Introduction

When asking organisations representing agricultural farmers and peasants about the obstacles they find regarding the financing of family farms, the problem of medium and long-term credit allowing investment usually comes first.

This has been confirmed in the framework of the workshop organised in Ouagadougou in January 2003 under the initiative of SOS Faim. During a week, farmers’ organisations, microfinance institutions and agricultural banks have discussed and exchanged their views about the obstacles and collaboration possibilities, their complementary relation and the synergies to be implemented.

The need to provide the financial institutions with long-term resources in order to enable investment in family farms has been put forward in the final declaration\(^1\) of the workshop that gathered representatives from the four Sahelian countries (Burkina Faso, Mali, Niger and Senegal).

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\(^1\) This document is available on the SOS Faim Luxembourg site: [www.sosfaim.org](http://www.sosfaim.org)
**The credit by and for the farmers**

Kafo Jiginew, one of the most important associate credit entities in Western Africa, has taken part in this workshop. Kafo Jiginew stands out as being a bank created and owned by farmers.

In the case of Kafo Jiginew, talking about a difficult dialogue between farmer organisations and microfinance institutions is hence in a way paradoxical. Perhaps for that reason, a product like the equipment credit has been implemented for more than 10 years. A recent study on impact carried out by the IRAM on behalf of SOS Faim has investigated this experience.

The main objective of this study is to come up with viable proposals for an improved medium-term credit within the network.

In accordance with time and available resources, the working method comprises three main phases:
- A documentary analysis;
- A more detailed analysis of 8 banks offering medium-term credit. These 8 banks account for one third of the medium-term credit. On this occasion, there have been talks among the network staff, the elected people and the members.
- An in-depth discussion with 36 members representing the diversity of those having access to medium-term credit.

The main conclusions of this study are shown below.

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**The network’s global progression**

Between the end of 2000 and the date of elaboration of the study on medium-term credit, the network progressed as follows:

For Kafo Jiginew, the equipment credit launched in 1992 represents an accumulated volume of grants of €2.23 million shared among 6,600 operations. The average amount of granted credits is therefore €338.2. This figure is about as high as the average annual Gross Domestic Product per Mali habitant.

In the case of the equipment credit, the credit committee makes decisions on the basis of rather strict criteria, as demand is largely higher than the available resources. The main criteria are: the existence of a real need covered by the credit; the member’s honesty and dynamism, his/her income; his/her background in terms of credit reimbursement.

Despite still limited resources, the general trend for the last 10 years points at medium-term credit growth. At the end of 2001 it represented 15% of the credit volume and previsions for the following 5 years ahead foresee an increase of up to 20 or 25% in short-term credits outstanding.

This important growth in Kafo Jiginew’s portfolio is possible thanks to the existence of long-term resources such as the

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2 Kafo Jiginew was the object of a general presentation in Zoom microfinance n°4.

3 IRAM: Institute for Research and Application of Development Methods. This work, assigned to Denis Pommier, has largely inspired this document.
network’s social capital. However, it is interesting to point out that medium-term credit outstanding represented 140% of the social capital at the end of 2001. This report shows the need to find other long-term resources in order to proceed with the investment.

An important evolution of the volume and number of equipment credits has therefore been possible since 1998 thanks to the open contest organised by SOS Faim with the Belgian cooperation (contribution of a finance line of 413 million CFA in 5 years). The two graphics below show the general upward trend of the number and amount of medium-term credits since 1996.

The reimbursement rate of the equipment credit

Despite favourable conditions (1.5% per month on capital still outstanding shared in 36 months), the equipment credit shows a relatively worse evolution than the seasonal credit. In 2000, the reimbursement level had even reached the 84% floor due to the cotton crisis.

In 2002, the situation was redressed due to the good season in 2001 (strong production and higher offered price): the percentage surpassed the 90% level. Reimbursement difficulties usually create excess of indebtedness of farmers. Farmers favour the access to the seasonal credit, which they reimburse in the first place. The highest loss rate in this type of credit has an implication in its profitability: its annual net return can only be estimated at 4%, which is slightly lower than the seasonal credit.

