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The challenge for partnerships between agricultural and financial cooperatives: lessons learned from four projects in West Africa

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Although the growing professionalism in the agriculture and banking cooperative sectors are closely linked in West Africa, their partnerships have encountered numerous difficulties. On the one hand financial institutions are discouraged by what they see as the high level of risk involved in financing farmer organizations that can offer little collateral. On the other hand agricultural cooperatives know little about the behaviour and background of their members, particularity their ability to repay loans. Analysis of the strategies pursued by four agricultural cooperatives, supported by the FARM Foundation illustrates that there are ways to improve farmers' access to credit. However they will only truly bear fruit if public policy establishes a general framework for risk management, creating a favourable economic and legal environment.

To grasp the challenges facing forms of cooperatives organizations in West Africa we must first understand the ability of farmers' organizations to access the finance they need to provide and sustain economic services to their members: supplying inputs, marketing, support and advisory services. The ability of farmers to meet the fast growing food demand and increase their income depends to a great extent on these services.

This paper sets out the main strategies of several West African agricultural cooperatives for sourcing credit from financial cooperatives. We consider the recent trends in these strategies through the examples of partnerships between agricultural cooperatives of the cereal sector and financial cooperatives that are members of the Confederation of Financial Institutions (CFI) of West Africa. Since 2008, FARM has worked with several farmers' organizations that are structured as cooperatives in West Africa, in particular to facilitate their access to credit from local financial institutions. The paper considers four of these partnerships, concluded between the following agricultural and financial cooperatives (see Tables 1 and 2):

- In Mali, the cooperative of the motorized farms in Koutiala ("Coopératives des exploitations motorisées de Koutiala" -CEMK) and Kafo Jiginew;
- In Burkina Faso, the union of groups for marketing agricultural products in Boucle du Mouhoun ("Union des groupements pour la commercialisation des produits agricoles de la Boucle du Mouhoun" - UGCPA/BM) and the network of credit unions in Burkina Faso ("Réseau des caisses populaires du Burkina Faso" - RCPB);
- In Togo, the regional union of cereal farmers in the savannah region ("Union régionale des organisations de producteurs de cereals de la region des Savanes" -UROPC-S) and the central organization of savings and credit cooperative of Togo ("Faîtière des unités cooperatives d'épargne et de credit" - FUCEC);
- In Benin, the union of farmers in Zogbodomè (("Union communal des producteurs de Zogbodomè" - UCPZ) and the federation of saving banks and mutual agricultural credit in Benin ("Fédération des caisses d'épargne et de credit agricoles mutulel du Bénin" - FECECAM).

This analysis highlights the diversity of the strategies used by each of the cooperatives and shows where current dynamics converge and where they diverge. It also shows the limits to these strategies and suggests some measures that could be undertaken by the private sector and the government to facilitate access to agricultural finance.

For historical reasons some countries do not use anymore the term "cooperative" to describe collective organizations and use other terms such as "groupings", "unions", "associations" or "mutuals". However, most of these organizations are based on rules that are inspired by the established principles of the cooperative movement. In this paper we use the general term "farmers' organizations" (FO) to refer to agricultural organizations that are or are similar to cooperatives.

■ Historically the transfer of responsabilities from the state to the private sector has not been as successful as expected.

The structural adjustment plans from the IMF and World Bank in the 1990s led to a growing withdrawal by African states from several activities, in particular support to farmers' organizations. In response existing farmer's groups and new collective organizations, often encouraged by actors of the development cooperation, tried to provide economic services to their members (access to credit, supply of inputs, joint marketing, processing of agricultural products, mechanization etc.) with patchy results. At the same time the national banks for agricultural development that had been set up in the 1970s had suffered setbacks, due in part to the low rate of repayment on loans and at times weak governance. In West Africa most ceased operations. Those that survived, have diversified their credit portfolio by opening to urban markets, which were seen are more predictable and lower risk; this move harmed funding for farms.

Subsistence farming left out

The financial institutions favoured the development of export agriculture to the detriment of staple crops, which value chains were seen as poorly organized, except for rice production in irrigated areas. The drop in the price of cotton and the increase in unpaid invoices by farming groups caused a crisis of confidence between farmers' organizations and lenders. The financial institutions in rural areas tried to support other types of crops but they are moving ever more to financing activities based in urban areas (retail, craft production...) that they see as more predictable and safer.

