MATCOM

RURAL SAVINGS AND CREDIT SCHEMES

material for management training in agricultural co-operatives

TRAINER'S MANUAL

international labour office, geneva

by Anne Howe

MATCOM
Material and techniques for cooperatives management training

The MATCOM Project was launched in 1978 by the International Labour Office, with the financial support of Sweden. In its third phase (1984-1986) MATCOM is financed by Denmark, Finland and Norway.

In collaboration with cooperative organizations and training institutes in all regions of the world, MATCOM designs and produces material for the training of managers of cooperatives and assists in the preparation of adapted versions for use in various countries. MATCOM also provides support for improving the methodology of cooperative training and for the training of trainers.

Preface

This training package is one of a number of training packages designed by the ILO - MATCOM Project to assist people who plan or carry out training for the managerial staff of agricultural co-operatives in developing countries.

The training provided under this training package, as well as under the other packages in this series, is based on a thorough analysis of:

(i) the tasks and functions to be performed in agricultural co-operative societies in developing countries;

(ii) the common problems and constraints facing the effective performance of these tasks and functions.

The result of this analysis is reflected in the appropriate sections of the MATCOM "Curriculum Guide for Cooperative Management Training". The Guide contains syllabuses for 29 management subjects, many of which relate to management of agricultural cooperatives. In this area alone MATCOM has produced training packages, similar to this manual, for the following subjects:

- Collecting and Receiving Agricultural Produce
- Transport Management
- Storage Management
- Marketing of Agricultural Produce
- Supply Management
- Staff Management
- Financial Management
- Cost Accounting and Control
- Risk Management
- Project Preparation and Appraisal
- Work Planning
- Export Marketing
- Management of Larger Agricultural Cooperatives
- Cooperative Audit and Control

For more information on the above training material, please write to:

The MATCOM Project
c/o CO-OP Branch
International Labour Office
CH 1211 Geneva 22
Switzerland

II

THE TRAINING PROGRAMME

1. Target Group

Target groups for this training programme on "Rural Savings and Credit Schemes" are managers and assistant managers or other staff of agricultural co-operatives who operate or plan to introduce savings and credit schemes.

Co-operative officers or extension staff supporting the above target groups can also benefit from the programme.

2. Aim

The aim of the programme is to train people to design, manage and develop co-operative savings and credit schemes effectively.

In particular, the programme will enable trainees to:

- describe the forms of savings and credit available to the average farm household;
- explain how the use of credit can improve agricultural productivity and how co-operative societies can provide credit;
- identify, design and operate savings and credit schemes;
- identify existing needs for savings and credit facilities;
- assess loan applications and manage loan schemes;
- design and use appropriate documentation to record members' credit transactions;
- analyse the causes of arrears and default - and to deal with them effectively;
- identify sources of funds and to solicit funds for on-lending;
- co-ordinate the savings and credit facilities with those of other institutions;
- design and use appropriate publicity methods to promote savings and credit schemes.

3. Use

The programme as described in this manual can be used for a specialised course on rural savings and credit schemes. The complete programme, or individual sessions or parts of sessions, can also be incorporated in the curriculum for a more comprehensive management training programme.

4. Duration

The complete programme, as described in this manual, consists of 33 sessions. Session times vary from 1 to 4 hours. The total programme will take 66 hours, or 10 - 12 days, depending on the qualifications and experience of the trainees and the hours worked each day. The time may well be exceeded, and each instructor must decide on the likely duration in view of local conditions. A timetable should be prepared accordingly.

S. Training Approach and Methods

The programme is based on the assumptions that training is expesive and that money for co-operative management training is scarce. Therefore, it looks upon training as an investment, and unless the training yields results, the return on the money invested in it will be nil.

On their return from the training programme, the trainees should be able to show concrete results of improved management. In order to prepare and equip the trainee to achieve this, the programme has adopted a highly active learning approach through the use of "participative" learning methods and a built-in action commitment.

Trainees will not learn about Agricultural Credit in a general and passive way. Their day-to-day management problems have, as much as possible, been translated into realistic case studies and other problem-solving exercises. Trainees (working in groups and on their own) will learn by solving these problems with the necessary assistance and guidance from the trainer, who will act more as a "facilitator" of learning than as a lecturer.

Every trainee has some ideas and suggestions from which the others can learn. This material is intended to allow and encourage every trainee to contribute as much as possible from his own insights and experience, so that all will go away with the accumulated knowledge that each brought to the programme.

This sort of shared learning is in fact almost always more important than the knowledge that you, the instructor, or the material itself can contribute. You should treat each trainee as a source of ideas and suggestions which are at least as valuable as your own, and the material is designed to help you draw out, or "elicit", these contributions.

The built-in "action commitment" at the end of the programme will give each trainee the opportunity of using the knowledge and expertise of his colleagues in the training programme in order to find a concrete and acceptable solution to a specific problem he is faced with - a solution to which the trainee will commit himself for implementation.

6. Structure

The programme is divided into 15 TOPICS and each topic is covered by a number of SESSIONS (see the table of contents on page IX).

The following material is provided for each session:

- a session guide for the trainer (yellow pages), giving the objective of the session, an estimate of the time needed and a comprehensive "plan" for the session, including instructions on how to conduct the session;
- handouts (white pages) of all case studies, forms, etc., to be reproduced for distribution to the trainees.

7. Adapting the Material

Before "using" the programme in a real training situation, it will probably be necessary to adapt it. This can be done as follows:

Read through the material and decide whether:

- the programme can be run as it is;
- only certain topics or sessions should be used;
- new topics and sessions should be added.

- loan application schemes;
- savings schemes;
- credit records;
- loan agreements;
- supervisory reports;
- any other form of information dealing with savings and credit schemes.

9. Preparing Yourself

Some trainers may feel that the material of this sort means that they need only spend a few minutes preparing for each session. This is not the case.

You should go through the following steps before conducting any course which is based wholly or in part on this material:

a. Read it carefully; be sure you understand the content, and that you can envisage what is intended to happen in the classroom.

b. Work through all the calculations; be sure that you understand them completely and try to predict the errors that trainees are likely to make, and the different answers which may not be wrong, but which will be worth following up.

c. Work through the case studies yourself, and try to predict all the possible analyses and answers which trainees may come up with.

d. Look up and write down on the material itself, as many local examples as you can to illustrate the points that are raised.

e. Plan the whole session very carefully; try to predict approximately how many minutes each section of the session is likely to take, and make the appropriate modifications to fit into the time that you have available. Do not take the suggested time at the beginning of the session too seriously.

10. Conducting the Programme

While using the material, you should try to observe the following guidelines:

k. Write trainees' own words on the chalkboard whenever possible; do not follow the words in the material, even if they are more precise.

l. Be prepared to act as "Devil's Advocate" by supporting the opposite view to that held by the majority of participants; there are usually no right or wrong answers to management questions, and trainees must see and understand both sides of every issue.

m. If trainees appear to be following a quite different track from that suggested in the material, do not dismiss this out of hand; it may be useful or more so.

n. Call on the silent and, if necessary, silence those who talk too much.

o. Be sure that everybody understands what is going on; do not allow the discussion to be taken over by the few who understand.

p. Be dynamic, lively and active. Move around, walk up ana down the classroom, and generally keep everyone alert by physical activity.

11. After the Course

Note down each trainee's action commitment. Be sure to contact every trainee, in person or at least by letter, about six months after the end of the course to find out how they have managed to apply what they have learned, and how well they are implementing their action commitments. If they failed, it is not they who were at fault, but the course. Either the training was ineffective, the trainees were poorly selected or you failed to recognise problems which might prevent them from applying what they learned.