Recipients of the equipment credits

The study has reconstructed this information based on a sample of 824 outstanding credits in November 2002. We can see three main tendencies:

- 98.5% of loans are addressed to men in charge of farms;
- 86% of credits concerns farmers and cattle breeders;
- The average amount shows a big gap between farmers (€ 350) and other social and professional categories such as craftsmen and merchants (from €1,750 to €3,140).

As a consequence, if 95% of loans went to the rural banks of the network, these only represent 76% of the granted amounts, whereas urban credits represent 24% of the volume for only 5% of the operations.

The surveys conducted in rural areas have highlighted 4 main types of recipients:

- Farmers replace the oxen or equipment due to a watering of capital (death, theft, bad state of the tool, resell);

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4 About €30,000 EUR
5 Due to the low acquisition price of cotton offered by the Malian Company for Textile, many farmers went on a seeding "strike"
Well-equipped farmers increase their working capacity (from 1 to 2 or 3 yokes);
- Other farmers get equipment for the first time or complete a yoke. Normally they are the new people in charge of the farm coming from the splitting of traditional farms;
- Finally, some farmers invest outside the agricultural sphere, for example in housing or trade.

The essential part of the agricultural demand (94%) is focused on draught oxen, followed by demand related to working equipment at land such as ploughs and seeders (4%) and finally carts (1.6%). Only 2 in 700 farmers used their credit to apply an irrigation system in the field.

In the urban area, the most important categories are housing in the broad sense (land, construction, improvement and equipment of habitat) and certain collective equipment with a social or productive purpose (health care centre, warehouse).

Finally, trade and service related activities are developed under the boost given by merchants, craftsmen and wage earners who diversify their sources of income (restaurants, telephone booths, etc) or increase their intervention capacity in the market (for example trading rice or selling plastic tableware) by an increase of their working capital. This sector, in spite of being numerically less important, concentrates at least 9% of the portfolio.

In social and economical terms, the group of officials and wage earners is relatively homogeneous with intermediate incomes in comparison with the higher revenues of merchants and craftsmen and the lower incomes of farmers. The farmers category is without any doubt the least homogeneous: although some can afford an excess of indebtedness of 3 to 5 million CFA\(^6\) for the acquisition of a second-hand tractor, most of them do not exceed a demand of 200,000 CFA.

The typical profile of a client with an equipment credit is therefore a man between 30 and 50 years of age, food farmer and cotton producer working on his field and having a good claims history with Kafo Jiginew.

**Analysis of the impact**

**The economic impact**

At the economic level, there are two possible complementary approaches (meso economic and micro economic) to measure the impact on the activities, living standard, savings and the adoption of new agricultural techniques.

The weak coverage of equipment needs (less than 7,000 operations in 10 years) turns the meso economic impact much weaker (at the Southern Malian region level) than the one of the seasonal credit.

The effects of these operations are even more difficult to measure taking into account that there are other variables such as the rainfall amount and the global price of cotton that have determined in a drastic and very substantial way the income and saving capacity of rural people, either in an upward or downward trend in a 40% range in the last years.

However, in two cases, the impact in rural banks Beleco and Seyla has been locally substantial and positive, supporting in the first case the re-launching of production after a difficult year, and in the other case, a social reconstruction surrounding the bank after a confidence

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6 One € equals 655,957 CFA
According to the survey, two thirds of farmers claim that their incomes have increased thanks to the equipment acquired. The other third feels the reverse situation for different reasons: death or disease, deficient rainfall amount, too late access to credit, fall of cotton price, the 1999 floods...

About 70% of surveyed farmers were on their first loan, whereas half of surveyed merchants, wage earners or officials already had 3, 4 or even 5 equipment credits. This shows the will of urban banks to accompany the increase of their clients' activities through successive credits thus reducing their selection costs and the risks related to the new and not well-known clients.

Generally, medium-term credit is not much used to develop new techniques. It rather serves to strengthen existing dynamics whereas the number of technologies adapted to the surrounding seems to be mostly insufficient.

