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

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1. 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 crops are produced on small plots by families . who consume most of their production. As a result these subsistence crops suffer from a low yield. Industrial or export cash crops hold a significant economic place, but less than 20% of households involved in agriculture participate in their production..

The formal financial sector now consists of six 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 presented by the borrower may be animals, equipment, , a plot of land, or mortgage on the coming harvest. This "standing *crop sale*" may involve up to one third of the crop in highly populated areas. This informal rural financial sector totals Mgf 250 to 500 billions a year.

In 1993, farmers from the Central Highlands of Madagascar[1] (in the regions of Ambositra and Antsirabe came together to create the "Association FITATA" and, hoping to find a solution to their financial problems, the "Caisses d'Epargne et de Crédit Agricole Mutuels" (CECAM), or Savings Banks and Agricultural Credit Mutual 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 eight of the twenty-eight regions on the island and had approximately 47,000 members, subscribers from 157 local facilities as of December 2002. During 2001, CECAMs granted approximately Mgf 44 billion credits[2] as opposed to 36 billions in 2002, representing approximately a 22% increase in credit.

The CECAM network is characterised by three main features:

- Its foundation rests on a **cooperative basis made up 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 and will later increase proportionally based on the amount of credit granted. This share, which reached a total value of 6.7 billion in September 2002, is held by the registered members and represents sixteen percent of the network resources. This stock of 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, retroceded it a credit line of € 2 million (increased by € 0.9 M in 2001). Savings only plays a secondary part in this device: it represents, however, an increasing part of the resources (from 10 to 35

[1] Madagascar : 587 000 km², population : 16 millions, GDP/hab : 240 USD
1 USD = 6 300 FMG, 1 euro = 6 900 FMG

percent depending on the region) for a Mgf 14.3 billion liability, which is now higher than the share capital.

- 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 gradually permeated 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 facility is a paydesk**.** A national team, the INTERCECAM, has from the start provided technical, conceptual, and pedagogical support to CECAM, and then to URCECAM. **A "Fonds Interrégional de Garantie Mutuelle"** (FIGAM) or **Interregional Fund for Cooperative Guarantees** has been set up by the six regional units in a spirit of cooperative solidarity to cover the credit risks that a regional cooperative society cannot take up by itself.

- The five main types of credit that it offers, set in agreement with the farmers, meet the needs of the latter, especially concerning the terms of the credits, repayment periods and deadlines, in coherence with the length of production cycles in agriculture. The farming credit finances cropping or breeding costs are spread over a four to ten month period. The **cooperative hire-purchase system** inspired from the lease system helps procure small farm implements, consumer durables, 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,** provides common storage for their crops between harvest time and the lean period. The **social emergency credit** is a very short term credit (two to four months), which allows the farmer to avoid resorting to usurers or informal money lenders when he is faced with unexpected expenses such as social problems or a lack of cash flow. **Commercial credits** address agricultural cooperatives, which carry a supply of inputs and provide collection, storage, and marketing of their members' products. Approximately seventy organisations representing over 5,000 members **resort** to this type of credit at a rate of twenty-four percent a year, or a total value of Mgf 10 to 300 millions per unit.

From 1993 to 1999, the CECAM benefited from various sources of funding (German, French, Dutch, European, and IDA). The CECAM also received support from their **two main partners**, the FERT Association and the “Caisse Régionale de **Crédit Agricole** Mutuel du Nord-Est” (Reims, France), two agricultural organisations headed by leaders of the French agricultural union. Today these two organizations have joined under the name "Association ICAR" (International Association for Agricultural and Rural Credit), as a non-profit organisation.

In 1999, **a strategic development plan** (2000 – 2003) was drawn up according to which the network is expected achieve to technical and financial autonomy. The plan was initiated during the first half of 2000 by setting up the **Interegional Union** of CECAMs, or UNIECAMs, 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 (categorized as a Cooperative Financial Institution) for itself as the central body and for the six affiliated URCECAM's. For its part, and on the basis of the current INTERCECAM, a "mixed" financial institution with associated regional benefit mutual societies, UNICECAM and other financial partners might be created to supply technical and common financial services necessary for the entire network. As some delay has been observed in implementing the **co-financing** of this plan, secured in December 2000 **from the European Union** (7th FED for € 6.1 M) and from **AFD** (€ 3.1 M), it is now expected that it will be achieved **during 2001 to 2005.**

