(Evaluation of the individual and global economic impact)

- ✓ 1 000 Kg sold to the broker collectors at harvest time at Mgf 700 provide the farmer with a gross income of Mgf 700 000.

- ✓ By getting organised with 10 other farmers of the village, the Village Community Granary enables the farmer to store his paddy for 6 to 8 months until the lean period and at the same time to benefit from a GCV(*) credit up to Mgf 500 000 for the storage period (75% of market price). After deducing the Variable Partnership Shares (5%), he gets Mgf 475 000. He may freely use this sum to meet his family needs or to finance some short cycle breeding or some off-season cropping.

- ✓ After 6 to 8 months' storage, the paddy sold at Mgf 1 200 per kilo gives the GCV member a gross income of Mgf 1 200 000.

- ✓ After repayment of the GCV credit capital (Mgf 500 000) and the interest (Mgf 120 000), he gets an additional product of Mgf 580 000, 8 months after harvest time.

- ✓ With a view to the limited yield of the Malagasy rice crop (about 1 700 Kg of paddy per hectare), the GCV credit of CECAM adds some substantial financial productivity: the farmer has received a total of Mgf 1 055 000 that is Mgf 355 000 more than what he would have got if he had sold at harvest time.

- ✓ In 2001, the 158 CECAMs in the network put in place more than Mgf 13 billions GCV credits helping store about 27 000 tons of paddy. The 9 000 CECAM members who have taken part (over a total of 40 000 members), have thus come up with some financial surplus in the range of Mgf 9.7 billions with a view to the value of the production at harvest time, estimated at Mgf 19.1 billions: the credit leverage is the equivalent of a surplus of rice-field yield, approximately 50%. The additional income per household is Mgf 1 million (+ 40% compared with the average income per capita, data from ROR surveys).

- ✓ Besides, it contributes to the local food security by encouraging farmers to store cereals. It contributes to the gradual regulation of regional market prices by initiating a tendency to reduce the difference between harvest time and lean period prices , which limits the speculative behaviours of broker collectors. It promotes a fairer distribution of added value allowed by the storage, for the farmers.

This evaluation does not take account of the incomes generated by the economic activity possibly financed by the credit : chicken, duck or pig farming, rice-field off-season cropping, handicraft, etc…

(*)GCV : from the French “Grenier Commun Villageois”

A Solution to Finance Agricultural Assets: Mutualist Hire-Purchase

1.Basic Principles

LVM is a credit provided by the CECAM network to its members to help them acquire an asset in order to develop their agricultural activities.

a) Financed goods are mainly equipment for agricultural activities: ploughs, harrows, carts, weeding-machines, seeders, grinders, husking-machines, dairy cows, draught-oxen, motor-cultivators, tractors, as well as handicraft implements(carpenter, blacksmith, mechanic, mason and weaver tools….), trading or household goods (sewing machines, refrigerators, deep-freezers, …) or even means of conveyance.

b) Hire-Purchase lies on the basic principle that the Financing Body remains the owner of the good until it is fully paid off by the beneficiary. The latter is considered as the tenant until the amount of paid rents equals the purchasing price (Initial value + interests + costs). After payment of the ultimate rent, the tenant becomes the owner. In case of failure of payment, the Financing Body is entitled to hold back their good at once, which avoids most contentious issues.

c) The mutualist essence of the operation lies on two commitments :

- **The setting up of a mutual fund enables** self-financing. Each beneficiary to a LVM credit brings in his own contribution or "anjara biriky" to the setting up of the fund through "partnership shares" spelled out in each contract, in proportion to the overall amount. At first, the subscription rate amounts to 5%, then it goes down to 2%. This fund forms URCECAM's capital.
- **Setting up a farmer group** that builds up the social basis of the mutual organisation. The credit application must be thought out, discussed, and agreed upon by the group members, who bring in a moral and sometimes financial guarantee to the beneficiary. The group members agree to help him use and maintain the goods the best possible way. They exercise some control to ensure that these goods are neither sold nor damaged and, in case of failure, they will have to settle the debt.

This principle has been extended to allow individual initiatives, for which no member ship is required. However, the mutualist principle remains valid and, if the member does not belong to any grassroot grouping, CECAM elected members discuss about the project, then manage the follow-up. Personal securities may be required from the elected members involved in the credit decision or from borrowers' neighbours.