To meet these new challenges, farmers organizations had to regroup so they could take on new responsibilities, for which they were ill-prepared. Moreover cooperatives that tried to coordinate the management of agricultural production with the supply of inputs, the transport, processing and marketing of agricultural products suffered several setbacks.

■ A difficult match between demand and supply of credit.

Financing agricultural seasons requires volumes of loans that are all the more substantial that productions are intensive. The needs for short-term credit vary; it may be loans to cover certain cycle of production or credit for storage of crops before they are brought to market. Medium-term loans are required to modernize equipment or plant perennial crops. Farmers also need long term credit when buying or working on land or building storage facilities.

Farmers can provide little colateral although they face several risks.

Extreme weather events, such as drought and flooding are very frequent in West Africa. Farmers are defenceless when faced with such disasters, which increase their food insecurity and deprive them of their asset to produce in the following crop year. If they suffer the vagaries of the weather for several years in a row, the very permanence of the farmers' organization is jeopardized.

What is more farmers face plenty of other risks: pests and parasites, major fluctuations in farm prices and costs of inputs...plus possible health problems the farmer might suffer. Not only are these difficulties poorly understood and measured by financial institutions, but and at the same time farmers can offer few guarantees in exchange for the credits they seek. Some farmers can use small farm machinery as a deposit, but that means they risk reducing their productivity if unable to repay their loans. One solution might be a joint liability, but that may be a problem in the long term, particularly if the group of people involved includes some who do not know each other. Furthermore, farmers have little opportunity to put money into savings. Some institutions ask farmers to provide up to 10 to 20 per cent of the amount they ask for. This excludes the majority of them and restricts the total amount of the loan. Agricultural cooperatives rarely have their own equity and do not have enough deeds of ownership (machinery, warehouses...) that they might use as collateral.

Financial cooperatives have few means for evaluating the financial risk of farmers.

Financial cooperatives operating in rural areas do little to develop strategies for getting close to each small-scale farmer because of the costs incurred and because of the slim margins available to the lender. This is why they sometimes establish partnerships with farmers' organizations, so they can offload some of the costs and reach more farmers. The farmers' organization then acts as intermediary between the cooperative and the farmer. It is asked to provide both a moral guarantee and vouch for members' loans. Not all organizations are able to do this..

Hence, the loans commit both the farmers and the farmers' organization. From the financial institution's point of view these portfolios of loans come with an extra risk because it does not know each of the borrowers well. Therefore the interest rates for collective agricultural credits are generally very high in West Africa, sometimes over 20 per cent per annum. Similarly, individual loans are difficult for farmers to access and they are not affordable.

■ Examples of strategies implemented by farmers' organizations to improve their access to credit.

The four farmers' organizations supported by FARM have different background and methods of operation. Each of them plays to the strengths and specificities of its environmental, socio-economic and political context. The farmers' organizations rely on leaders who are keen to promote agriculture, but who are sometimes overwhelmed by the scope of financial challenges and often lack of managerial and planning skills required. Leaders who are able to foresee risks and find solutions to mitigate them give their cooperative financial and economic sustainability.

Increasing the confidence of financial institutions with a clearer predictability of farmers' organizations' activities.

Some agricultural cooperatives attach great importance to establishing internal management rules that promote transparency and clarity for financial cooperatives.

In Burkina Faso UGCPA/BM adopted statues and rules of procedure, build with the participation of members, which the members know and which are updated and applied. In Mali CEMK has its financial statements audited annually, and it presents them every year at its General Assembly. This generally brings together 300 members; regional representatives from the financial cooperative, RCPB, are invited. They can see for themselves that the rules of procedure are respected, particularity those concerning election of elected officials. UGCPA/BM signs partnership agreements with the financial institutions, which is periodically updated.

In Benin UCPZ asks its members to have the local town hall certify all the contracts they have with the Union. This farmers' organization has also put in place a system for appointing members to its executive board. To be elected to the organization's governing bodies, every officer has to be recommended by his farmers' association and show that he achieves good farming yields. He mustn't be in debt with the financial institutions and have paid his dues to the farmers' organization.

Uncontrolled growth in the number of memberships can be risky for farmers' organization. It takes several crop seasons to get to know the new farmers. The organization's sustainability depends to a great extent on active communication between members and the governing bodies. Decisions should be based on collective rules and the recognized cooperative principles, and be subject to democratic oversight. The elected officials of UPCZ therefore undergo training so they are able to learn how to integrate new members into the cooperative and make them aware of the rules of operating of the organization.