2. BACKGROUND TO THE AGRICULTURAL AND FINANCIAL CONTEXTE IN MADAGASCAR

2.1. The agricultural context

Agriculture is the main sector of the Madagascar economy and comprises approximately twenty-seven percent of the GDP (2000, current prices : INSTAT, 2001) and forty-three percent of exports. Most arable land is used to produce rice (forty percent of total agricultural production) and other food crops such as maize, cassava, and groundnut. These crops are grown by small-scale farmers who only sell a small proportion of their production. Most of their output is instead consumed at home or exchanged with local artisans and traders. Export cash crops such as vanilla, pepper, clove, and cocoa are concentrated in the coastal areas (mainly the east coast, cf map Appendix 1

Productivity remains very low and crop yields have practically not increased for thirty years (ROUBAUD, 1997). Seventy-three percent of the population lives in rural areas and the agricultural sector employs approximately 62% of the working population. However, 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 merchandising (Madagascar Central Bank, Dec. 2002).

However, the modernisation and development of an agriculture increasingly geared for urban markets or for export assumes increasing investments (land and hydraulic developments**,** agricultural equipment, buildings for breeding animals and warehouses) and inputs (improved seeds, fertilisers, phytosanitary and veterinary products) which will have to be, at least partly, financed on credit.

2.2. The Formal Financial Sector

In 1975 the financial sector became completely state-controlled in the form of three public banks[1]. However, the Malagasy financial sector has gradually liberalised since 1990. A new bank law was enacted in early 1996, followed by a law on the Cooperative Financial Institutions and a new insurance code in 1999. The state-run banks were privatised and four new private banks opened. Only one bank operates with a majority of national capital. Bank services are accessible in towns only: only some fifty locations (over 1,200 towns approximately) are provided with a paydesk.

The overall volume of the bank sector remains modest, with Mgf 4,961 billion deposits (USD 787 billion), economy credits for Mgf 2,434 billion (around USD 386 million, Central Bank, December 2002). The bank sector remains essentially geared towards enterprises and less than 10% of households have a bank account or a Savings bank account (a public institution linked with the postal service from which it is gradually dissociating).

For small-scale farmers, bank services are almost inaccessible, less for the level of the financial costs (23% to 27% in overall effective rate) than for deterrent transaction costs (transport, red tape, formal collateral, and deadlines). In such a context, less than 3% of farmers accede to formal financial services while over one third of rural households would contract 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 charges for 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 INFPRI in four different regions in 1992, 70% of the individuals interviewed had asked an informal lender for a loan in 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 mutual 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: if 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 deadline 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 (Zeller, 1993 and our own observations).

Similarly, collateral demanded by the lender varies significantly: inexistent or tacit agreements occur within the same family and will often consist of animals or equipment such as radio sets, sewing machines, or farm implements. Whenever possible in the case of loans between peers (neighbour farmers related by mutual assistance relationship) loans might or might not be more formal. The prospective materialisation of the collateral will consist of an "advance payment" sale at a price, which is often at the disadvantage of the seller, if the latter has not given up his goods in the meantime. In fact, the loan helps make the difference between the sale of the good pawned, and the required time to find an adequate price for it.

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 as collateral (know as a *“standing crop sale”*) or a plot of land. In the latter case, if he is not paid back, the lender will be entitled 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 loans may promote the development of sharecropping and land concentration.

By extension of the 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 250 to 500 billion per year in 1998 values. Generally speaking, informal loans are more a matter of financing the survival of the population than financing agricultural 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 owe them varied types of services: loan of utility animals for rice paddy trampling activities or ploughing, advance loan for 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 redistributions, which are at the same time opportunities to strengthen relations which foster this hierarchical social system where granting credits is only one form 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 proportion 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.),to exchange for the manufactured goods they need (cooking oil, soap, fabric, hardware, etc.). 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, the high intensity of exchanges (volume/week) during this season requires a greater quantity of money in circulation. This money is provided well by upstream rural markets from the loans that commercial banks grant wholesalers and especially agricultural product merchants ("large-scale collectors", rice-millers, etc). Indeed, merchants get the bulk of their bank support in the form of advances 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 lean years. This phenomenon not only affects rice but a wide range of other products too, and, strangely enough, mild-climate fruit such as apples and peaches in the Vakinankaratra area. For some products (corn, barley, soy, tobacco, legumes, 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 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 2001).

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) and another, a French (FERT), to begin started looking for solutions to their funding problems. They first created joint guarantee 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, utility animals). The main feature of this experience was the strong farmer involvement at the local level, in the selection of the members 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 helped to mobilise human and financial resources to assist farmers in developing their system and designing financial services adapted to their needs. Thus, new credit products were tried and eventually developed to finance the storage of the crops in Community Village Granaries (GCV) and the procurement of implements in Mutualist Hire-Purchase system (LVM), a scheme inspired from the leasing system and better adapted to the Malagasy rural context than medium-term credit.