2. Practical Rules

a) Credit Application

The application is submitted by a group that selects the projects eligible to their guarantee. The applications arising from the same Office are investigated by the Commission for Loan (COP), a commission that decides on eligible applications; it includes farmers, members of the CECAM management committee, assisted by a credit officer. The final decision is up to the financial institution running the operation (at a local or regional level depending on the amount of the loan and the power delegation of each CECAM), according to his track record in risk management.
For small implements (Mgf 3 to 5 millions, roughly $ 500 or 850), the prerequisite is, first, the borrower's reliability and his records in terms of adherence to the common rules, and, second, the feasibility and cost-efficiency of the project submitted. The adherence is of the essence when the amount of credit at stake exceeds the delegation assigned to the local office. The CECAM may grant loans up to 200 millions.

① ***Requirements vis-a-vis the CECAM :***

- To have been a member of a CECAM for at least 2 months and to fill the required information on the individual form (which takes for granted a prior visit by a local leader or the adviser to the member's house);
- To have clean records as for payment of one's fixed-rate partnership share (members' contribution to reinforce CECAM stockholders' equity);
- To be able to produce clean records regarding one's previous credits (no delay above 30 days in reimbursement of former loans within the last 12 months);
- To have cashed the first rent to a CECAM branch 15 days before purchase.

② ***Application Analysis based on four key criteria:***

- The applicant's morality and reputation as a professional.
- The cost-effectiveness of the investment submitted
- his self-financing and repayment capacities (off project)
- his property or solvency and guarantees offered

For animal or motor vehicles, a collateral worth 50% to 150% of the loan in capital or a personal security may be required. The assets offered as collaterals are subject to a physical examination and a prior evaluation by CECAM's local leaders.

b) The Purchase

To avoid any conflict about goods' quality, the buyer is sole responsible for selecting goods and negotiating theirs initial value. This applies particularly to animals, for the leasing institution, though the owner, is not accountable for the health condition of animals selected, appreciated and evaluated by the tenant.

c) Payment

A first payment of 20% of the initial value is due by the tenant, as a self-financing contribution, meaning acceptance of the good in its present state.CECAM funds the balance, i.e. a maximum 80% of the value (75% for animals, 60% for second hand equipment).Payment for further rents is scheduled according to the treasury forecast, and contracted by the tenant before purchase. The rate currently applied varies from area to area, from 24 to 30% per annum, for a maximum term of 36 months. The interest rate lowers, along with the capital still due.

d) Litigations

In case of payment delay or in case of failure to maintain the equipment, CECAM is entitle to hold back the equipment, after a notice to pay, with no other requirements, CECAM is also entitled to sell the equipment or to lease it to another beneficiary. They are not formally liable to repay the defaulter, however, a gentleman's agreement usually enables the latter to recover some of the capital he has paid.

3. Achievements and perspectives (situation as of 31 December 2002)

The CECAM network has already provided about Mgf 32 billions LVM loans to more than 11 000 members. Mutualist Hire-Purchase has enough potential for a fast increase, in order to meet the growing demand and to promote the investment and contribution to the rural development of Madagascar.

May 2003

NOTES ON THE QUALITY OF CECAM NETWORK LOAN PORTFOLIO

- Since the early creation of the first CECAM in 1993, under the leadership of FIFATA or FERT (according to regions) up to December 2002, the credits granted to date amount to approximately Mgf 147.6 billion.

- Overall, year 2001 represents Mgf 35.2 billion and year 2002 some Mgf 44.1 billion grant (respectively 23.8% and 29.9% of the overall total for ten years).

- As at 31 December 2002, the overall rough outstanding loans were Mgf 28.8 billion (sound credit + Doubtful or Bad Debts, DBDs, including leasing).

- Among these credits, all of credits for which the borrower's deadline have over 90 days delay in repayment, are downgraded to become Doubtful or Bad Debts, in conformity with the regulations.

- No credit has yet been registered as losses, the principle being to proceed to sustained recovery and collection actions over a period of 10 years at least. All the "downgraded" debts and those which are yet to be wiped off remain therefore registered under DBD to date.

- As at 31 December 2002, the overall rough amount of DBD represented Mgf 8.2 billion, i.e. 11.11% of the overall gross liabilities and 2.17%

- The credits outstanding represent therefore Mgf 25.6 billion.

- The DBD provisions charged as at 31 December 2002 amount to Mgf 2.4 billion.

- The DBD provision rate represents therefore 75% of the total DBD. The interests on DBDs and collaterals are freely provided every month. DBD non-provided balance corresponds to the value of the sureties recoverable under the current procedures of repayment collection. The net worth value of DBDs amounted to Mgf 0.8 billion- by 31 December 2002 balance- and it is in the process of auditing.