TABLE OF CONTENTS

TABLE OF CONTENTS (cont.)

Pre-course Questionnaire

Name: ....

Society: ....

Job Title: ....

Brief description of your responsibilities:

....

....

....

What parts of your job with savings and credit do you enjoy the most?

....

....

....

What parts of your job with savings and credit do you find the most difficult?

....

....

....

Please complete the following sentence:

As a result of attending the course on Rural Savings and Credit Schemes I hope that I shall be able to

....

....

....

topic

1

the role of savings and credit on the farm

SESSION 1.1

INTRODUCTION

Objective: To demonstrate the importance of effective management of savings and credit schemes, and to identify sources of expertise within the group.

Time: one to two hours.

Material: Completed pre-course questionnaire, timetable and list of participants.

Session Guide:

1) If a prominent visitor is to open the programme he or she should be asked to give examples of problems or wastage that have arisen through inadequate management of savings and credit schemes and to stress that people in the trainees' position can make a major contribution in this area.

2) Ensure that any administrative problems are dealt with; matters of accommodation, payment of expenses, transport, rooms for private study and any other points of information should be settled now.

3) Point out that a training course such as this is an investment; attempt to estimate its total cost (including trainees' salaries while in training). Ask trainees to suggest how they might use this sum of money if it was available to them to improve their present savings and credit schemes. They may mention field studies for better designed schemes or something else. Point out that unless the value of the benefit to the members from this course exceeds the cost of the course, the money would have been better spent as suggested. Trainees should therefore continually apply in their own minds what they are Learning to their own jobs. If it appears irrelevant, mistaken or if they do not understand how to use it, they must say so and the course will be changed accordingly.

4) Go briefly through the timetable and stress that trainees will be required to contribute and not merely to listen. People learn not by sitting and listening but by participating and doing things themselves.

5) Ask each trainee to summarise his prior training and experience, and to state what he hopes to gain from attending this course. Refer to the pre-course questionnaires if necessary. Stress that everyone brings something to the course and that the total experience in the group as a whole is substantial. While trainers and the material will provide ideas about techniques and a structure to the course, a major input must come from the trainees.

Attempt to classify trainees' objectives and experience on the board: identify the special expertise or experience that each trainee brings to the course, emphasising the point that the group as a whole is an extremely powerful source of expertise and experience.

6) Tell trainees that at the end of the course everyone of them, individually, will be expected to produce and commit himself to an action plan, which will include:

- A statement of a problem pertaining to savings and credits in his society.
- A brief description of the way in which he proposes to solve this problem.
- Ideas on how he will "sell" this solution to his superior and subordinate staff, and to the committee and members if necessary.
- A specific description of exactly what the trainee expects to have achieved by a certain specified date (within six months after the course has ended).

Tell the trainees that the instructors intend to contact them after this specified period to assess how successful they have been in implementing their plans. The course, rather than they themselves, will be evaluated by their success.

SESSION 1.2

THE TYPICAL FARM HOUSEHOLD

Objective: To enable trainees to describe an average farm household in their area, the attitudes and habits of farm people, and the forms of savings and credit available to them.

Time: Two and a half hours.

Material: Handout 'The Typical Member Household'.

Session Guide:

1) Divide trainees into groups. Ask them to describe a typical farm household, along the lines suggested in the handout. If there are marked regional or other differences among rural communities in your country, each group must choose one to consider. Stress that the household described must be a typical one, and not one of the richer minority.

2) Ask groups to report their conclusions and discussion. On chalk-board/OHP summarise the major points and any amendments suggested by discussion. It is likely that the typical family described will be one not much above subsistence level, with little opportunity outside the farm to increase its income.

   Encourage trainees to discuss, explain and modify their ideas about the attitudes and habits of farm people, and of the resources available to them.

   If there are wide differences between rich and poor within rural communities, ask trainees to suggest the extremes. Do co-operative members tend to be representative of all farmers? If not, are they richer or poorer than average, and why?

3) Discuss the following:

- Can the average farmer's productivity be increased with better farming methods, inputs, and so on?
- Do farmers understand these possibilities?
- What are the main difficulties in the way of improving farmers' productivity?
- If more money is invested in farming, would this completely overcome these difficulties; what other changes can help?
- If increased investment would help, can existing sources of credit familiar to the rural community meet the need for funds?

Remind trainees that existing sources of credit include informal ones (such as family loans, jewellery deposits, traders' credit), and stress the important part played in small rural communities by such credit arrangements.

4) Summarise conclusions on chalkboard/OHP. The following points apply in most countries:

a) Farmers could produce more.

b) Subsistence farmers cannot save enough money to make the investment they need in order to produce more.

c) Whatever savings farmers can make are kept for emergencies or "one-off" purposes such as weddings or funerals.

d) Poor farmers often do not recognise the potential of and need for investment, so they do not save even the small amounts they could.

e) Facilities for saving regularly are often all that is required to help farmers save money.

f) Credit from a co-operative for seasonal or longer-term purposes, can be effective only if it is used for genuinely profitable investments and all the necessary technical skills and physical inputs are available.

Stress that the purpose of this course is to have more farmers benefit from well-managed co-operative credit. Ensure that groups keep their notes, and that a summary of all groups' conclusions as noted on chalkboard/OHP in paragraph 2) are kept to use in Session 5.1.

The Typical Member household

Describe the "typical" farm family. While ideas about farm families may differ, it should be possible to agree on a general picture. If there are marked regional, religious or other differences in the way different groups in your country live, choose one particular region or group and describe a family typical of that group. Be sure that "your" family is typical of most farm families.

The guidelines below are intended to give an idea of the basic information required. Add any other necessary details.

Guidelines

1) Farm Details:

- Size of typical holding.
- Range of crops grown.
- Type and number of animals kept.
- Total farm income.

2) Composition of the Farm Family:

- How many persons are there in a typical farm family?
- What age and sex would they be?
- How are the family members related to the head of the household?

3) Education and Attitudes:

- How many years of school is each member of a typical farm family likely to have had?
- How many family members are likely to be able to read and write?
- Are farmers open to new ideas/old-fashioned; lazy/hardworking; good/poor managers; well informed/ignorant about the world beyond their village?

4) <u>How much income might a typical farm family get from sources such as the following</u>:

- Work on other people's farms.
- Family members working elsewhere.
- Handicrafts or other local industry.
- Shopkeeping or trading.
- Pensions.
- Other sources of income.

5) <u>Total Average Income and Expenditure</u>:

- Cash earned by sale of surplus.
- Cash spent on food to supplement home produce.
- Other "necessary" cash expenditure.
- Balance available for spending or saving.

6) <u>Savings and Credit Needs</u>:

<u>Savings</u> How much could the family save annually? In what forms would such savings be kept? (If appropriate, suggest how individual family members might keep their own savings).

<u>Credit</u> For what purposes might the family borrow money? From whom would they borrow it?

SESSION 1.3

INCREASING FARMERS' CAPITAL

Objective: To enable trainees to analyse various ways in which increased investment on the farm through the use of credit can improve agricultural productivity, the effects this may have on farmers' welfare and the problems connected with such innovations.

Time: Two hours.

Material: Case studies 1 to 3.

Session Guide:

1) Ask trainees who benefits from increased small-farm production:

   - Farmers themselves.
   - Urban consumers who buy food crops.
   - The nation as a whole, by saving imports or increasing exports.

2) Ask whether rural or urban people receive more help and investment from services such as banks, schools, hospitals, roads, water or universities, and why.

   - Urban areas benefit more.
   - Influential people live in cities.
   - Problems in cities are obvious and concentrated.

