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AN ANALYSIS OF
THE AGRICULTURAL CREDIT SYSTEM OF THE EASTERN ORD
OF UPPER VOLTA -- FINAL REPORT --
JUNE 1977 THROUGH JULY 1980

by

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PREFACE

I spent three years working with the agricultural credit program of the Eastern ORD of Upper Volta with my Voltaic counterparts Mssrs. Amidou Dahany and Sinare Mousa, and under the ORD Director, Mr. Luc Lompo. I was an employee of credit and cooperatives section and was therefore totally involved in the day to day administration of the credit program. Seldom do expatriate technicians have the privilege of this degree of involvement. I personally feel that the possibilities for an expatriate to make an effective contribution to rural development programs are much greater by working from "inside" the system rather than from "outside."

I would also like to note that the setting in which I worked encouraged innovative problem solving. In this sense the Eastern ORD was a place for testing ideas in agricultural credit. The reports of these efforts in applied research are listed in Annex A.

This is the first of a series of final reports that other Michigan State University team members, following their tours of duty with the Eastern ORD, will be submitting.

I. BACKGROUND

A. Justification for the Project

In 1973 the Government of Upper Volta (GOUV) requested assistance from the Agency for International Development (AID) to make a recovery effort in the eastern region of the country, the area which was hardest hit by the 1968-73 drought. In response to this request and within the framework of the AID medium-term assistance program for the Sahel states, AID financed the "Integrated Rural Development" project to support the Eastern Regional Development Organization (E. ORD). Other major donors were also supporting the Eastern ORD including the United Nations Development Program/FAO, France and Switzerland.

The Eastern ORD is responsible for improving agricultural production throughout a region which covers about one-fifth of the area of the country and which contains about one-tenth of the country's population of about seven million people. Cereal food crops dominate agricultural production in the Eastern ORD. Some cash crops, such as peanuts and cotton, are grown; but most farmers do not engage in significant cash crop production and the economy of the region exhibits a low level of monetization. In order to achieve this objective the ORD seeks to:

- provide extension services for farmers and artisans,
- motivate and organize the population in the planning and execution of development programs,
- assist in agricultural research,
- provide farm credit,
- improve the marketing of farm products, and
- participate in the extension of infrastructure programs.

The AID Integrated Rural Development Project which began in 1974 helps the Eastern ORD by:

1. Expanding of the capacity of the ORD for administration and out-reach through:
 - a. the construction and equipment of improved central and field facilities and the provision of logistical support for field staff,

- b. the training of ORD personnel, and
 - c. technical assistance.
2. Generating basic data through applied research related to:
 - a. traditional and improved farming systems,
 - b. credit requirements and alternative credit systems,
 - c. technical possibilities and economies of animal traction and animal production, and
 - d. marketed surpluses, marketing systems, and price fluctuations.
 3. Testing of production and marketing interventions primarily in the intensive zones through medium-term credit for animal traction and a revolving fund to purchase cash crops.¹

As a part of its growing program of rural development research and training in the Sahel, the Agricultural Economics Department at Michigan State University negotiated a contract with the U.S. Agency for International Development to provide assistance to the Eastern ORD as part of AID's Integrated Rural Development Project.² Since May 1977 five MSU faculty members have undertaken an active research and implementation program in production economics, marketing, credit and cooperatives, livestock/range management, and audiovisual techniques.

B. Justification for the Credit and Cooperatives Component

The AID Integrated Rural Development Project made two critical assumptions: one, that a government agency was needed to distribute credit to farmers and two, that credit was needed so farmers could purchase the required agricultural inputs and thereby adopt the proposed technical package. From this perspective, the credit program was established as follows:

1. A revolving fund within the National Development Bank (BND) provided both short- and medium-term funds to producers in the Eastern

¹See "Integrated Development Project Paper," AID, Washington, D.C., July 30, 1974; and "Evaluation of the Eastern ORD Integrated Rural Development Project," Roger Poulin, Alice Morton and Anita Mackie, USAID, Embassy of the U.S.A., Ouagadougou, Upper Volta, December 1977.