- The overall net worth book value of the portfolio credit was Mgf 26.4 billion including 3.03% for the DBDs net balance after provisions and 96.97% for sound credits.

NOTES ON THE QUALITY OF CECAM NETWORK CREDIT PORTFOLIO
AS AT 31 DECEMBER 2002
LOANS DISBURSED FROM 1993 UP TO 2002

	in Mgf billions
Consolidated total of loans disbursed from 1993 up to 2002	147.2
Overall gross value of current credits as at 31.12.02	28.2
(gross value including leasing and DBD, excluding products to come in)	
Value of gross DBD as at 31.12.02	
Provisions changed as at 31.12.02	3.2
Net value of DBDs as at 31.12.02	2.4
Sound credits as at 31.12.02	0.8
Portfolio net worth value as at 31.12.02	25.6
	26.4
DOWNGRADING RATE:	
Gross DBD over rough portfolio 0.8/26.4	11%
PROVISION RATE:	
Provisions on gross CBDs	75%
CONTAMINATION RATE:	
Net CBDs/net portfolio	3%
QUALITY OF THE PORTFOLIO :	
Sound credits/Net portfolio	97%

DBD : Doubtful and Bad Debts

Provision values as charged at 31 December 2002, accounts certified by external auditors

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May 2003

ANNEXE 8
ICAR-CECAM/WOCCU-USAID

PROJECTIONS FINANCIERES DU RESEAU CECAM

(version simplifiée et adaptée du résumé des projections établies par le Cabinet Horus Banque et Finance)

1000 Fmg

Résultats consolidés réseau CECAM	2001 (réalisé)	2002 (réalisé)	2003 (estimé)	2004 (proj. rév.)	2005 (proj. rév.)
Principales hypothèses					
Inflation (Françs malgaches)		9,0%	9,0%	9,0%	9,0%
Taux de refinancement des Mutuelles (URCECAM)	6,0%	7,0%	7,0%	7,0%	7,0%
Cotisation Fonds de Développement (sur PSV & bénéfice)	4,5%	10,0%	10,0%	10,0%	10,0%
Indicateurs généraux (ensemble réseau)					
Activité					
Nombre de Mutuelles	6	6	8	8	8
Nombre de CECAM	158	157	173	183	190
Nombre de membres	40 532	46 675	55 875	67 034	80 032
Nombre de crédits accordés	21 071	23 654	28 883	35 344	43 041
Encours moyens annuels					
Fonds propres	3 901 886	7 983 119	16 037 105	25 179 801	31 706 074
Dépôts des membres	5 304 664	2 828 006	5 873 152	9 073 102	13 615 566
Ressources externes	23 162 010	30 267 351	52 241 046	63 875 997	59 576 298
Encours de crédit moyen	20 473 927	25 188 037	38 529 722	48 483 949	61 004 398
Pointe de crédit (par rapport encours moyen)	6 066 657	8 259 059	15 024 439	18 813 293	23 618 272
Ressources externes					
Lignes concessionnelles	19 298 920	19 330 126	19 080 126	33 530 126	33 030 126
Emprunt / période de pointe	12 500 000	8 840 915	27 527 985	24 662 953	35 741 719
Résultats					
Revenus (hors subventions & except)	7 758 527	8 331 694	13 490 803	16 503 079	20 613 861
Résultats consolidés après subventions	-454 213	-214 268	231 000	1 145 193	1 927 852

Résultats consolidés réseau CECAM	(réalisé) 2001	(réalisé) 2002	(estimé) 2003	(proj. rév.) 2004	(proj. rév.) 2005
Ratios					
Ratios financiers					
Couverture des risques par les fonds propres en pointe	17%	26%	30%	39%	39%
Ressources concessionnelles sur total ressources	60%	47%	26%	34%	31%
Rentabilité					
Degré d'autonomie opérationelle (revenus hors subv / charges)	72%	70%	85%	101%	113%
Efficacité					
Efficacité administrative (ch. d'expl. / enc crédit)	39,5%	36,8%	27,3%	22,9%	19,1%
Résultats en points d'intérêt (hors subventions et AT)					
Revenus d'intérêt (crédits aux sociétaires)	36,5%	33,3%	32,7%	32,7%	32,7%
Marge financière (inclus organe central)	32,7%	29,5%	27,8%	29,8%	29,4%
Marge financière (après FIGAM et provisions)	26,3%	26,3%	22,9%	24,3%	24,1%
Résultat d'exploitation direct des Mutuelles	-1,9%	-0,7%	3,1%	7,6%	10,0%
Résultat d'exploitation consolidé avant subventions	**-16,8%**	**-15,9%**	**-7,6%**	**-0,6%**	**3,1%**
Subventions	14,6%	15,1%	8,2%	3,0%	0,1%
Résultat d'exploitation consolidé	**-2,2%**	**-0,9%**	**0,6%**	**2,4%**	**3,2%**