Better management of economic services boosts profitability

The more an agricultural cooperative is able to show its ability to manage economic services provided to its members the more a financial cooperative will be inclined to support its investment and growth projects. Lenders attach a great deal of importance to the credibility of the projects of the leaders of the farmers' organizations, to their ability to recruit members and their ability to carry out the planned investments.

UCPZ and UGCPA/BM use multi-annual strategic development plans that demonstrate their leaders' far-sightedness and their ability to plan and predict the future of their organization. The involvement of members in drawing up a strategic plan indicates the level of activity of the farmers and their commitment to the cooperative.

Agricultural cooperatives try to predict market trends more accurately and to boost the profitability of the economic services they provide to members. Farmers undertake to provide the farmers' organization with certain quantities of cereals depending on their own requirements and their ability to market a proportion of their production themselves. So when the cooperative announces the price at which they will buy agricultural products, they must take into account both the farm production costs and the effect the price announcement will have on the deliveries they get from their own members. If the price offered is too high, the cooperative will have difficulties making money when it sells the products. If it is too low, members will deliver smaller amounts and the cooperative will find it very difficult to cover its costs because they will have to be paid out of a lower amount of products brought to market. For these reasons UGCPA/BM has adopted its own purchase price setting policy for agricultural products that its members supply, factoring in sales price forecasts, thanks to strategic observation.

Moreover UGCPA/BM and UCPZ are using contract farming arrangements to reduce the impact of market uncertainty. Institutional contracts offer an outlet. For example, in 2010, UGCPA/BM sold 85 per cent of its cereals under contracts signed with the World Food Programme (WFP) and the Burkina Faso National Society for the Management of Food Security Stocks (SONAGESS). This system of contracts with companies is slow getting off the ground, although UCPZ has signed agreements with local companies that process rice and soya.

The very variable quality of the products delivered by members impacts on buyers' trust and weakens the farmers' organizations' commercial networks. That is why UGCPA/BM has acquired a screening unit to standardize the quality of the cereals sold.

Reduce asymmetry of information to bring down interest rates

Partnership agreements between agricultural and financial cooperatives stipulate the FO's level of liability for loans granted to farmers. Financial cooperatives make either collective or individual loans. Individual loans are endorsed with a joint liability from the group to cover any repayment defaults; they are ultimately covered by the guarantee fund established by development agencies (including FARM) that are owned by members of the farmers' organization. Financial cooperatives try to predict the risks that their client agricultural cooperatives will face, to ensure their own long-term survival. The farmers' organizations remain intermediaries, yet play a vital role at two levels: on the one hand they provide a financial guarantee; on the other hand they help reduce the asymmetry of information between the financial institution that knows little about the farmers, and the borrowers who are aware of the level of risk of the project for which they are seeking a loan.

To reduce this information gap and obtain more favourable financial terms, UCPZ has set up a pre-selection committee of its members that comprises a local agent from the financial institute FECECAM, an agent from the agricultural services department from the ministry of agriculture and a representative of the farmers' organization. Each may issue an opinion about the trustworthiness of the applicant, and this reduces the time taken to process the paperwork and creates trust between the farmers' organization and the financial institution.

Like UGCPA/BM, UCPZ has developed a system for classifying its members to encourage them to abide by their commitments and avoid over-indebtedness. This system reduces the "moral hazard" borne by the financial institution; the fact that the loans made to farmers are backed by a guarantee fund can encourage them to take greater risks, or not repay their debts; but members know that if they do not respect the commitments entered into they will not be able to access the cooperative's economic services the following year.

The development of a support and advisory service for farms is a way to manage risk, because it is a method for improving farming techniques and making farms less vulnerable to economic and climate risks. UGCPA/BM has adopted an agri-environmental policy, and helps its members take precautionary measure, for example to maintain soil quality. Thanks to the support and advisory service UCPZ is learning more about its members farming methods.

Working with FECECAM, UCPZ organizes workshops at the beginning of the farming year to make farmers aware about managing credit and to help recover unpaid debts.

In its turn UGCPA/BM trains technicians and elected officials in accounting and financial management.

Finally, to monitor farmers and their creditworthiness, UGCPA/BM and UCPZ have created computer databases that include data such as main features and performance of their members' farms on technical (yields) and socio-economic aspects (gross margins by crop). This means that cooperatives are able to discover quickly and in detail the farmers' loan repayment history and their products delivery record.