3) Even very small investments can make an important impact on small farms; the type of change that is possible is illustrated in the three case studies, which should be adapted to reflect local conditions if necessary.

   Distribute copies of each case study to each participant, and allow up to twenty minutes for individual reading.

4) Divide the trainees into three groups. Allow up to forty-five minutes for them to prepare answers to the assignments.

5) Reconvene the trainees. Ask one group to present its answers to each case; allow the other groups to comment on, change or add to the points made. Complete each case before doing the next.

In each case study, trainees should bring up the following points, among others, and they should be summarised on chalkboard/OHP:

<u>Azun's Farm</u>:

- Will vegetable prices go lower or rice or fertilizer prices increase?
- Can all the vegetables be sold?
- Is a farmer wise to move so rapidly from subsistence to cash-crop farming?
- How secure is Azun's tenure?

<u>Billoni's Farm</u>:

- He will need to learn new cultivating methods for hybrid maize, and to practise selective breeding, veterinary and similar skills with the new article.
- His co-operative society should have input supplies, extension services, maize, milk and livestock marketing facilities, artificial insemination and veterinary services, as well as credit. Do most societies have such a range of services, or are they available from elsewhere?

<u>Latif's Farm</u>:

- Latif's income will become bigger if all goes well. Success depends on his own skill and effort. It may be easier to collect rent than to develop and farm 74 hectares successfully.
- Twenty farmers will lose their holdings; two or three only will retain employment.
- Even a rumour of the plan will prevent Azun from investing in improvement. Its implementation will make him rely solely on casual labour for his livelihood.

6) Summarise the discussion by asking trainees the following questions:

- In what circumstances will a substantial increase in money income NOT increase a farm family's welfare?
- What sort of demands does a typical development project place on:

  a) the technical and managerial skills of the individual farmer;

  b) back-up from helping agencies (co-operatives, extension workers, ete);

  c) regional or national infrastructure (transport, supply and marketing facilities etc);

  d) local resources (water, land, labour).
- What good and bad social effects may result from implementation of such projects?

This discussion is intended to show trainees that while increased investment on the farm can and does produce beneficial results, the injection of funds alone is not enough. Such projects may place heavy demands on the skills and managerial capacity of individual farmers. They also need technical support, suitable resources, including an adequate national and local infrastructure, and like all farm projects, a reasonable amount of luck.

Case Study 1 - Azun's Farm

Lati Azun is a tenant farmer who rents 22 hectares of non-irrigated land, on which he grows rice (2 hectares) and vegetables (2 hectare). His two elder sons help with the farm work. This farm is the main source of livelihood for Azun and his family (a wife and five children). He is sometimes able to add to his small money income by working as a day labourer, but most of his cash income is derived from selling surplus vegetables through his co-operative marketing society.

Crop	Yield		Money Value		Inputs Per Year		
	Bad Year	Good Year	Bad Year	Good Year	Water	Ferti-lizer	Labour (man-days
Rice 2 hectares	1,200 kg	2,500 kg	$720	$1,500	-	-	240 days
Vegetables ½ hectare	600 kg	1,000 kg	$360	$ 600	1,000* cubic m	40 kg	150 days

* Water is carried from the village which is one kilometre from the farm.

In fact, most of the farm output is consumed by the family, leaving Azun with a very small income from sales of vegetables and, in a good year, of his rice surplus. His annual rent is $175, but he is sometimes able to pay most of this in services in kind to his landlord.

Azun plans to change his farming system with the help of a co-operative loan. He wishes to grow vegetables on all his land, reckoning that out of his increased income he will be able to buy the rice required to feed his family. (The market price for rice is $0.60 per kg.)

He plans to make the change in two steps, converting one hectare to vegetables the first year and the second the following year. However, he needs to ensure an adequate water supply and reckons he can do this by installing three tubewells on his land, the first two in the first year and the third in the second year. He will also need loans to cover the cost of seed and fertilizer.

He plans to develop his farm as follows:

Year 1

Crop	Yield	Money Value	Inputs		
			Water	Fertilizer	Labour
Rice 1 hectare	600 - 1,250 kg	$ 360 - $ 750	-	-	120 man-days
Vegetables $1\frac{1}{2}$ hectares	1,800 - 3,000 kg	$1,080 - $1,800	300 cu.m.	120 kg	300 man-days

* Loan Investment:

2 Tubewells	: total installation costs	$ 400
Fertilizer at $2 per kg:		$ 240
Seed :		$ 200

Year 2

Crop	Yield	Money Value	Inputs		
			Water	Fertilizer	Labour
Vegetables $2\frac{1}{2}$ hectares	3,000 - 5,000 kg	$1,800 - $3,000	5,000 cu.m.	200 kg	450 man-days

* Loan Investment:

1 Tubewell	: total installation costs	$ 200
Fertilizer at $2 per kg :		$ 400

* The first tubewell loan will be repayable over five years at $110 a year, including interest. The second tubewell loan will be repayable over five years at $55 a year including interest. The seed and fertilizer loans will be repaid at the end of the first year plus $60 interest, the second fertilizer loan will be repayable at the end of the second year, plus $38 interest.

Assignment:

There are a number of critical factors in Azun's scheme, which will determine whether he will succeed or fail. Identify those factors and state why they are critical.

Case Study 2 - Billoni's Farm

Martin Billoni farms twelve hectares of good land. He grows six hectares of maize, which is cultivated with the help of his family, one hectare is used by the women of his family to grow vegetables for household use, and he grazes his herd of fifteen cattle on the rest.

Though Billoni's cash income mainly derived from milk sales, is not very large, his family lives relatively well as the farm supplies all their food needs:

Crop	Yield		Money Value		Inputs	
	Bad Year	Good Year	Bad Year	Good Year	Fertilizer, Seed, etc.	Labour
Maize 6 hectares	4,500 kg	7,200 kg	$ 450	$ 720	-	500 man-days
Vegetables 1 hectare	1,200 kg	2,000 kg	$ 720	$1,200	-	300 woman-days

Livestock	Milk Sales		Livestock Sales		Annual Inputs		
	Amount	Cash Value	Amount	Cash Value	Feed	Veter-inary	Equip-ment
15 Native Cattle (14 cows, 1 bull)	28,000 litres	$2,800	4 calves	$120	$140	$25	$50

Billoni reckons, however, that he could greatly improve his family's standard of living if he were to upgrade his farm system by growing a higher yielding maize and gradually replacing his native cattle with grade animals.

His wife will not allow him to interfere with the vegetable garden, but he intends to upgrade the whole of the rest of the farm.

He plans to start by using hybrid maize instead of the traditional variety. This will involve investment in extra cultivation, fertilizer and insecticide as well as in the purchase of the seeds. As a first step to upgrading his herd of cattle he intends to purchase two grade cows, selling off the bull and four cows from his herd to do so. In future he will hire the services of the Agricultural Department's prize bull to maintain his herd, and will invest the profits from increased milk yield and sales of half-breed calves in further purchases of grade cows. He wishes also to build a new cattle shed and to renew his dairy equipment, and expects increased costs for veterinary services (say $1 per cow per month), and feed (say $2 per cow per month). His farm plan for next year (excluding the vegetable garden) is therefore as follows:

Crop	Yield	Money Value	Inputs				
			Cultivation	Fertiliser	Insecticide	Seed	Labour
Hybrid Maize 6 hectares	9,000 kg - 14,400 kg	$ 900 - $1,440	$240	$330	$90	$150	+ 300 man-days

Livestock	Milk Sales		Livestock Sales		Inputs			
	Amount	Cash Value	Number	Cash Value	Feed	Veterinary	Equipment	Labour
10 Native Cattle 2 Grade Cows	20,000 litres	$2,000	4 cows 1 bull 2 calves	$4,000	$288	$144	maintenance only $100	hire of bull $50

<u>Loan Investment</u>:

Maize:	Cultivation, Fertilizer, Insecticide, Seed :	$ 810
Cattle:	Extra Inputs (Feed, Veterinary, Equipment)	$ 267
	Equipment	$ 800
	Shed	$ 500

- Purchase of grade cattle is financed by sales of native cattle.
- Billoni applies for a total loan of $2,400 repayable over three years at $900 a year including interest.