The social impact

Despite the difficulty in measuring this impact based on a limited survey, several elements show up at this level:

- In about one out of eight cases, the equipment credit enables the reduction of time and hardness of women’s work, particularly when it comes to fetching firewood or water. In rare cases the credit enables the increase of women’s economic independence (for example, small allotments) However, we can ask ourselves about the effects of the increased tilled surface and therefore the hardness of agricultural work in rural women’s lives;
- Farmers who have not had reimbursement problems experience a certain improvement of their living standard, particularly regarding their housing crisis. In these two situations, medium-term with its reimbursement deferment appears as a well-adapted mechanism to absorb crises.

The effects at the micro economic level can vary greatly from one farm to the other according to the use of loans, family evolution and the context where the activity takes place.

The survey, however, shows the following facts:

- 80% of members have created new production capacities thanks to medium-term credit (oxen, carts, welding machines, tools);
- All farmers have invested in order to produce in their fields

Particularly, demand for draught oxen is both linked to epidemics or thefts and to the splitting of many traditional farms, thus forcing farmers to have their own yoke so as not to depend so much on other people working in their fields. This demand is higher in as much as the raining season is short (like in 2002).

The effects and limits of the investments carried out by farmers lead to 2 conclusions.

On the one hand, with the acquisition of one or two oxen, the tilled surface increases; work is done in good time; the return normally increases too; there are fewer obligations with neighbours and parents. However, land pressure may increase and the results depend on different factors such as the rainfall amount, the adequate insemination of inputs and the level of cotton price.

On the other hand, the acquisition of a cart partially liberates women from carrying water and wood. However, one or two animals are required to use it.

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and the education of their children. However, the weak penetration of equipment credits limits the impact of this strategy in the region where rural exodus still exists;

- There is also a psychological impact. The medium-term credit is relatively rare despite its financial advantages. Therefore, selection is rather strict. The social prestige of selected members has increased. Contrary to this, the arrears are generally considered as failures in a context where social pressure is still strong. The risk of losing the seasonal credit is also an incentive for reimbursement.

Institutional Impact

The equipment credit also has effects on Kafo Jiginew at the local and federation level.

As one member put it, "access to medium-term credit is a serious thing!" This means that Kafo Jiginew is healthy, competent and has a firm vision for the future. For a bank offering this service it means new growth but also increased risks, particularly in urban banks.

The opening of an equipment credit only starts three or four years after the bank came into existence, once the bank is fully (or partially) financially independent. The available amount depends on the collected stable resources. Since the product is appealing (for its cost and duration), it objectively favours the collection of long-term resources, more difficult to find in a rural surrounding.

The implementation of successful equipment credits therefore has three effects on the banks that operate with them:

- Their economic and financial performance is improved;
- The number of members increases;
- The bank’s prestige is reinforced.

However, with the duration of loans, risks also increase in a context of insecurity and threats such as the dismantling or privatisation of the Malian Company for Textile (CMDT), the uncontrolled behaviour of cotton in the global market and the environmental degradation.

Lessons and challenges

The study leads to the conclusion that the 10-year experience of Kafo Jiginew in equipment credit is relevant for all financial institutions working in the rural world. The network’s capacity to adapt to a diversified demand is remarkable.

However, the economic and social environment where the network evolves is still precarious, and it deteriorated in 2002 particularly due to the 10% fall of the cotton price and the bad harvests in the driest areas. The war in the Ivory Coast, the complex situation of the Malian Company for Textile in a privatisation process and the hardship of the Union of Cotton and Food Crop Producers (SYCOV) in the agricultural input service have only aggravated the problem.

The network also has internal weaknesses: a high dependence on cotton, a difficulty in appreciating global risks of debtors linked to the lack of a risk handling centre and an insufficient number of staff in charge of internal control.

The socio-economic impact of the equipment credit is positive in most cases, at local level and also for families having had access to the credit. However, it is rather diffuse at the meso economic level due to its weak scope at the regional economy. The people involved are mainly farmers and cotton producers whose demand is primarily focused on the acquisition of draught oxen that are essential for the animal
drawn culture, which has been recommended by the Malian Company for Textile.