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 fashion and have taken up the name of CECAM ("Caisses d'Epargne et de Credit Agricole Mutuels" or Savings and Agricultural Credit Mutual Societies). Their development continues to be supported by FERT, with the support of the BIT/ILO due to resources from the German Ministry of Cooperation (BMZ/RFA). In 1995, the European Commission became the main financial partner of the CECAMs and still is today.

At the end of 1996, after new banking and cooperative laws were enacted, CECAMs grouped into six Regional Unions to form themselves into Cooperative Financial Institutions. They received technical and financial support from European agricultural cooperative bankers of RABOBANK (NL, 1995), and then from "Crédit Agricole Mutuel" (FR, 1997-1999). The Malagasy Government has requested the extension of the CECAM network in to new regions and the expansion of its activities for stock breeding. The new actions are funded by World Bank and European (FED) credits, and French (AFD) and German subsidies (GTZ).

3.3. <u>CECAMs become the first provider of credit to farmers</u>

In 1999, the CECAM Network became the first financing institution of agricultural producers in Madagascar. They reinforced this position in 2002, with 157 local counters in eight regions (over the 26 across the country). In December 2002, it consisted of approximately 47,000 individual members (85 % of farmers) and more than 400 hundred farmer associations or agricultural cooperatives with over 5,000 member- households. In 2002, it granted credits worth approximately Mgf 44 billion (€ 6.5 million), with an overall repayment rate of 94% (despite difficulties in some regions). Its activities are funded first through its equity capital (Mgf 6.7 billions and through resources borrowed from the government (Mgf 18.8 Billion) and from commercial banks (Mgf 7 billion). Because savings were purposefully limited, it only represented one sixth of the resources (Mgf 14.8 billion) in September 2002, i.e. + 90% compared to September 2001. The interest rates on credit vary from 18 to 48% a year, with an average of 30% for the main credits (GCV and LVM). In 2002, the coverage rate of the charges by products (after provisions, off-subsidies) was approximately 92% and should increase by 100% in 2004 at discounted level (eight regional units and central bodies). At the end of the development program implementation, the general off-subsidy balance should be reached by 2005 or 2006 with around 200 counters, 80,000 members and a credits outstanding of Mgf 66 billion. These estimates include the total of the recurrent charges (including depreciations, provisions, training, technical support of the central body to regional units, external audit, etc.). All the regional units are headed by national executives under the control of farmers representatives elected in each village. The technical assistance gradually decreased by 1.3 workers/year for the whole of the network in 2002 and it is due to disappear completely in 2005, marking the completion of the empowerment and the global technical autonomy of 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 and to the agricultural mission of its Malagasy founders and their European partners. With the growth and the present diversification of a society system, the issue of maintaining this type of orientation is raised. As soon as the network began admit other trade categories, 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 balance between the financed activities and 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 orientation may be divisive, but the organisation of the internal relationships between trade groups and their influence both on the orientation and the management of the Network, and on its "governance" will be crucial as well..

On the basis of the practical comparisons of the CECAM Network and the usual "standards of good practices" known in the international world of microfinance, it is important to stress three unique features of the CECAM Network which contribute to its success and whose absence in other microfinance institutions may explain why some microfinance institutions so poorly meet farmers' and breeders' specific needs.: The three features are the characteristics of the credit offered, a mutual system based on capital and collateral (and not on the prior mobilisation of the savings in cash), and a strong involvement of the farmers in the orientation, 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 repaid with very close repayment periods (at least on a monthly basis, if possible weekly). 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 harvest. Many require still longer periods (cassava, sugar cane, coffee, fruits). Similarly, stock breeding, prevalent in Madagascar, requires a two to four year cycle.

The credit products of the CECAM Network have been designed interactively with the groups of farmer founders and have led to an offer which is very well adapted and articulated around the following five types of credit:

4.1.1. **Farming credit** finances the cropping 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 instalment according to 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 4,000,000, the rate from 30 to 42% a year (2.5 to 3.5 percent a month).