²See "A Proposal for the Provision of Technical Assistance to the Eastern ORD Integrated Rural Development Project in Upper Volta," Department of Agricultural Economics, Michigan State University, East Lansing, Michigan 48824, U.S.A., November 1975.

region to purchase agricultural inputs (traction animals, plows, weeders, ridgers, carts, seeds, fertilizer and pesticides), and

2. Funds were channeled through the Eastern ORD to local farmer associations (Groupements Villageois). The collective liability of these village associations was expected to keep default rates low.¹

C. Work of the Credit and Cooperatives Technician

I lived and worked in the Eastern ORD of Upper Volta from June 7, 1977 to May 23, 1980 as the agricultural credit and cooperatives technician on the Michigan State University contract team.

I was responsible for training and supervising Voltaic counterparts to manage the short- and medium-term credit programs of the Eastern ORD, including support for village level credit organization activities.

The details of my work during those three years are reported fully in the reports listed in Annex A. These are reports of the work we did, first, to understand fully the nature of the problems with the credit system in the Eastern ORD and, second, to describe the results of the proposals we introduced to improve the functioning of this system.

I feel that the dominant problem with the credit system in the Eastern ORD was the inability to move all the available loan capital to farmers. Part II summarizes the problems of the rural credit system. Part III discusses some of the proposed solutions to help improve the delivery of credit to farmers. Part IV outlines some lessons for the Eastern ORD, the National Agricultural Credit Bank (CNCA), USAID/Ouagadougou and AID/Washington with regard to the design and implementation of agricultural credit systems. Part V is the summary and conclusion.

¹See "Integrated Rural Development" Project Paper, AID, Washington, D.C., July 30, 1974.

II. PROBLEMS OF THE RURAL CREDIT SYSTEM

IN THE EASTERN ORD

During 1979-80 only about 20 million Francs CFA were distributed to farmers, despite the availability of more than 100 million Francs CFA for all rural credit in the Eastern ORD [see No. 8 in Annex A]. This section discusses why the Eastern ORD was unable to distribute more capital inputs to farmers.

A preliminary inquiry into the agricultural credit situation in the Eastern ORD was undertaken in 1977 [see No. 1 in Annex A]. From this inquiry we identified and defined the following major problems with the Eastern ORD credit system:

1. Traditional money lenders dominate the market for credit in the Eastern region. Most farmers use the traditional credit market to meet short-term cash-flow problems. Depending upon the purpose and type of loan, informal lenders will not charge interest or require as much as 140 percent interest per year.¹

In 1977, less than 5 percent of the ORD's 60,000 farm families were getting credit from the ORD in spite of its low 5.5% interest rate. Thus the ORD needed to find a way to provide credit to more farmers and at a lower cost than loans from traditional sources.

2. In order to pay debts, taxes, etc. farmers were selling their crops at harvest time when prices were the lowest. Consequently there was a need for the ORD to create a program that would free farmers from the need to sell at the lowest prices and incur a financial loss. Moreover, a guarantee program was needed to assure a market for new cash crops

¹ See Edouard K. Tapsoba, *Analyse Descriptive Preliminaire de l'Etude sur le Systeme Traditionnel de Credit, les Attitudes des Paysans envers le Credit et l'Epargne* (Fada N'Gourma, Upper Volta: ORD de l'Est, BAEP, Section Recherche Appliquee, Avril 1980). Also see Edouard K. Tapsoba, "An Economic Analysis of Formal and Informal Credit in the Eastern Region of Upper Volta: Empirical Evidence and Policy Implications" (Ph.D. dissertation forthcoming) Michigan State University).

thereby enabling farmers to repay their loans and accept credit and technical counsel from the ORD.

A second, more detailed study of animal traction credit was undertaken in 1978 [see No. 2 in Annex A]. This study identified the following problems:

1. The absence of an integrated approach to deliver credit.

The Agricultural Production Bureau was responsible for collecting orders, ordering and distributing inputs, training traction animals and providing technical training on animal feeding and care. At the same time, the Livestock Bureau was responsible for animal health. The Credit and Cooperatives Section of the Community Development Bureau was responsible for disbursing and collecting loans and for the animal insurance program. Since the timing of arrival of all elements of the animal traction package was not well coordinated the farmers were poorly trained and many did not receive a complete animal traction package. Therefore the loan could not be productive and repayments could not be made.

Also linked to this coordination problem was the absence of a detailed calendar of dates when the duties must be performed by the Bureaus working directly or indirectly with the credit system. There was a vague notion that loans would be given from January to September and that the due date for loan collections was March 31 each year. But there was not a detailed calendar of deadlines for ordering and distributing factors of production, for distributing money for cereal banks and purchasing traction animals, and for many other detailed tasks where timing was of crucial importance.