By the third year Billoni expects to have his herd consist of eight grade or half-breed cows and one half-breed bull. He will continue to farm hybrid maize as in Year 1, and his livestock plan will be as follows:

Cattle	Milk Sales		Livestock Sales		Inputs		
	Amount	Cash Value	Number	Cash Value	Feed	Veter-inary	Equip-ment
9 Grade or Half-Breed Cows	32,000 litres	$3,200	3 calves	$200	$192	$96	$100

Assignment:

1) What skills will Billoni need to carry out his plans successfully?

2) List the services needed by Billoni in his new scheme.

3) With which of these services could a co-operative society assist him?

4) Which other institutions could contribute?

Case Study 3 - Latif's Farm

Abdul Latif farms four hectares of irrigated land on which he grows rice, fruit and vegetables and keeps a cow to feed his family. The farm is not his only source of income; in fact he leases out most of his land to some twenty farmers and derives his main income from rents and his part-ownership of the village shop. He plans, however, to expand his farming activities and to take over 74 hectares of unirrigated land from his tenants, sink wells, buy a tractor and farm HYV rice on a large scale. He is going to keep the three hectares of his present farm on which he grows fruit and vegetables and keeps the cow, so in total he will be growing 75 hectares of HYV rice.

lie expects his farm to develop as follows:

Annual Yield/Costs

Crop	Yield		Money Value		Inputs			Running* Expenses Tractor/ Pump
	Bad Year	Good Year	Bad Year	Good Year	Seed	Ferti- lizer	Labour (man- days)	
HYV Rice 75 hectares	15,000 kg	52,500 kg	$9,000	$31,500	$1,875	$4,125	350	$1,700

* Includes wages of driver, not included in Labour Input.

Loan Investment:		
	10 Bamboo Tubewells +) Mobil Diesel Pumpset)	$ 3,350
	Tractor	$ 6,000

He applies for a loan of $10,000 at 15% for five years to finance this development.

Assignment:

1) What are the advantages/disadvantages to Latif and to the local community at large if this project develops as planned?

2) Turn back to Case Study 1. Latif is Lati Azun's landlord. What are the implications of Latif's plans for Azun and his family?

SESSION 1.4

THE ROLES OF CO-OPERATIVE SOCIETIES IN AGRICULTURAL CREDIT

Objective: To enable trainees to describe the different ways in which co-operative societies can be involved in lending money to farmers.

Time: One hour.

Session Guide:

1) Ask each trainee to describe how his society is involved in credit:

- Source of Lending Funds

a) The society's own funds (reserves and members' deposits).

b) Sums granted under development programmes for on-lending.

c) Sums borrowed by the co-operative from banks or other sources of on-lending.

- Roles of the Society in Relation to the Borrower

a) Is the society the lender?

b) Is the society the intermediary between the lender (e.g. a bank) and the individual borrower?

2) Summarise trainees' answers: co-operative societies may be involved in credit programmes in a variety of different ways and on a small or large scale; each way has its own advantages and dis advantages. Ask trainees to suggest in each case what these advantages and disadvantages may be:

i) Societies may lend only from their own reserves and from members' deposits and savings, if a savings scheme exists.

Advantages: The scheme is seen to belong to members, who become responsible to each other through the society for the repayment of loans.

Disadvantages: The scheme is likely to be small in scale, so it may not attract support from other agencies such as extension services. Without external supervision some societies might be mismanaged.

ii) Societies may borrow funds from commercial or co-operative banks or from other sources such as development programmes, for on-lending, in which case the society is responsible for the repayment of borrowed funds and must collect repayments from individual borrowers.

Advantages: The society keeps a lot of its freedom of action, though most lenders will exercise some supervision over its on-lending procedures and will supervise the loan project(s) to some extent. This kind of control from an experienced lending institution can be helpful and the society also gains by access to larger funds.

Disadvantages: This approach may mean that the society has "the worst of both worlds", in that it is legally responsible for the funds but still has to submit to a degree of control from the prime source of the money that is lent.

iii) Societies may act as responsible agents for loans to members from the bank or other lenders, by guaranteeing loans, or by making disbursements and collecting repayments for the lender.

Advantages: Easier a ccess to bank funds for members, and less complex procedures; the society is not responsible for loan approval or collection.

Disadvantages: The society is legally responsible without having the corresponding control over the loan programme.

iv) Societies may introduce members to the bank or other lending agency as potential borrowers and may act as referee for loan applicants.

Advantages: A service is given to members which involves no liability on the society, and the society's management may learn how to operate their own credit programme in the future.

Disadvantages: If the society has not responsibility except as a source of introductions or references, it will also have no control over the lending programme.

3) Trainees are unlikely to exercise much control over their societies' role in credit programmes. However, they should be aware of the alternatives and should consider why their own society has adopted its chosen role and not one of the alternatives discussed above.

Ask trainees whether their societies are likely in the future to change their way of helping members to obtain credit. Is the present method the best for members? How could it be improved?

topic

2

existing formal and informal credit facilities

SESSION 2.1

SOURCES OF FORMAL CREDIT

Objective: To enable trainees to assess existing sources of formal credit from the point of view of the society members who are small-scale farmers.

Time: Approximately two hours.

Material: Exercise: "The Three Banks".
Annual Reports from local banks and other lending institutions.

Session Guide:

1) Ask trainees why they go to a specific bank when they apply for a loan or other bank services. It should be clear that there are different features of each bank.

2) Elicit the main features of a bank, which can be important to a borrower.

   A possible list may look as follows:

   - Flexible loan Conditions
   - Simple Paperwork
   - Subsidized Rates of Interest
   - Speed of Appraisal Procedure
   - Availability of Technical Back-up
   - Suitable Location of Branches
   - Approachability
   - Long Opening Hours

   Let the list remain on chalkboard/OHP for further use.

3) Distribute the exercise and allow up to thirty minutes for its completion.

4) Reconvene the trainees and ask each group to present its answers, which may be summarised on chalkboard/OHP as follows:

Borrower	Bank	Response
1	B	Yes
2	A	No
3	A	Yes
4	A	No
5	C	No
6	C	No
7	A	No
8	B	Yes
9	B	No

The above answers are one suggestion only. Invite trainees for discussion and agree upon a list.

5) Ask trainees which of the earlier listed features are likely to be of particular importance to each of the hypothetical borrowers. Use the earlier listed features and complete it as follows:

Feature	Important for Borrower
Flexible Loan Conditions	1 3 5 8 9
Simple Paperwork	2 4 6 7 9
Subsidized Rates of Interest	1 8
Speed of Appraisal Procedure	2 4 5 6 7
Availability of Technical Back-up	3 4 6
Suitable Location of Branches	2 4 5 6 7 9
Approachability	2 4 6 7 9
Long Opening Hours	2 4 7 9

6) Point out that borrowers 2, 4, 5, 6, 7 and 9 are the most difficult to match to a bank, and are generally the least likely to be welcomed as potential borrowers.

7) Ask trainees to compare these borrowers to the typical farmer they describe in Session 1. It should be clear that most of the farmers belong to the above mentioned group.