4.1.2. **Cooperative hire-purchase (LVM) of farming implements :** in view of the production cycles mentioned earlier, the funding of farming implements, which may not be paid off over one cycle, requires medium term credit. In the case of farming utility implements medium term bank credits prove inadequate due to the low unit value. Since 1992, CECAMs have tried and developed a lease or rather hire-purchase model. The model first included farming implements such as ploughs, carts, and harrowing equipment), and then was extended to utility oxen and to dairy cows and rural artisan implements such as paddy husking machines, wielding units, and vans and finally to domestic equipment such as bicycles, sewing machines, solar lighting systems, refrigerators, and television sets. When a member of the CECAM wishes to procure these types of things, he files an application for an approval of the "Comité Local d'Octroi de Credit" or the local body, which is entitled to grant a credit; then, he chooses the equipment himself and pays CECAM a minimum of 20% of its value as a first rent. URCECAM (Unité régionale des CECAMs or CECAM regional units) then buys the equipment and draws up a lease contract in favour of the member who then becomes a tenant for 10 to 36 months. When the member's income allows for it, the rent payments 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 rents integrate the paying off of the capital committed (at least 80% of the value of the good) and an annual interest rate of 30%.

After the payment of the last rent, a transfer deed allows the beneficiary to become the full owner. During this process, the first security is the good itself, which remains the property of the URCECAM until the last payment. Moreover, the security of a group of neighbours who share collateral liable jointly may be requested. They commit themselves ensuring that the good is adequately maintained and that it is not sold off or destroyed before complete payment. The local representatives from the CECEAM "Comité de Control (KMM) or Monitoring Committee contribute equally to the monitoring. This type of social local monitoring ensures that the interest of CECAM is part of the cooperative identity of the Financial Institution.

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' offer. Six months later, prices flare up with a proportion which ranges from 40 to over 130% in the past ten years. However, since 1999 the 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 a food insecurity situation, are then forced to buy rice as they have sold their paddy at harvest time in order to secure some cash necessary for expeditures 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 warrantage 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. This warranty stock is a type of mutual collateral which allows CECAM to grant an individual loan to each member of the group. The credit is not formally planned, even if the borrowers are encouraged to finance some short cycle breeding or some off season cropping. The amount lent per kilo of rice stored lies between 50 to 75% of the harvest value. The repayment, 5 to 8 months later, with a 2.5 or 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 helps to maintain the village rice stocks thereby contributing to the local market stability, to facilitating the food security of the rural population, and to ensuring the 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 repaid at 99.7% within thirty days after the deadline.

4.1.4. **The safety credit** is a model offered by CECAMs to fund contingent consumption needs (health expenditures, family events). It is designed as a very short term credit (2 to 4 months) with a ceiling amount (Mgf 100 000 to 200 000 according to regions). 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 during the day by a joint decision of only two people (1 elect representative and 1 wage earner). 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 buys them several weeks to find a solution that will help them pay back the loan. The CECAM Network is now working out an extension of this product to a cash flow credit (a type of open bank credit) the amount of which would be linked to the shares held by the member.

4.1.5. **Commercial credits to farmers organisations:** 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 get stocks in order to improve their positions. The CECAM Network grants these groups or cooperatives commercial loans to finance the stocks. About 70 organisations comprising more than 5,000 members have benefited from these credits since 1998. They are granted rates close to those that banks givr to major merchants (24% to 27% per year). They represent 14% of the overall liabilities for 0.3% of the cases handled. The amount by unit varies from Mgf 10 to 300 million.

4.1.6. Other services that are being tried and refined with the participation of the farmers elected representativesare **buying credit or credit for tillable land development** or **stock breeding and storage building construction, fruit tree plantation**, or **other sustainable crops** (these have a differed repayment schedule), as well as **insurance products.**

4.2. A cooperative design based on share capital and collateral

The CECAM Network has been designed first to provide credit services to farmers. From the outset, it depended primarily on external resources (credit lines), but later 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 members. For this, they must be admitted as member of the Local Committee, pay the modest subscription fee of Mgf 10,000 to 20,000 (€ 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 erection 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 "**fixed partnership shares**", of an identical amount for all, varying from Mgf 25,000 to 150,000 according to regions, dischargeable over 3 to 5 years.

Next, each application for a credit is accompanied with the deposit of the individual contribution, proportional to the amount of the credit requested. These are the "**variable partnership share**s" which make supplementary inputs (proportional to the amount of the credit requested, at a graded rate of 5% to 2% of the value borrowed).

These contributions, mandatory and unpaid, are of course financed by the prior cash savings of the members. The possible available savings surplus may equally be mobilised by the Network in the form of deposits, free or voluntary, paid at 5 or 12% a year according to the amount and term.

These partnership shares are registered but they may be repaid or transferred only in case of the member's resignation or death. The share capital formed by the members is therefore extremely stable. As of September 30, 2002, it represented 16% of the resources and helped the CECAM Network respect prudential ratios without any problem.