2. The need to improve the collection of animal insurance premiums.

Extension/credit agents were not enthusiastic about collecting these payments from farmers each year. Many farmers were not even asked to pay this premium and many of those who were asked to pay either resisted or refused because they were not told how insurance worked. Moreover, farmers did not understand the need to pay insurance each year when their animal was in good health. When farmers repaid the loan without losing their animal(s) they felt entitled to a reimbursement on the insurance premiums.

3. The need for borrowers to understand the loan terms, the loan repayment dates, and the amounts to be repaid. Most often the extension/

credit agent failed to explain the loan terms when the loan was given; borrower also forgot or claimed to have forgotten the terms. This lack of understanding contributed to low loan repayment rates.

4. The need to improve the incentives for extension/credit agents to administer loans and provide technical assistance to borrowers. Low salaries and poor support from the supervisory staff discouraged the agents and contributed to a low level of lending activity and poor loan repayments.

In response to requests from the various international donors for basic statistical data on loan disbursements and repayments an inventory was taken of all 86 medium-term animal traction loans [see No. 3 in Annex A].

The inventory was expensive in terms of training interviewers, travel costs for the interviewers, errors in data collected, and in the final tabulation. This kind of information is vitally important to the Eastern ORD and to donors, and it requires the establishment of a rapid, accurate, regular data collection system.

It also became apparent from this inventory that a rather large sum of loan repayments may have been embezzled by extension/credit agents. The problem arose essentially from the inadequate supervision of loan collections.

On the basis of our examination of animal traction credit and the inventory, it was clear that the loan repayment problem deserved closer analysis. Therefore, in April-May 1979 a special study of this problem was made [see No. 5 in Annex A].

This study showed that 48 percent of the borrowers were delinquent and that 31 percent of the amount of money due was delinquent. That is, the number of borrowers delinquent as a percentage of all borrowers who had loans due during the accounting year was 48 percent; and the amount of delinquent loans as a percentage of the amount of loans that should have been collected during the accounting year was 31 percent. In addition there were a variety of causes for loan delinquencies. Thirty-seven percent of the delinquencies were attributable to the borrowers themselves: 19 percent felt indifferent and under no obligation to repay their loans; 18 percent were able but unwilling to liquidate chattels to meet their loan repayment obligation.

Another 37 percent of the delinquencies was due to the fault of the lender: in 29 percent of these cases, part of the animal traction package had arrived too late for use during the first season of the loan; 3 percent had purchased traction animals that were too small to use; in 3 percent of the cases, ORD agents had arrived too abruptly (without prior warning) to collect loan repayments; and in 2 percent of the cases, the ORD agent who was sent to collect the loan was different from the person who made the loan.

The remaining 26 percent of the delinquencies were caused by the following:

seventeen percent were from poor weather and low crop yields and 9 percent were because of health and family problems of the borrowers.

A separate rural credit account was established in the ORD in 1980 in order to establish the amount of the balance in the rural credit account and to provide further data that was required by the international donors¹ contributing to the rural credit fund.

A report of this account [see No. 9 in Annex A] showed that the credit fund was often used to meet cash-flow needs of other accounts of the Eastern ORD. In part this was caused by delays in the arrival of funds for other accounts. Thus, the rural credit fund was suffering from the problem of a liquidity shortage in spite of a favorable balance in the account. The report also shows that data were lacking on whether or not the rural credit system was viable, that is, whether the revenue exceeded the costs of the rural credit account.

There is one additional important reason why more of the available credit capital was not distributed to farmers by the ORD. As a precaution against lending too much money too fast and at the risk of making unsound loans that could not be collected, the ORD proceeded cautiously in starting its loan program until it was sure that the problems discussed above had been solved.

¹Besides the ORD's own financial resources there were 10 different international projects providing credit funds to the ORD as of March 31, 1980. AID had four: the Integrated Rural Development project, the Entente project, an earlier, small animal traction project (CCDR) and Strengthening Women's Role in Development (SWID); the United Nations had three: a World Bank project, FAO/UNDP, and an equipment project (FENU); France had two: French Association for Industrial Development (AFDI), and the Central Bank for Economic Cooperation (CCCE); and the Swiss had one: Swiss Technical Cooperation (CTS).

III. IMPROVING THE DELIVERY OF CREDIT IN THE EASTERN ORD

This section discusses the responses to the problems noted in Part II and outlines some of the changes introduced to increase the capacity of the ORD to use capital efficiently and deliver credit effectively to farmers in the Eastern Region.