The more experienced and well-organised borrower is likely to be better able to understand and co-operate with bank procedures; borrowers seeking medium or long-term credit are less likely to need their money quickly from a local source than the short-term or seasonal borrower; the less experienced borrower needing a small loan places the heaviest demands on the technical resources, adaptability and efficiency of the institution.

8) Ask trainees to list all the formal credit institutions in the country. If possible, circulate annual reports; try to classify these institutions into the three types typified by bank A, B and C in the exercise. Identify and discuss any exceptions.

Ask trainees which of these organisations is best adapted to handle an application from each of the typical borrowers listed in the exercise. Are the smallest, least educated, most needy applicants the least well served?

9) It should be clear that existing farm credit institutions are generally suitable for the larger more prosperous farmers who least need support, while the poorer farmers who need credit most are least well served. What alternative sources of credit are there for such farmers?

The Three Banks

Read the following brief descriptions of the three hypothetical banks.

A. The Erewhon Bank of Utopia

The Erewhon Bank of Utopia is a commercial bank with an established network of fifty well.-appointed, fully staffed branches in most urban centres. It provides customers with current and deposit account services, transfers money and does a lot of foreign business. Its operation is highly efficient, and it enjoys an enviable reputation for its customer services.

As far as loan policy is concerned, the bank will grant overdrafts to established customers who can show that the overdraft will be duly repaid. Any customer would probably be granted a loan or overdraft if he provided reasonable security or guarantee.

The bank usually wants security for its loans, but in practice this varies considerably. Managers frequently grant small loans on the basis of a reasonable prospect of success of the project. The bank is well-known for its policy of always exacting repayment of loan funds, whatever the circumstances. It charges ordinary commercial rates of interest.

B. The Development Bank of Utopia

The Development Bank of Utopia is a Government-sponsored organisation designed specifically to support agricultural development. It has a main branch in each regional capital, and a head office and branch in the national capital (five altogether) and nine other branches, five of which are in the Northern Region, one in the Western and three in the Southern. There is none in the Eastern Region, but most areas are accessible to the mobile sub-branches. The bank offers ordinary commercial. services but is mainly devoted to operating savings and loans accounts for farmers and farmer-groups at subsidized rates of interest. A small proportion of its business is done with local co-operative societies but branch managers are not anxious to extend this. It has a good technical back-up service and co-operates closely with the Agricultural Department.

Some complaints have been heard about slowness of the bank's services, but it can point to substantial successes in the Northern Region where it has provided investment funds. for prosperous community of cash-crop farmers.

C. The Utopian Co-operative Bank

The Utopian Co-operative Bank is owned and nominally financed and controlled by the co-operative movement. It is constitutionally bound to lend only to co-operative unions or primary societies and has a number of large and successful credit unions and retail societies as its customers. There are five rural branches, each of which has in the past lent large amounts to farmers' societies; many of these accounts are seriously in arrears, and the branches are as a result rather inactive. They still conduct current accounts with societies and they operate savings accounts for members through their societies. Some individual farmers obtain low interest loans from the Co-operative Bank through their societies, but the approval procedures are very slow and no complementary services are available.

Assignment:

Each of the following nine agricultural borrowers needs a loan. Decide which of the three banks would be most suitable for each and mark each borrower "yes" or "no" according to whether you believe the chosen bank would or would not welcome the application with enthusiasm.

1) A Government-owned plantation.

2) A woman farming a small plot to support a family.

3) A retired civil servant who wishes to develop and farm an unused holding.

4) A small-scale subsistence farmer with no formal education who wants to buy new cattle.

5) A local co-operative society.

6) An informal group of farmers wishing to sink a well together.

7) A small farmer in need of a seasonal loan to buy fertilizer.

8) A foreign-owned sugar plantation.

9) A drought-stricken small farmer in need of a loan to buy food until harvest time.

SESSION 2.2

SOURCES OF INFORMAL CREDIT

Objective: To enable trainees to describe how informal sources of credit operate and to explain why these may be favoured by small-farm borrowers.

Time: One hour.

Material: Handout - Small Farm Credit: Sources and Means of Distribution.

Session Guide:

1) Ask trainees to write down as many sources of informal credit for small farmers as they can. Allow up to fifteen minutes for this and ask each trainee in turn to name one source until all lists are exhausted. Write the list on the chalkboard/OHP. It should include:

- Village Money Lenders
- Shopkeepers
- Produce Buyers
- Friends and Relatives
- Landlords
- Other Local Sources

Trainees should understand that any form of delayed payment (e.g. to landlords or shopkeepers) or of payment in advance (e.g. from produce buyers) represents a form of credit, and that these hidden credits are paid for by the farmer in terms of higher buyers's prices or lower selling prices.

2) Ask trainees to suggest what might be the amount and percentage of farm credit coming from informal sources.

It is impossible to provide an exact figure for the amount of credit available to farmers through such channels. Obtain any estimates that may have been made by the Ministry of Agriculture or Central Bank and discuss these with trainees. In the absence of data the group should attempt at least to reach a consensus on the percentage of all credit which reaches borrowers through these channels.

3) Ask trainees to suggest what proportion of formal credit reaches farms through co-operative channels as opposed to direct from banks or other institutions. Their estimates should if possible be compared with actual data on lending by co-operative and other banks.

4) Trainees may overestimate the proportion of farm credit actually provided through co-operatives or banks.

Distribute the handout. If trainees' countries are not included, discuss the likely position of their country in the "League Table" of formal versus informal and co-operative versus direct credit.

5) Ask trainees estimate the comparative cost of a $100 seasonal loan from a money-lender and a bank. Depending on local bank and money-lenders' interest rates they may suggest differences in the range of $10 to $80 higher costs for informal credit.

6) Ask trainees to suggest what may be the "hidden" and perhaps unquantifiable costs of loans from institutions which lead a poor farmer to prefer the apparently more expensive option. They should suggest items such as the following:

a) Delay in approval or disbursement leading to missed sowing or fertilizing opportunity.

b) Repeated, expensive and time-consuming visits to a co-operative or bank office.

c) Humiliation suffered in unfamiliar modern banking premises, and from arrogant staff.

d) Difficult procedures and forms for application.

e) Insistence by the lenders on provision of credit in kind, often from more expensive sources.

f) Complicated security and crop delivery requirements.

7) Ask trainees to attempt very approximately to estimate the cost of such of these items as can be quantified; items a, b and f above do cost the farmer money, time when his labour is needed on the farm and the cost of lost crops or lower yields.

Trainees may estimate that all these costs, plus the "psychic costs" of items such as c and d, are well below the difference between formal and informal borrowing as assessed in 3) above. Point out that farmers are not fools. In their understanding, the cost of informal credit must be lower, or they would use formal sources.

8) Ask trainees whether there are any disadvantages to the farmer in using informal credit. In some countries the grip of merchants and money-lenders on poorer farmers is cruel and ruinous. Elsewhere, the main disaavantages may be:

- Limited tunds
- high rates of interest
- Lack of technical back-up
- Failure t o provide savings facilities

Trainees should realise that poor farmers seeking short-term credit may not recognise any of these features as disadvantages. The tasks of the trainees as providers of co-operative credit is to overcome the hidden costs of formal credit and prove to members that a co-operative can be the cheapest and best source of credit in every way, not just because of low interest rates. Show by simple example that timely, accessible credit at 20 or more interest is cheaper than delayed, inaccessible credit at 81 or 10%.

Small Farm Credit : Sources and Means of Distribution

(Source: Aid Spring Review of Small Farm Credit, Volume XVII, June 1973)

This table is intended to give a very simplified picture of the importance of institutional versus informal credit sources, and of the proportions of institutional small farm credit which reaches the farmer direct from a bank or via a co-operative.