■Stumbling blocks in partnerships between agricultural and financial cooperatives

Generally speaking, financial institutions are unwilling to take risks in the agricultural sector which they do not know well and with which they have in the past had some bad experience. They sell financial products with short-term expiry and rarely try long-term products. Some even provide loans that are below the level of the financial guarantee provided by the farmers' organization, as was the case with CEMK in Mali. Many requests for credit are not met.

Financial cooperatives offer credits with very high interest rates, which reduce farming incomes. Paradoxically, this also increases the financial institution's risk, because by demanding a high return on the loans they grant, they tend to choose projects with a high potential yield, in other words, relatively high risk investments. By discouraging safer projects, the financial institution is in fact increasing the risk of anti-selection (aka adverse selection), which is well known in banking circles.

Finally, because of a lack of cooperation by financial cooperatives, some farmers' organizations tend to take in-house services that would normally be provided by lenders, such as establishing credit histories and financial analysis of projects. They are therefore running the risk of supplanting financial institutions, but without the requisite skills or legal competence.

Rural financial institutions are slow in re-evaluating the level of risk sharing with farmers' organizations that have become more professional.

In West Africa the most advanced agricultural cooperatives are, as we have seen, more professional. Some financial institutions take into account this dynamism and offer the FOs better funding facilities: more flexible repayment terms (with the possibility of early repayment, which brings down the interest costs), more effective leverage with guarantee funds (so more members can receive finance) and reduction of interest rates.

However many financial cooperatives have so far not factored the efforts undertaken by agricultural cooperatives into their partnership agreements. They continue to outsource vital activities to the farmers' organizations, such as pre-selection of borrowers, without making any changes in the share of risks. Some delegate recovery of unpaid debt to the agricultural cooperatives, which are unwilling to use their own funds to pay the amounts owed by their members. What is more, financial institutions often charge very high interest rates (up to 24 per cent per year at the FECECAM in Benin) but ignore the risk management tools put in place by the farmers' organizations. However the cooperatives that FARM supports have hundreds, even thousands of members. They have considerable volumes of savings, so they should be able to access credit on easier terms.

This shows that the farmers' organizations that professionalize their operation and reduce the risk for lenders do not see their efforts being rewarded, while the latter demand more credit. Financial institutions are slow in acquiring advisory services for clients who wish to develop their activity. They too have major training requirements and need to build capacity.

■ Government must play a greater role in consolidating partnerships

Case studies reported here show that, despite the limitations of their environment, some agricultural cooperatives in West Africa manage to obtain better finance thanks to their innovative strategies. We must however bear in mind that these organizations are among the most effective; they are not necessarily representative of the bulk of farmers' organizations in their countries. Moreover, there is no certainty about the long-term sustainability of the initiatives that they have pursued for several years. A global framework for risk management, at all levels, must be established to promote finance for agricultural cooperatives.

Developing a favourable legal and legislative environment

Farmers' organizations are helpless if financial cooperatives do not respect the partnership agreements. They generally lack the resources to embark on uncertain and costly legal action. In fact an even more serious difficulty is that the partnership conditions are sometimes very imbalanced but the agricultural cooperatives are not able to call on legal advice. Mutual trust within a contractual arrangement is a vital component in building a professional and lasting relationship between agricultural and financial cooperatives. States have an important role to play in establishing a legal framework to ensure balance and compliance with contracts, and this covers the relationship between farmers' organizations and financial cooperatives, public agencies or companies.

The members of the Economic Community of West African States (ECOWAS) and the West African Economic and Monetary Union (WAEMU) have regulatory frameworks. There is also national legislation covering the activities of farmers' organizations. Moreover, the ministers of finance of the member states of the Organization for the Harmonization of Business Law in Africa (OHADA) signed the Uniform Act on the rights of cooperative societies, which officially came into force on 15 May 2011. This Act aims first at modernizing the legislative environment of agricultural and financial cooperatives in the signatory states. It contains interesting provisions, that could increase the economic clout of agricultural organizations, but also creates potential for confusion with existing laws; cooperatives do not know which provisions they should obey. The signatory states need to clarify the situation quickly.

What is more, the states of West Africa are currently harmonizing rules covering sub-regional trade in agricultural products. These reforms should impact the agricultural cooperatives' marketing potential, and consequently on the profitability of their activities.

Strengthening vocational training

Agricultural cooperatives are managing economic services of constantly growing complexity, and they have to be acquainted with several work tools (IT, accounting...) in many areas (agronomy, finance, trade, law...). Elected officials often have wildly differing professional profiles and that can act as a brake on the democratic operation of the FO and on the development of effective services. The low level of schooling of farmers sometimes explains their difficulty in understanding written documents and the actions taken by the FO, although it may not necessarily affect their involvement with their organization.