1. The set of improvements which we implemented from mid-1977 through mid-1980 have served to improve the ORD credit service to farmers, thereby making the ORD a lower cost source of credit and a more effective competitor with informal lenders. We expect that as farmers see the ORD as a lower cost alternative source of credit they will turn to it for capital.

2. Cereal banks were introduced as a special credit activity in order to meet the farmers cash needs at harvest time. Under this program village groups buy grain from their members at above market prices for storage and resale to farmers at an agreed price which was below the market price. This program benefits members in three ways: (1) sale of grain at harvest time for a price higher than the free market price, (2) buy back at a price lower than the free market price, and (3) the profit made by the village group of which he is a member [see No. 10 in Annex A].

3. The coordination among the different bureaus of the ORD responsible for the animal traction program (the Agricultural Production Bureau, the Livestock Bureau, and the Community Development Bureau) was improved when two of these bureaus (BPA and BDC) were moved into the same building in 1978. Monthly meetings of all bureau chiefs and all sector chiefs also improved coordination -- especially in ordering and distributing all the elements of the production input package (traction animals, animal traction equipment, spare parts, seed fertilizer and pesticides) with credit funds, distributing money for traction animals and cereal banks, and organizing meetings with village groups to discuss credit terms and set up loan repayment procedures. Also very useful in supplying some of the complementary services needed to make sound loans was the hiring -- from credit funds --

of farmers with animal traction experience to work for the ORD as animal trainers. These animal trainers offer farmers advice on selection of traction animals, using the animal traction equipment, feeding their traction animals and having their animals vaccinated against the most common diseases. Coordination has improved because certain functions of each of the bureaus of the ORD serving the animal traction program were implemented by these animal trainers. The next important step was to establish a calendar of work which identified precise deadlines for each task and identified who will have the responsibility for seeing that each deadline is met.

4. The problem of collecting premiums for the insurance on traction animals was solved by requiring all borrowers of loans for traction animals to insure their animals and having the insurance premiums included as part of the loan.

5. The borrowers understanding of the terms of loans and repayment procedures was improved in two ways. Yearly meetings of representatives of all village groups were held in each sub-sector of the ORD [see No. 5 in Annex A]. One of the topics discussed in these meetings was agricultural credit, including terms of loans and repayment procedures. Second, annual bills were produced by the computer and sent to each borrower reminding him of the amount of his loan, interest charged, date of repayment and amount due to be repaid [see No. 8 in Annex A].

6. The problem of inadequate technical assistance to borrowers and poor loan repayments due to poorly motivated and poorly supported extension/credit agents was reduced by (a) offering commissions on loan repayments as a motivation to extension/credit agents to assist borrowers more adequately [see No. 8 in Annex], and (b) producing a technical reference manual on agricultural credit for extension/credit agents [No. 4 in Annex A]. This technical manual is a guide which extension/credit agents use to analyze the farmers' cash flow expectations over the life of the loans. The animal trainers also helped improve the technical assistance to borrowers.

7. A computerized system of credit fund management was introduced in order to bring together basic data on the rural credit program with regularity, speed and accuracy. On the basis of all loans given and all loan repayments received by the rural credit program, the system provides:

(10 statistical reports on the number and amounts of loans and loan repayments by fiscal year, loan purpose, source of funding and sector of the ORD, (2) aids to extension/credit agents to help them do their jobs better, and (3) calculation of commissions to be paid to extension/credit agents for loans collected [see No. 7 and No. 8 in Annex A].

8. Presenting bills to farmers helped to reduce the embezzlement of loan repayment money by extension/credit agents. If farmers receive bills for loan repayments which they have already paid, they go directly to the extension/credit agent to ask why they were not credited for their last payment [see No. 8 in Annex A]. The placement of a credit and cooperative chief in each of the eight sectors of the ORD also helped control embezzlement.

9. Many measures were introduced to improve the loan repayment rate. A summary of these is presented in Annex B. Specifically, it should be noted that the computer-produced bills helped significantly to address this problem. Nevertheless the repayment rate remained at low levels; in 1976-77 it was 25 percent, 1977-78, 41 percent, and 1978-79, 32 percent. The many reasons for this continuing low repayment rate are discussed fully in our 1979 report on loan repayment delinquency [see No. 6 in Annex A]. Many times, low repayments were due to non-financial factors. During the 1979-80 loan collection period for example, the repayment rate was only 25 percent because of a strike/boycott in which extension/credit agents refused to collect the loans due.