Résultats consolidés réseau CECAM	(réalisé) 2001	(réalisé) 2002	(estimé) 2003	(proj. rév.) 2004	(proj. rév.) 2005
Résultats consolidés après subventions					
Résultat des Mutuelles	-922 063	-908 327	-703 865	-702 644	7 002
Résultat du FIGAM	5 343		136 849	190 497	264 205
Résultat Intercecam hors FIGAM et subventions	462 506	155 352	220 923	1 574 243	1 565 731
Résultat UNICECAM hors FD et subventions	-460 744		38 174	83 097	90 914
Amortissement subv. d'équip. Organes centraux	460 745	538 707	538 919	0	0
Total	**-454 213**	**-214 268**	**231 000**	**1 145 193**	**1 927 852**

Bilan consolidé réseau CECAM au 31/12	(réalisé) 2001	(réalisé) 2002	(estimé) 2003	(proj. rév.) 2004	(proj. rév.) 2005
Actif					
Disponible	2 908 433	3 204 508	4 463 614	5 852 090	7 635 524
Placements	6 808 911	2 562 799	3 220 319	6 254 125	5 009 882
Encours de crédit net	16 920 238	25 759 788	37 661 285	47 356 827	59 509 684
Intérêts à recevoir	1 089 522	302 256	462 357	581 807	732 053
Autres comptes financiers	8 444 339	0	0	0	0
Immobilisations nettes sur FP	700 162	2 771 239	4 185 655	3 840 597	3 720 042
Immobilisations nettes sur subventions	2 543 826	4 810 959	5 446 536	6 699 260	6 655 644
Participations externes	457 000	457 000	457 000	457 000	457 000
Total actif	**39 872 431**	**39 868 550**	**55 896 766**	**71 041 706**	**83 719 828**
Passif					
Emprunts	0	709 473	4 421 000	0	287 000
Epargne	5 304 664	5 206 417	5 873 152	9 073 102	13 615 566
Intérêts à payer	30 351	0	0	0	0
Autres comptes financiers	4 897 401	0	0	0	0
Emprunts subordonnés	20 535 126	20 535 126	19 080 126	33 530 126	33 030 126
Intérêts courus sur emprunts subordonnés	1 091 000	0	0	0	0
Capital:					
Parts sociales des URCECAM	5 114 885	7 098 321	9 259 393	12 281 834	16 084 385
capital UNICECAM (immos nettes ICM 31/12/02)		0	595 773	595 773	595 773
partenaires extérieurs au réseau CECAM dans INTERCECAM	0	0	3 900 000	3 900 000	3 900 000
Dotations extérieures (hors immob.)	1 368 369	1 769 169	2 173 030	2 559 361	2 926 541
Report à nouveau	-3 122 465	-3 576 679	-3 280 487	-3 049 487	-1 904 294
Résultat	-454 213	-214 268	231 000	1 145 193	1 927 852
S/T FP	2 906 576	5 076 543	12 878 710	17 432 675	23 530 258
FIGAM	2 129 843	2 585 711	3 106 381	3 755 775	4 441 242
Fonds de garantie URCECAMs	32 745	30 000	0	0	0
Subventions d'équipement nettes	2 543 826	4 810 959	5 446 536	6 699 260	6 655 644
Fonds de développement (solde disponible)	400 899	403 862	489 497	550 769	346 526
S/T Assimilés FP	5 107 313	7 830 531	9 042 414	11 005 804	11 443 411
Total Passif	**39 872 431**	**39 358 090**	**51 295 402**	**71 041 706**	**81 906 361**
Fonds propres disponibles	**5 813 153**	**8 204 143**	**17 713 240**	**28 438 478**	**34 973 669**
Part assimilés FP prise en compte dans les FPD	2 906 576	5 076 543	9 042 414	11 005 804	11 443 411
Ratio de couverture des risques en pointe d'activité					
FPD en pointe	4 538 975	7 035 190	15 941 916	26 266 027	32 795 272
Encours de crédit en pointe	26 540 584	33 447 096	53 554 160	67 297 242	84 622 671
Ratio de couverture des risques	**17%**	**21%**	**30%**	**39%**	**39%**