Country	Percentage of Small Farm Credit Provided by Informal Sources	Credit Provided from Bank Direct to Farmer	Credit Provided via Co-operatives
Salvador	95	All	None
Honduras	50	Most	Some
Nicaragua	75	Most	Some
Peru	75	All	None
Colombia	50	All	None
Nigeria	80	Some	Most
Ghana	60	Most	Some
Turkey	60	Some	Some
Thailand	90	Most	Some
Philippines	66 2/3	Most	Some
Iran	50	Some	Most
Afghanistan	60	All	None
Bangladesh	80	Some	Most
India	70	Some	Most
Sri Lanka	60	None	All
Korea	75	Some	Most

topic

3

identifying critical factors of savings schemes

SESSION 3.1

THE ROLE OF SAVINGS SCHEMES

Objective: To enable trainees to identify the vital role of co-operative savings schemes as a complement to co-operative credit.

Time: Approximately one hour.

Material: Exercise: Savings Schemes.

Session Guide:

1) Ask trainees why savings schemes are an important part of the activities of agricultural co-operatives. Discussion should cover the following:

   - Members need a safe place for their savings, where they can also earn interest.
   - The society needs funds, particularly if it is running a credit scheme.
   - The society needs to establish confidence among outside bodies such as banks by having its own funds to supplement or match outside borrowing.
   - The society can develop a sense of self-help and responsibility among members.

   Lead trainees to the conclusion that savings are an essential part of any rural credit scheme. Such schemes should not rely solely on outside funds.

2) Ask trainees to suggest how farmers save money apart from savings accounts. They should mention methods such as the following:

   - Purchase of gold and other jewellery.
   - Hoarding cash.

- Lending money to other farmers.
- Membership of informal savings groups.
- Withholding cash crops from the market in the hope of better prices.
- Purchase of cattle or other disposable assets.

Stress that these and other methods are basically the same as a savings account; they are ways of keeping money which is not needed today in a form in which it can easily be withdrawn when needed.

3) Ask trainees to compare each of these methods with a co-operative passbook saving scheme. Elicit the important functions of every savings method to the saver, and rate each method according to how well it performs the function. Produce a table in the following form on chalkboard/OHP. This is a mere suggestion and should be adjusted to local conditions.

Function	Hoard Cash	Jewel-lery	Lend to Friends	Informal Groups	Crops	Cattle	Pass-book
Security	2	3	2	3	2	2	4
Maintain or Increase Value	2	4	2	2	3	3	3
Ease of Access	4	2	1	2	2	2	2
Provide Status or other Social Benefits	2	4	4	4	3	4	1
Easy to Operate and Understand	4	3	3	2	3	2	2

4 = Excellent 3 = Satisfactory 2 = Weak 1 = Poor

4) Distribute the handout and ask trainees individually to rate each of the schemes on the same basis. Allow up to twenty minutes for this.

Ask selected trainees to state their ratings, and summarise the group consensus as before. One conclusion might be as follows:

	Friendship Bank	Small Farm Society	Supply and Marketing Society
Security	4	2	3
Value Maintenance	2	2	3
Ease of Access	4	1	2
Provide Status	2	3	2
Ease of Operation and Understanding	4	3	2

5) Ask trainees how disadvantages of formal savings schemes can be reduced. Elicit suggestions such as the following:

Security:	A small society's member deposits can be guaranteed by the Government.
Value:	Higher rates of interest can be paid and must then be passed on to borrowers.
Access:	Convenient opening hours, branch locations, speedy service.
Status:	Lavish passbooks, prizes or other awards for steady savings (if appropriate).
Ease of operation and understanding:	Simple procedures, clear explanations from well-trained sympathetic staff.

Savings Schemes

A. The Friendship Bank

The Friendship Bank of Transtopia has a savings scheme which operates as follows. Anyone over the age of twelve can open a savings account with a minimum deposit of $5. Thereafter the minimum amount that may be deposited at any one time is $1. Deposits may be made by cash or cheque at the branch where the account is held, at any time. Interest on deposits (above $10) is payable six-monthly at 7% per annum. Interest is not paid for any month in which the amount deposited is less than $10, or for any month in which four or more separate withdrawals of any amount have been made. Withdrawals can be made at any time, and, subject to a maximum sum of $100, at any branch. All deposits and withdrawals are recorded in the account holder's passbook at the time they are made. The passbook, which thus always shows the current state of the account, is retained by the account holder and must be produced when each transaction is made.

B. The Small Farm Society

The Small Farm Co-operative Society encourages its members to save by investing in the society. The society's by-laws state that each member must hold at least one share worth $10 in the society. Members must purchase this share on joining the society. By agreement of the Annual General Meeting members make further investments in the society's share capital every year through a small levy on purchases made through the society. With every purchase members receive stamps of appropriate value. which are handed into the society at the end of each six-month period and credited to the member in his passbook.

Interest is payable on shares annually, at the rate determined by the society when it declares its profit for the year. (The average rate of interest has been 5% to 8% over the years.) Members of the society can also acquire shares by outright purchase or by contributing in kind to the needs of the society, for example by helping in the construction or maintenance of buildings. The value of share capital acquired in this way is agreed in advance and recorded in the member's passbook on completion of the work. Share withdrawals can be made only when the member retires from the society, dies, or becomes bankrupt, or with the agreement of the committee in exceptional circumstances.

C. The Supply and Marketing Society

The Supply and Marketing Society of Cisylvania uses its marketing activity as a basis for savings, through members' deposit accounts. By agreement of the Annual General Meeting, a fixed percentage of members' earnings through sales to the society is deducted and credited to the member's deposit account. Interest on deposits is paid at 10% per annum. There is a fixed term of two years for deposits, after which they can be withdrawn at will; exceptions can be made at the discretion of the committee members.

Assignment:

Rate each of the above savings schemes from 1 (Poor) to 4 (Excellent) according to how well it performs each of the following functions:

- Security
- Maintenance of value
- Ease of access
- Provision of status
- Ease of operating and understanding

- SESSION 3.2

CRITICAL FACTORS OF SAVINGS SCHEMES

Objective: To enable trainees to identify the major factors involved in designing and operating co-operative savings schemes.

Time: One and a half to two hours.

Material: Forms - examples.

Session Guide:

1) Ask trainees to suggest the major factor which leads people to save or not to save in a given scheme, given that funds are secure.

   Most will refer to the interest rate. Stress that it is not the only or perhaps the most vital factor, but it is very important.

   Ask half the trainees to note down those functions of a savings scheme that would be ideal from the saver's point of view, while the other half should do the same from the co-operative's point of view. Allow up to fifteen minutes for this exercise and then elicit a list on the following lines:

Saver	Co-operative
High interest rate	Low interest rate
Fixed interest rate	Variable interest rate
No minimum deposits or withdrawals	High minimum transaction values
Immediate unlimited withdrawals	Minimum number of service points
Widely available services	'Morning only' or similar facilities
All day and weekend service	Total security
Minimal formalities	Ease of administration with minimum paperwork
Total privacy	
Quick loan procedures	

2) Ask trainees how these differing functions can be reconciled; refer to the examples in Session 3.1 and ask trainees to suggest which of the three savings schemes described they would expect to pay the highest rate of interest, regardless of what is actually paid?

Scheme 2 should pay the highest rate, because the money cannot be withdrawn unless the saver leaves the society. Ask trainees why members may otherwise invest in it.

- They may wish to help their society.
- They may wish to qualify for a loan in the future by establishing a good credit record.
- The levies are imposed by the AGM so that all members must save through the scheme whether they want to or not.