10. An important action was taken in response to the liquidity problem of the rural credit fund. In January 1980, the Director of the ORD instructed the ORD cashier to transfer to the Rural Credit Account in the Fada N'Gourma Branch of the BND (National Development Bank) any loan repayment money received from any sector.

The establishment of the rural credit account was a big step toward improving the viability of the rural credit system [see No. 9 in Annex A]. This will be one of the main information sources for analyses of whether the rural credit system is self-supporting. Still more information will need to be added to know if revenue (interest received) exceeds costs (interest paid on borrowed funds, the inflation rate and opportunity cost on owed funds, plus salaries, office rent, office supplies, transportation, commissions to agents, computer costs, and losses through loan default).

If such an exercise shows that the credit system is not self-supporting then the difficult questions of how to increase revenue or how to decrease costs will need to be answered.

11. In order to help farmers accumulate and save capital, an attempt was made to form credit unions, but none functioned effectively. Certain village groups also purchased stock in the rural credit program. If the rural credit system is to grow without outside sources of subsidy, a means for farmers to save must be created. Specifically, the credit union program should be re-activated and promoted to generate savings.

Cash flow projections (budgeting) have not been developed but can evolve easily from the data base created by the computerized management system [No. 7 and No. 8 in Annex A] and the rural credit account [No. 9 in Annex A].

IV. LESSONS FOR THE DESIGN AND IMPLEMENTATION OF AGRICULTURAL CREDIT SYSTEMS

This section suggests some lessons for administrators at four different levels who are concerned with designing and implementing credit systems to complement agricultural development programs: (1) the planning level of international assistance agencies such as AID/Washington or REDSO/WA, (2) the host country representative of the international agency such as USAID/Ouagadougou, (3) the host country government agency responsible for the project, Upper Volta's CNCA -- National Agricultural Credit Bank, and (4) the implementing agency of the host country, the Eastern ORD of Upper Volta.

A. Lessons for Administrators at the Planning Levels of International Assistance Agencies

1. At the design stage of the credit project a realistic appraisal of the ability of farmers to save and of the capacity of the host country to use capital for credit must be made. Problems and solutions presented in Parts II and III of this report are a preliminary check list to make this appraisal.

If planners decide to create a rural credit system rather than seeking ways to promote farmers' savings, they must decide whether this system is to be self-sustaining or subsidized. A viable credit system is one in which revenue (interest collected) exceeds costs (interest paid, costs of administration, and the risk of losses). Thus, to be self-sustaining either revenue must be increased (by increasing the amount of interest collected) or costs must be reduced (by reducing costs of administration or by reducing the risk of losses). If it is not to be self-sustaining, then grants to cover losses will be required.

2. The design stage of a credit project must also address the question of long range growth in the capital of the credit system; the length of the project will vary depending on expected sources of growth

capital: repeated grants, internal earnings, savings deposits, or some combination of these.

3. Precise statements on how credit funds can be used must be made. It must be perfectly clear whether the credit funds are only for making loans or for making loans plus covering administrative costs. If these costs can be covered from the credit fund, then the type and amount of administrative expenses to be paid must be clearly stated.

4. Credit implementation projects require on-going applied research and evaluation. In the project, the sponsor's expectations of reports of the applied research should be clearly identified.

5. Credit programs cannot succeed without the complementary support of other services such as marketing, extension education, inputs, and economic data on the soundness of investment possibilities.

B. Lessons for Representatives of International Agencies in the Host Country

1. Agricultural credit technicians on AID project teams should live and work at the project site as an integral member of the credit system. Living in the capital city of the host country with occasional visits to the project site does not gain the confidence of the host country counterparts needed to get either the information needed for making recommendations or those recommendations accepted.

2. Francophone countries are not familiar with the U.S. system of record-keeping, accounting or cost-control. Thus, AID project accounting and reporting requirements must be clearly defined in the beginning of the project and then pursued through positive and constructive guidance throughout the project life.

3. Poor communication facilities impede the successful implementation of rural development projects in remote areas. Consequently, USAID Mission staff responsible for field projects must be very sensitive and responsive to local problems. One way to help assure the successful implementation of the project is to have the AID project manager live at the project site.

C. Lessons for Host Government Agencies Responsible
for Credit Programs

1. A computerized system permits rapid, accurate, complete, uniform and regular statistical reports from all branches of the national credit system.