The overall volume of the resources (subscribed capital plus savings) mobilised by members rapidly increased between December 2000 and September 2002, from Mgf 10.4 to 21.5 billion.

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

- Low monetarization of exchanges: circulating monetary mass in rural areas and the farmers' confidence in cash are relatively low. This situation is made worse by the inflationist period (1994-96) with inflation rates superior to a 12-month 60% slide;
- the propensity to save in forms other than cash is relatively high in Malagasy rural areas, especially in 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 payment rate of which (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% to 7%, rates much lower compared with Treasury Bonds which have a low six month return rate of 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 (which then becomes a right acquired and raises repayment problems) and, at worst, an organised expoliation at their expense on the 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 yearly harvest.

Despite this context, the CECAM Network strives, with growing success, to mobilise a 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 collection 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 12 billion.

This original system of making up stable capital for the cooperative society has helped the CECAM Network to present a financial structure sound enough for the Public Treasury in 1996 to agree to retrocede it a long term (30 years) unisoft credit line which was until then devolved in upon the state-run bank for rural development (BTM). While the latter, from 1991 to 1995, had only used € 70,000 over the €2.5 millions available, the CECAM Network managed to commit some exchange value of € 2.3 millions 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 in turn improve the cooperative society's creditworthiness.

With a share capital around Mgf 6.7 billion in December 2002, long-term capital reached Mgf 28 billion (versus Mgf 7 billion in 2000). CECAM Network was therefore able to extend its activity by resorting to loans on the bank market for steadily increasing amounts from 1993 to 2002 (Mgf 7 billion or € 1.1 million). These short term (6 months) loans help 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 warrantage on the stocks collected by members. As previously explained, the actual collateral brought in to CECAM by borrowers and their collateral add up to the share capital to form a mutual basis to this institution.

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, only nine years after the distribution of the first credits (1987) and four years after the opening of the first local counters in the current CECAM form (end of 1992). This period has helped to slowly build an original and endogenous culture of enterprise. In this process, the grass root 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 Nationale du Credit Agricole Mutuel du Nord-Est (Reims, France). The two partner organisations have a common feature; they are run and headed by leaders of the French agricultural union. This alliance took up the 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 Mutualist Financial Institutions (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 counters** are mere paydesks for counter operations and cooperative sections, which appoint their delegates to the General Assembly.

If this local level does not legally work on the authority of the Board of Directors of the regional mutual society, it, however, remains the entity where the institution's mutual spirit materialises through the selection of the members and, especially, in the study of the credit documents and the grant decision. No loan may be granted without the agreement of the **Local Committee**. This structure is based on the conviction that the people who are in the best position to appreciate the credit risk for a farmer are the other farmers from the same village: they know their neighbour, his lands, his crops, his livestock and his daily life, both the professional and family aspects. This inter-knowledge is one of the foundations of a cooperative-based credit system.
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 **Interegional 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, a supervisory body to Bank and financial institutions, (CSBF/Central Bank, with suspension conditions raised on June 27, 2001 through the registration on the list of Credit Institutions under n° 002/Ifin/2001, JORM of August 6, 2001).

The services required from CECAM, then from the regional mutual societies (training, accounting, monitoring) have been brought in from the outset by a team of Malagasy executives set up within the Association FERT and called **INTERCECAM**. The INTERCECAM team facilitated interregional working sessions, grouping elect and wage earners from different regional mutual societies.

To ensure cohesion within the Network, an **Interregional Funds for Mutual Guarantee** (FIGAM) has been set up associating six regional mutual societies (URCECAM) and their FERT partner. The funds partly cover the credit risks which cannot be borne by a single regional mutual society, in view of its equity capital available. FIGAM thus consists of a 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 year 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 (Appendix 2) provides the Interregional Union of CECAMs will set up as a cooperative association, and will have the task of representing its members (the regional mutual 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 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 mutual 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 mutualist Group "Credit Agricole"). Such a model may help to achieve several objectives at the same time:

- the technical strengthening of the organisation and "bank" operation of the network in associating "stabilising" technical skills to the management of the cooperative bodies;

- the financial strengthening of the CECAM Network by reinforcing the equity capital of its central structure and by helping it accede more easily to the State and donors support (leverage effect);

- the gradual progress in the empowerment of Malagasy farmer leaders, by developing their skills, authority, and financial competence. Foreign partners may in this way gradually withdraw. Such gradual divestiture may begin in the fifth year depending on the financial strength acquired, possibly using different time schedules according to partners.