If possible, describe local commercial bank or other financial institutions' savings schemes where higher rates of fixed interest are paid on larger amounts which are committed for long periods. Interest rates are one variable which can be used to compensate for failure to satisfy savers' other needs.

3) Ask trainees to describe the shortcomings of savings schemes with which they are familiar.

- Over-complicated paperwork and form-filling requirements.
- Requirement that transactions be handled by a counter official and a cashier, thus increasing staff costs and causing delay.
- Unnecessarily complex regulations requiring withdrawal to be specially approved.

Which of these methods could be improved by better management which would not cost more money, and might even cost the lending institution less as well as benefitting the saver?

4) Ask trainees at what time of what days most farmers are free to go to wherever the co-operative savings facility ought to be situated.

- Are these times the same as those when the facility is available?

- Would it cost the society much money to provide savings facilities at times more convenient to customers, particularly if the opening hours could be moved rather than just being increased?

Ask trainees whether the place where savings facilities are available is as convenient as the local jewellery shop. How can the service be brought nearer to farmers?

- By replacing or supplementing office services with mobile banks calling on a weekly or monthly basis and offering a complete package of all co-operative services.
- By choosing premises which are near to places farmers normally visit. Such premises may be less expensive than central locations with higher prestige.
- By minimising head-office costs and having one or more small branch offices at the societies, providing such services as are locally needed and can economically be provided in this way.

5) Ask trainees what other factors may discourage farmers from opening savings accounts, apart from low interest rates and inconvenient opening hours and investment. They may suggest the following, among others:

- High minimum starting balances.
- High minimum deposit or withdrawal limits.
- Requirement for a period of notice before withdrawals above a certain amount.
- Loss-of-interest penalties for withdrawal without sufficient notice.

The effect of regulations of this sort will vary, but societies may find that the cost of dropping or liberalising the regulations may be low, and the benefit in terms of increased savings may far exceed it.

6) Divide trainees into groups and ask them to draw up the following documents:

- A page from a simple passbook, allowing for deposits, withdrawals and interest.

- A page from a savings stamp book, where stamps of different denominations are issued in exchange for deposits, or as a percentage of value of members' transactions, and stuck on the page to make up two totals which can then be credited to a regular savings account.

- A ledger page to keep account of a member's share contributions, patronage bonus, savings deposits, withdrawals and interest.

Stress that simplicity should be the over-riding concern, both in order to save staff time and training and to make the scheme attractive and comprehensible to potential savers.

Allow up to thirty minutes for this. Ask groups spokesmen to display their suggestions on chalkboard/OHP. Discuss and compare these with one another and with the simple forms illustrated on the handout, which should be displayed or distributed only if trainees' own suggestions fail to cover the necessary information or are unnecessarily complex.

7) Ask trainees to identify the costs of running a savings scheme. These should include:

- Interest Charges
- Staff Costs
- Stationery Costs
- Security Costs

Stress that although interest charges are the most obvious costs, the other administrative expenses will exceed interest for all but the largest schemes. Show by example that the cost per transaction does not vary with the value of that transaction, and that many transactions can be paid for if members' balances remain high enough to provide a steady and substantial fund for the society. Few farmers sell all their cattle, jewellery or other informal means of saving except in dire emergencies. They should be encouraged by good service to use their co-operative savings accounts in the same way.

Ask trainees to name the benefits of a savings scheme to the society. They should mention the following:

- The interest earned on the funds that will be lent to members or deposited in the bank or elsewhere.

- The surplus earned on productive assets purchased by the society with members' savings.
- The increased prices earned from sales of members' produce made in times of high price rather than immediately after harvest because members' savings provided finance to cover the cost of holding stocks.
- The benefits from additional funds provided to the society by the co-operative bank or other institution, as a result of the society's own contribution of funds, deposited by its members.

- The surplus earned on productive assets purchased by the society with members' savings.
- The increased prices earned from sales of members' produce made in times of high price rather than immediately after harvest because members' savings provided finance to cover the cost of holding stocks.
- The benefits from additional funds provided to the society by the co-operative bank or other institution, as a result of the society's own contribution of funds, deposited by its members.

Forms - Examples

Name: *J. Martin* No: *023418*
Address *c/o PO St. Helens*

SAVINGS ACCOUNT

Date	CR	DR	Interest	Balance
20/1/80	*$ 5.00*			*$ 5.00*
21/3/80	*$ 15.00*			*$ 20.00*
17/5/80	*$ 15.00*			*$ 35.00*
21/6/80			*$ 0.25*	*$ 35.25*

SAVINGS STAMP BOOK

$5 (50c)	$5 (25c)	$5 (50c)	$5 (25c)

MEMBER'S SHARE AND DEPOSIT ACCOUNT

Name: ______________________ No: ______________________

Address: ______________________________

SHARES							DEPOSITS			
Date	Ref	Contri-butions	Interest	Bonus	Withdraw-als	Balance	Deposits	Interest	Withdraw-als	Balance

topic

4

identifying critical factors of credit schemes

SESSION 4.1

CRITICAL FACTORS OF CREDIT SCHEMES

Objective: To enable trainees to identify the critical decisions to be made and factors to be considered when reappraising or designing a credit scheme.

Time: One and a half hours.

Material: Exercise: Loan Schemes.

Session Guide:

1) Ask trainees to suggest the differences between ordinary commercial lending and co-operative credit schemes for small farmers. Suggestions should include the following:

   - The objectives are different. Banks expect to make a profit, co-operative schemes must remain solvent but do not need to be profitable. They have social, developmental and educational objectives.

   - Commercial banks are non-specialised and do not normally offer technical assistance, supervision and other forms of guidance to their borrowers.

   - Co-operatives usually offer credit as part of an integrated service including marketing, supply and other functions as well.

2) Ask trainees to suggest the basic decisions which must be made when setting up a co-operative credit scheme. Elicit the following items:

   A : The objectives. What is the scheme designed to achieve?

   B : The target groups. Who are the intended borrowers?

   C : The operating methods. How will the scheme actually operate?

   Stress the danger of going straight to C and considering procedures, interest security, disbursement and repayment methods before being clear as to A and B. It is vital also to answer these two questions for existing schemes, before trying to improve their operations.

3) Ask trainees what decisions have to be made on the operation of any loan scheme; what options are available. Elicit a list including the items given below, then ask what factors will influence each decision. Construct a similar table on chalkboard/OHP.

Decision	Influencing Factors
Interest Rate	Cost of funds, competition, need for surplus or breakeven, availability or subsidy, profitability of borrowers' projects.
Period of Loans	Borrowers' need, crop finance, machinery finance or long-term land improvement finance.
Standard Packages or Individual Projects	Homogeneity of borrower group, availability of appraisal staff with suitable skills.
Cash or Kind Disbursement	Likelihood of borrowers misusing funds, or evading repayment, availability of alternative supply sources, ease of evasion.
Cash or Kind Collection	Contacts with or control of outlets, number of alternative outlets, ease of evasion, likelihood of borrowers' need and wish not to repay.
Security	Borrowers' assets, land tenure system, social environment, substitution of crops or other assets.
Supporting Services	Existing activities of society, borrowers' needs and ability, alternative sources of services.

4) Distribute the handout and ask trainees individually to complete the assignment. Point out that not all the operation decisions shown in 3) above are covered in these brief descriptions. Trainees should identify those that are mentioned and suggest why they have been made as they have.

5) Allow up to forty-five minutes for this. Ask individual trainees to state their answers. Produce a general consensus for each scheme in turn, before going to the next.