Although private bodies are responsible for human resource management, they cannot make good the shortcomings of public policies in training and education. There are huge needs: get children into school, establish centres dedicated to agricultural vocational training and contribute to professionalism in the sector, support the advisory services provided by farmers' organizations.

Implement policies for agricultural development that emphasize risk management, in particular agricultural insurance.

The area covered by UCPZ in Benin suffered the worst floods in fifty years in 2010 and a serious drought reduced yields by about 40 per cent in 2011. Without FARM's support in replenishing a new guarantee fund, the fertilizer supply service, which had been seriously affected by the disasters, would have broken down entirely. However such support is clearly not sustainable in the long term. It is therefore interesting to observe that the Benin government funded the creation of Benin Mutual Agricultural Insurance (AMAB) which has started to develop insurance products, including a harvest policy. This insurance covers farmers for any damage their crops suffer from certain types of climatic hazards.

For several years we have observed in sub-Saharan Africa an abundance of pilot schemes for harvest insurance services, generally taking the form of index insurance. The private sector is behind many of the projects. A central issue is the role that public policy can play in facilitating the launch of harvest insurance and its spread to a large number of farmers, particular small-scale farmers. General take up of this insurance would, without a doubt, remove a serious brake on agricultural finance, because it would provide guarantees of borrowers' solvency. Another crucial matter centres on how the farmers' organizations are involved in design, management and spreading of agricultural insurance, for example by grouping farmers who are keen to take out such cover.

Farmers and their cooperatives are also vulnerable to the great fluctuations in the price of agricultural products, which reduce their ability to take out loans. Contract farming arrangements may limit price fluctuations suffered by farmers but here again the public authorities have an important role to play, particularly by establishing stocks of agricultural products and facilitating intra-African trade. Everything that would help create a more stable environment for farms would make potential financing easier.

Conclusion

Analysis of the strategies pursued by agricultural cooperatives, supported by the FARM Foundation illustrates that there are ways to improve farmers' access to credit in West Africa. But for farms to benefit in the long term from financial conditions that would help them increase production and boost productivity, a global framework for risk management should be set up but at national and sub-regional level. This calls for genuine professionalization of the cooperative sector and the implementation of public policies that will create a favourable legal and economic environment. As partners of farmers' organizations, and taking into account the scant interest shown by commercial banks for family farms, the financial cooperatives have an essential role to play. In the short term they are key to the development of West African agriculture.

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Table 1: Agricultural cooperatives supported by FARM (data from 2010)

	UGCPA/BM	UCPZ	UROPC	CEMK
Countries	Burkina Faso	Benin	Togo	Mali
Date of foundation	1993	1998	2007	2003
Number of members	850 cereal farmers 800 women farmers who produce organic bissap.	11,500 members of which 760 maize farmers and 130 rice farmers.	268 maize farmers (men and women).	119 maize farm-ers
Type of credit	Inputs credit Marketing credit	Crop year credit	Marketing credit Inputs credit	Inputs credit
Total credits (in Euro)	129 783	46 364	20 290	19 056
Repayment rate	96 %	87 %	72 %	96 %
Partner financial cooperative	Le Réseau des Caisses Populaires (RCPB) du Burkina Faso	La Fédération des caisses d'épargne et de crédit agricole mutuel du Bénin (FECECAM)	La Faîtière des unités coopératives d'épargne et de crédit du Togo (FUCEC)	Kafo Jiginew
Credit interest rates (annual)	9 %	24 %	18 %	12 %
Level of guarantee fund provided by FARM (in Euro)	51 913	16 769	18 820	20 000
Guarantee fund remuneration	3 %	Non remunerated	Non remunerated	5 %

Table 2: Financial cooperatives that are members of the Confederation of Financial Institutions (CFI) of West Africa (source: annual activity report, 2011, CFI)

	RCPB	FECECAM	FUCEC	Kafo Jiginew
Countries	Burkina Faso	Benin	Togo	Mali
Date of foundation	1972	1977	1969	1987
Number of members	852 149	682 487	438 397	306 321
Deposits savings (billions CFA francs)	84,7	42	60,9	19,4
Outstanding loans (billions CFA francs)	63,2	26,6	48,7	21,1

Notes takes stock of topical subjects or research themes, to feed reflection and prompt debates.
The analysis and conclusions of the author do not necessarly reflect FARM's institutional position.

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