This demand has mainly been triggered by the watering of capital of farms that had lost or resold their draught animals in 2000 (following the cotton seeding strike linked to a conflict on the harvest price offered) in the Fana region. In that case, the equipment credit clearly corresponded to a need and allowed the re-launching of production, which ensured at the same time the viability of reimbursements.

However, it is important to question the economic relevance of financing ever more businesses, urban and housing services with the medium-term tool. In fact, these operations have different effects: the concentration of risks on some urban banks, and also a probably lesser economic impact than direct investments in the rural world. In this respect, it is certainly important that Kafo Jiginew analyses in depth the identification of credits joining technical and social innovations and generating added-value: we can particularly think about the financing of essential food cultures, of biological cotton, of organic shea butter tree or even local irrigation systems (in liaison with the problem of water management at the regional level).

Another aspect to work on is certainly the adaptation of financial products to women’s needs. Women would profit from a specific line of credit (Programme for Individual Credit to Women) for the acquisition of equipment, but this would only represent about 1,000 loans in 2002 for an amount of € 96,000, i.e., loans of about € 96 each. In certain cases, the credit lines specifically addressed to female members exclude them de facto from other medium-term financing lines. Nonetheless, female members have significantly progressed following several initiatives, such as the saving-education credit that has been offered to about 30,000 women.

This approach is a real strategy for Kafo Jiginew as it positions it not only as a "bank that makes deals" but, most of all, as an institution that positively contributes to the socio-economic transformation of its region of origin.

The issue of urban credits relevance at the level of medium-term operations also (and indirectly) represents the network's gravity centre. In fact, Kafo Jiginew tries to redouble its efforts on urban banks, and the planned transformation of the central bank into a banking institution runs the risk of reinforcing this tendency while drastically modifying the balance of power to the detriment of those beneficiaries of the network that come from villages.

A further difficulty is certainly the inefficient use of information within the network: existing data in local banks that would allow to determine the profile of the clients that receive the equipment credit are not analysed and synthesized to define an investment policy that guarantees a growing economic impact. The implementation of a follow-up system (evaluation with the participation of members and elected beneficiaries) is recommended so as to make good decisions based on a large consensus.

A few more general conclusions

Based on this relevant experience carried out in Kafo Jiginew, there are three interesting elements to highlight:

- The risk issue: does the longer duration of equipment credits involve a
Higher risk factor for the microfinance institution given the stronger threat of unfavourable contextual change?

- A mass medium-term credit policy is more difficult to implement due to scarce resources, higher average amounts and the more favourable rotation of these. Does a less visible impact at the meso economic level imply a brake to the diffusion of the tool?

- Precisely concerning the difficult mobilisation of long-term resources, what internal and external strategies should microfinance institutions implement in order to alleviate such deficits?

- Finally, what strategy should microfinance institutions implement so that a product like equipment credit goes hand in hand with a dynamic of socioeconomic change and technological innovations?

**SOS Faim and microfinance**

SOS Faim has been working for several years in the microfinance field and supports partners involved in this sector in Africa and Latin America. Among these partners we can find the following: Kajo Jiginew in Mali, DECSI and SFPI in Ethiopia, Edpyme Proempresa, Edpymes Confianza, MIDE and FonDesurco in Peru, Soninal in Chili, FADES in Bolivia and MC2 in Cameroon.

Just like any other development tool, microfinance must be questioned as far as its objectives, modalities and implementation conditions are concerned. It is with this idea in mind that SOS Faim publishes, among others, “Zoom Microfinance”. Eight other issues have already examined initiatives taken in Africa and Latin America.

This issues as well as the present one can be downloaded in French, English and Spanish on the website of SOS Faim Belgium: www.sosfaim.be.

If you want to contribute to the debate launched by SOS Faim on microfinance, please do not hesitate to send us your comments and questions by mail or e-mail.

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**Sources:**


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