2. A uniform system of accounting, in all branches of the national credit system, will help satisfy the reporting needs of international sponsors as well as the local government.

3. The credit system should not only allow savings deposits but should actively promote it.

4. All branches in the credit system should follow uniform policies on:

- interest rates;
- interest charges (or refunds) on late (or early) loan repayments;
- insurance on loans;
- loan renewal;
- foreclosures;
- membership in village groups;
- loan guarantee requirements;
- down payment requirements; and
- loan write-off (default) definition.

5. Using the same person as extension technician and credit loan disbursing and collecting agent has advantages and disadvantages. One person doing both these jobs can work only if (1) the agent is given satisfactory logistical and technical support, (2) the agent is effectively supervised to control embezzlement, and (3) the agent receives monetary incentives for work well done (such as a commission on loan repayments collected).

6. Informal sources of credit which charge excessively high interest rates should not be outlawed but rather the pressure of effective competition from the government agricultural credit system should force them to lower those interest rates.

7. The capacity of the agricultural credit system to absorb large amounts of capital will be increased by lengthening the list of economically productive loan purposes to either individual farmers or collectively to village groups.

D. Implications for Administrators of Credit Programs

1. Services needed to complement the credit program must be developed and coordinated closely. These include: technical assistance to farmer, marketing of products, provision of inputs to farmers animal health, traction animal training, animal nutrition and the timing of input orders, factory production of implements, and input delivery. The timing problem can be solved by establishing and following a detailed work calendar which identifies tasks and responsibilities for these tasks.

2. Extension/credit agents should handle cash for the following transactions between farmers and the ORD:

- traction animals purchases;
- loan repayments;
- membership cards;
- cash sales of inputs;
- interest and insurance on loan renewals;
- stock;
- purchase of farm product purchases; and the
- sale of carcasses of dead traction animals.

The ORD must be thorough in devising systems to discourage agents from embezzling these funds.

3. Regular programs should be conducted to inform borrowers of the following terms and conditions of their loans:

- loan and interest amount;
- repayment amount and date;
- insurance and loan renewal costs; and
- interest charges (or refunds) for late (or early) loan repayments.

This information can be effectively communicated by distributing computer-produced bills to borrowers, group meetings in villages, and radio broadcasts.

4. Extension/credit agents need the following support:

- technical manuals;
- transportation;
- office supplies and equipment; and
- incentives (for example, commissions on loan repayments collected).

5. A computerized system of managing a credit program will serve the ORD effectively if:

- input is accurate, complete and on-time; and
- output is understood and distributed to agents quickly and with thorough explanations on how they can be used.

6. Contrary to the popular belief that institutions should not expect high rates of loan repayment in drought-prone areas such as the Sahel, there is a great deal that lending institutions can do to achieve higher loan repayment rates. "Bad weather" and "recalcitrant farmers" have been easy excuses which hide the predominant reason for loan delinquency: namely, shortcomings of the lending institutions themselves. In part the lending institution can reduce delinquencies by improving its borrower services. But the responsibility of the lending institution does not stop there. Delinquencies can also be reduced through a range of other measures which are discussed more fully in Annex B.

7. Cash-flow projections (budgeting) should be used and followed closely to avoid overspending or the use of funds in ways not intended by the donor.

8. Farmers should be encouraged to make savings deposits in the credit system.

9. An accounting system should be followed that will show whether the credit system is self-supporting. If it is not, ways should be sought either to reduce costs or increase revenue.

10. The urge to push more capital out to farmers through the credit system should not compromise the principal of giving sound loans. To avoid giving unsound loans the extension/credit agent should do an economic (cash-flow) analysis with the potential borrower.

V. SUMMARY AND CONCLUSION

More funds were available for distribution to farmers through the agricultural credit program of the Eastern ORD than were actually distributed in the 1979-80 fiscal year. During the three years that I worked as the credit and cooperatives expatriate technician in close collaboration with the administrators of the credit program, we identified several problems (discussed in Part II of this report) that needed to be solved before it would have been possible to distribute soundly all the credit capital that was available.

Changes in the agricultural credit system were introduced as solutions to those problems. When the solutions (presented in Part III of this report) have had time to take effect and a solid credit infrastructure is in place, the agricultural credit system of the Eastern ORD of Upper Volta should be in a position to absorb productively and soundly many times the amount of credit capital thus far used for rural development.