Les Institutions Financières Mutualistes et de Microfinance à Madagascar

A Madagascar, le secteur des services financiers décentralisés peut s'analyser en trois catégories :

- les institutions financières mutualistes : organisées au sein de l'APIFM, elles sont régies par une loi spécifique, doivent se soumettre au contrôle de la CSBF et produisent des données trimestrielles. Elles représentent environ 85% du secteur « publié » en nombre et 94% en valeur.
- Les institutions de microfinance (non mutualistes) organisées au sein de l'AIM (Association des Institutions de Microfinance) : elles ne se sont pas soumises aux lois sur les établissements de crédit et, en l'absence d'un texte réglementaire spécifique, échappent au contrôle de la CSBF. A la marge du cadre légal, elles publient des données annuelles. Elles représentent environ 15% en nombre et 6% en valeur du secteur « publié ».
- Les autres initiatives de services financiers décentralisées : elles sont constituées des volets crédits existants encore au sein de certains projets publics mais aussi d'initiatives de diverses ONG, associations, églises qui pratiquent différentes formes de collecte d'épargne et de distribution de crédit, en dehors du cadre légal. Selon certaines estimations, elles pourraient représenter 5 à 10% en nombre et 1 à 3% en valeur du secteur « public » (hors volets crédits de projets publics).

1. Les institutions financières mutualistes

Cinq réseaux d'institutions financières mutualistes adhèrent à l'APIFM : ADEFI, AECA, CECAM, OTIV et TIAVO.

L'évolution de ces cinq réseaux entre septembre 1999 et septembre 2002 est donnée par le tableau suivant :

(*) valeurs au 30 septembre 1999 et au 30 septembre 2002, date la plus significative pour l'agriculture compte tenu des variations saisonnières et dernière date disponible pour 2002

La situation au 31 décembre 2002 (chiffres provisoires) est la suivante :

Sources : Réseaux membres APIFM - à noter qu'une partie du réseau AECA (Ambato Boéni) est en cours de liquidation et que les réseaux OTIV d'Ambatondrazaka et Toamasina ne sont pas agréés par la CSBF. Un réseau OTIV en cours de création dans la province d'Antsiranana n'adhère pas à l'APIFM et ne publie pas de données.

2. Institutions de microfinance non mutualistes

Les institutions de microfinance non mutualistes ayant « déclaré » leur activité sont connues de l'association des institutions de microfinance : Entreprendre à Madagascar (qui ne publie pas de résultats), la SIPEM (Société d'Investissement pour la Promotion de l'Entreprise à Madagascar) et l'APEM (Association de Promotion des Entreprises à Madagascar) sous l'égide de laquelle se développent trois activités distinctes : Volamahasoa (rurale, région Sud Ouest), Caritas (rurale, région d'Antsirabe) et PAIQ (Initiatives de Quartiers Urbains, Antananarivo).

Leurs activités publiées en 2002 sont les suivantes :

A noter qu'il s'agit de montants décaissés au cours de l'année et non d'encours au 31.12.2002.

3. Synthèse sur le secteur microfinance

Au total, l'activité « crédit » du secteur de la microfinance malgache au 31 décembre 2002 peut être approchée par le tableau suivant :

Valeurs/nombre et taille moyenne des crédits (toutes zones et tous secteurs)

	Crédits en cours au 31 décembre 2002				
Institution	**Montant**	**%**	**Nombre**	**%**	Taille moyenne
CECAM	28 843	41,97%	16 219	47,48%	1,78
APEM Volamahasoa(*)	2 400	3,49%	4 303	12,60%	0,56
ADEFI	13 762	20,02%	4 913	14,38%	2,80
OTIV	14 516	21,12%	4 263	12,48%	3,41
TIAVO	1 737	2,53%	1 302	3,81%	1,33
AECA	472	0,69%	1 207	3,53%	0,39
SIPEM(*)	6 405	9,32%	398	1,17%	16,08
APEM Caritas(*)	263	0,38%	777	2,27%	0,34
APEM PAIQ(*)	330	0,48%	777	2,27%	0,42
TOTAL	**68 728**	**100,00%**	**34 159**	**100,00%**	**-**

(*) Pour les non mutualistes, l'encours est estimé à 75% du montant décaissé compte tenu de la durée moyenne des crédits de 8 à 10 mois. Le classement est effectué par rang décroissant de nombre de bénéficiaires.