ANNEX A

LIST OF REPORTS BY THE AGRICULTURAL CREDIT AND COOPERATIVES TECHNICIAN AND HIS COLLABORATORS IN THE EASTERN ORD OF UPPER VOLTA FROM JUNE 1, 1977 THROUGH JULY 31, 1980

1. "Preliminary Inquiry into the Agricultural Credit Situation in the Eastern ORD of Upper Volta" by Thomas Stickley, August 1977.
2. "Animal Traction Credit in Six Intensive Zones of the Eastern ORD of Upper Volta" by Vincent Barrett, Gregory Lassiter, Desire Mayabouti, and Thomas Stickley, February 1978.
3. "Inventaire de Credit Rural Traction Animale" by Amidou Dahany, Si-nare Moussa, Tuina Jonas, Yoni Lebene, Edouard Tapsoba and Thomas Stickley, November 1978.
4. "Fiche Technique sur le Credit Agricole" by Thomas Stickley and Amidou Dahany, March 1979.
5. "Rapport des Journees d'Etude du 2 Avril au 8 Mai 1979" by Thomas Stickley and Amidou Dahany, May 1979.
6. "Loan Repayment Delinquency in Eastern ORD (Organisme Regional de Developpement) of Upper Volta" by Thomas Stickley and Edouard Tapsoba. Paper presented at an Overseas Development Institute/Ohio State University co-sponsored Workshop on Rural Financial Markets and Institutions at Wye College in Wye, England, June 12-14, 1979.
7. "Cashier de Charges pour la Gestion Automatisee des Credits Agricoles (Systeme Generalise)" by Thomas Stickley, Hamidou Dahany, Ouedraogo Etienne and Tiemtore Oumarou, CENTRIN, Ouagadougou, February 1980.
8. "The Computer -- An Appropriate Technology for Managing a Viable Agricultural Credit System in a Low Income Country -- Upper Volta" by Thomas Stickley. Paper presented at the Annual Meetings of the American Agricultural Economics Association at the University of Illinois, Urbana/Champaign, Illinois, July 27-30, 1980.
9. "The Rural Credit Account of the Eastern ORD of Upper Volta" by Thomas Stickley, July 1980.
10. "The Cereal Bank Experience of the Eastern ORD of Upper Volta" by Thomas Stickley, July 1980.
11. "Six-Month Report, December 1979 - May 30, 1980.
12. An Analysis of the Agricultural Credit System of the Eastern ORD of Upper Volta -- Final Report -- June 1977 through July 1980.

ANNEX B

A SUMMARY OF THE MEASURES INTRODUCED IN THE EASTERN ORD TO REDUCE THE DELINQUENCY RATE¹

Measures for reducing loan repayment delinquency can be classified by causes of delinquency: borrowers, lenders and nature.

A. Reducing Delinquency Caused by Borrowers

Delinquency caused by borrowers was reduced by screening loan applicants who did not intend to repay the ORD. Commissions (as a percentage of loans collected) motivated field level credit agents to assure collections and screen loan applicants.

In the Eastern ORD of Upper Volta each field level credit agent and his supervisors are paid commissions on loan collections as follows:

Type of Commission	Extension/ Credit Agent	Sub- Sector Chief	Sector Chief	Chief of Credit and Cooperation Section in Each Sector
	(Percentage of Money Collected)			
a. Base Commission on all loans collected	1.6%	0.4%	0.10%	0.10%
b. Supplemental commission for collection of loan installments not yet due	0.8%	0.2%	0.05%	0.05%
c. Supplemental commission for overdue loans collected	0.8%	0.2%	0.05%	0.05%
d. Supplemental commission for collection of 100% of loan installments due	0.8%	0.2%	0.05%	0.05%

¹ Taken from "loan Repayment Delinquency in the Eastern ORD (Organisme Regional de Developpemt) of Upper Volta" by Thomas Stickley and Edouard

(Table continued)

Type of Commission	Extension/ Credit Agent	Sub- Sector Chief	Sector Chief	Chief of Credit and Cooperation Section in Each Sector
	(Percentage of Money Collected)			
e. Supplemental commission if at least 100 persons were served by the credit system in an extension unit	0.8%	0.2%	0.05%	0.05%

Borrower-caused delinquency was also reduced through loan guarantee requirements. In the Eastern ORD, loan guarantee requirements are not all strictly enforced, but more favorable consideration is given to loan applicants who can offer most of the following forms of loan guarantees:

- payment of a registration fee on each loan received. This fee is deposited in a "bad debtor" (loan guarantee) fund;
- insurance of traction animals;
- moral guarantee;
- close working relationship with the ORD extension agent (who is also the field level credit agent);
- unlimited liability of a village group for loan repayment for any group member;
- sale of harvested crop through the ORD;
- crop diversification;
- years of experience as a farmer; and
- a positive economic analysis of debt-carrying capacity.

Delinquency caused by borrowers was also reduced by pressuring those capable of, but unwilling to repay their loans. In part, this pressure came from the other members of the village group. Pressure also came from the field level credit agents of the ORD because they did not want to lose their commissions on bad loans. Pressure in a negative sense came from the enforcement of a strong, fair, and

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well-publicized loan foreclosure policy which stipulated that the animal traction package would be confiscated if farmers did not repay their loans under normal conditions.

B. Reducing Delinquency Casued by the Lender

Stronger support to field level credit agents, stronger village groups and analyses of the borrower's debt-carrying capacity were the principal means for reducing delinquency caused by the lender.

1. Positive support to field level credit agents.

In the Eastern ORD this positive support has taken the form of:

- A technical manual on the credit system distributed to each field level credit agent and his supervisors.
- Adequate blank forms and other office supplies necessary for administering the credit program provided to the field level credit agents.
- Motorbike transportation available to all field level credit agents.
- A system of commission payments based on loan repayments.
- Annual short courses for all field level credit agents to inform them of changes in the system and to concentrate on solving their problems.

2. Strengthening village groups (before distributing credit through them to their members).

Village groups or pre-cooperatives administer credit to individual borrowers in the Eastern ORD. Each group must meet the following criteria before distributing credit to members:

- established for at least two years;
- membership stability (groups do not need to be large number but there should be a minimum of 10 members);
- officers who are active, honest and have the confidence of the members;
- reputation for timely loan repayment;
- successful completion of at least one group project;
- democratic procedures in group decision-making;
- a growing treasury, even if small; and
- use of an acceptable accounting system for group funds.

Upholding these standards before lending money through village groups to

their members will strengthen the village groups and improve repayment rates of loans to their members.

3. Analysis of potential borrower's debt-carrying capacity.

Each field level credit agent works with each potential borrower to estimate their debt-carrying capacity. The net annual revenue (annual income minus annual expenses) is the source of annual loan repayments. When this is known the total debt ceiling for a medium-term animal traction loan is determined. Making an estimate of debt-carrying capacity the likelihood of repayment problems greatly reduces.

C. Reducing Delinquency Caused by Nature

The random incidence of natural hazards which affect loan repayments is difficult to change. There are, however, certain protective precautions that can be taken to reduce the rate of delinquency caused by nature. Precautions taken in the Eastern ORD for this purpose are as follows:

1. A policy of conservatively estimating debt-carrying capacity.

The economic analyses of debt-carrying capacity are very conservative to protect against the high incidence of low crop yields resulting from frequent drought conditions in the Sahel.

2. Insurance program against death of traction animals.

Borrowers of credit for the purchase of traction animals are required to insure their animals. The cost of this insurance for the full term of the credit is added to the loan amount when the loan is made.

3. Responsibility for loan repayment of borrowers who die.

Surviving family members are expected to repay the unpaid balance of deceased borrowers. In certain cases, the village groups of which these borrowers had been members may repay these loans. Normally, however, it is the deceased borrowers' families who bear this responsibility.

4. Loan renewal policy.

At the risk of defining away the delinquency problem, a loan renewal policy permits borrowers who have suffered from natural catastrophies to renew their loans. In this way loans that would become delinquent because

of natural causes are saved from the delinquency classification. Acceptable reasons for renewing loans are:

- crop failure resulting from drought;
- death or serious illness of the borrower; and
- deficiencies in ORD services vital to the successful use of the animal traction package (for example: traction animals that were not trained in time for use in the growing season and failure to deliver a vital piece of the animal traction package).

In order to discourage loan renewal applications, farmers are required to pay the full amount of interest on the loan for the time period the loan is extended at the time of renewal.

5. Bad debt fund.

If all the above mentioned precautions fail to prevent delinquency and the loans have to be written off, the loan fund is protected from erosion with the "bad debt" (loan guarantee) fund. The source of this fund is a registration fee collected on each new loan given.