Trainees' comments will differ, but. they should identify the following aspects of each scheme:

A. A Package Loan Scheme

- The objective is to encourage adoption of hybrid maize in order to increase production and improve the farmers' standard of living.
- The target group is small-scale farmers.
- The nature of the innovation has led to package loans.
- Standard inputs allowed disbursement in kind.
- A profitable product allowed quite a high interest rate.
- A locally consumed and widely marketed crop prevented collection in kind.

B. An Export Loan Scheme

- Exports are the clear objective.
- Target group is small-scale farmers growing vegetables.
- Each application is dealt with individually in all respects since infinite combinations of crops are possible.
- Some marketing arrangement permits collection in kind.
- Profitable export opportunities can fund a fairly high interest rate.

C. A Village Loan Scheme

- The objective is to develop agriculture in the society.
- The target group is established members with a viable farming project.
- The situation implied is one of poverty to be relieved, not adequate prosperity to be increased, hence lower interest rate and acceptance of any workable proposal.
- Supporting training is vital to improve farmers' ability in a poor, discouraged area.

6) Ask trainees briefly to consider co-operative credit schemes known to them. Are the operating decisions consistent in the same way with the objectives and the needs of the target borrowers?

Loan Schemes

A. A Package Loan Scheme

In a maize growing area where 95% of farmers grow at least enough maize to feed their families and 70% reckon to gain their main income from maize sales, a loan scheme was introduced by the co-operative bank to encourage the adoption of hybrid maize by these farmers. The loan package was based on input requirements per hectare; borrowers received credit from their societies in the form of seed, pesticide and fertilizer, calculated according to the area of their farms. No credit was given in cash. Loans at 12% for nine months were granted at the beginning of the season and were repayable in cash during the month after harvest. The project was supported by training and extension services which ensured that farmers knew how to use the new inputs and that projects received technical support and supervision.

B. An Export Loan Scheme

In a country with a rapidly growing export trade in fruit and vegetables, small farmers are able to develop new projects with the support of a loan scheme run by the marketing co-operative, which is a countrywide organisation. Farmers are advised on suitable projects and trained in any necessary techniques. Credit is provided for all necessary inputs calculated on an individual basis, and is usually made available in the form of cash, though certain standard inputs may be provided in kind (fertilizer, pesticide). The agency markets all the farmers' produce grown under the scheme. Repayments are deducted from the farmers' sales receipts together with interest at the rate of 12% per annum.

C. A Village Loan Scheme

A local co-operative society which supplies members with inputs, under a progressive new manager determined to develop local agriculture in any way possible. A number of cash crops are grown locally on a small scale. The average holding is about six hectares and most farmers combine subsistence crops with a small acreage of cash crop. The co-operative will make credit available at 10% per annum to established members who put up a viable loan project for developing any local crop using modern methods and who will agree to attend a training course designed to improve their management and technical skills.

Assignment

1) What is the objective of each of the three schemes?

2) Who are the intended borrowers?

3) List the critical operating decisions that were made for each scheme, and identify where possible the factors which led to these decisions.

SESSION 4.2

WHAT ARE LOAN SCHEMES FOR?

Objective: To enable trainees to determine the objectives of credit schemes and assess their success or failure in relation to these objectives.

Time: One and a half hours.

Material: Handout - Two Loan Schemes.

Session Guide:

1) Remind trainees of the previous session. Ask them what the first and most fundamental aspect of any credit scheme must be: its objective.

Whom are agricultural credit schemes supposed to benefit and how? Elicit the response that the intended benefits are the following:

- Farmers will have a higher standard of living and will improve their farming ability.
- The national economy and agricultural productivity will improve and social and economic development will be fostered.
- Consumers will have more and better food to eat.

What are the objectives of co-operative lending agencies?

- Unlike commercial agencies these are in business to serve members rather than to make a profit. What should their financial objectives be? Trainees should suggest that in order to serve their members and meet social and development objectives, credit schemes, whoever runs them, must remain solvent. Stress the need to ensure the viability of loan schemes by ensuring a satisfactory repayment rate.

2) Ask trainees what the criteria of success for a credit scheme are. They should relate these criteria to the objectives just discussed, and should suggest the following:

- Improved agricultural productivity.
- Increased personal and national prosperity.
- A better standard of education among farmers.
- A satisfactory repayment rate.

Emphasise that the repayment rate is the key to success in the other areas.

3) Distribute the case studies and ask trainees to complete the assignment. Allow up to thirty minutes for this; ask trainees for their answers.

- The Multipurpose Scheme was far more successful, although its objectives were necessarily more diffuse and the danger of failure was greater. Factors contributing to the results were as follows:
- The main weakness of the Grade Cattle Scheme was the lack of back-up for the project in terms of both input and the necessary extension services. The Multipurpose Scheme included provision of agricultural inputs and of local resource people to advise on technical matters.
- The Grade Cattle Scheme demanded a high level of skill from farmers; poor yields and the high mortality rate of the cattle show that these were not available. The Multipurpose Scheme included regular meetings plus a training component.
- The Grade Cattle Scheme did not meet the needs of the target borrowers - the poorer local farmers. They were specifically excluded by the condition that borrowers had to own at least ten hectares. The fact that 120 grade cattle were bought without the aid of the loan funds suggests that there was no real need for credit among these richer farmers for this particular purpose. Loans were taken up because they were available rather than because there was a need for them.
- Since the loan funds in the Grade Cattle Scheme were all from central and remote sources farmers had no pressing sense of obligation to repay. In the Multipurpose Scheme, a close sense of community was built up through the emphasis on regular meetings and the fact that the funds were channelled through active local co-operative societies.

- The savings scheme associated with the riultipurpose Scheme made it possible for the loan scheme to become self-sustaining through the mobilisation of local savings. The Grade Cattle Scheme embodied no opportunity for recycling savings in this way.

4) Ask trainees to compare these two schemes with any credit schemes with which they are involved. Are there any lessons in terms of the following:

- Integrated input supply?
- Need to combine 'credit' with other necessary inputs?
- Training component and skills needed?
- Eligibility of those most in need?
- Local community involvement and responsibility?

Two Loan Schemes

A. A Grade Cattle Scheme

With funds from a foreign aid agency, the National. Development Agency of Utopia launched a credit programme in the Seleni district with the following objectives:

a) To increase the household incomes of local farmers through the introduction of 300 grade cattle a year into the district through the seven-year life of the project.

b) To improve the general level of diet within the district through increased availability of milk and milk products.

Like all the NDA's projects this one had the general aim of furthering more equitable distribution of income among rural people. In this particular area, with farmers holding on average five hectares, the scheme was intended to be self-sustaining, so that once it was established the project would make enough income to maintain itself without continuously needing external funds.

The project concentrated on the introduction of grade cattle, because it was calculated that with correct husbandry of pasture and cattle, grade cattle in the area could produce annual profits at the rate of about $150 per hectare, which was at least equal to the profits from possible alternative uses for the land. It was believed that farmers would need credit to make the initial investment, but once this was made, the cattle would be profitable enough to repay loans and allow for further investment.

The project was organised as follows:

Loans were made available to finance the purchase of grade stock, fencing material, dairy equipment, water development, and inputs for pasture improvement. Borrowers had to have at least ten hectares of land to which they could produce title deeds by way of security, and they had to have access to a cattle dip. Farmers received fifteen months' grace before loan repayments began. These were to be repaid over five years with an 8% rate of interest. The project was supported by the Ministry of Agriculture's extension services.

Results of the Project

At the end of the seven-year scheduled life of the project results were reviewed. It was found that 120 farmers, all with holdings above average in size for the district, had received loans, and had bought a total of 290 cattle. Over this period about 120 grade cattle were bought without the assistance of loan funds.

Farmers complained of the difficulty they had had in getting adequate veterinary services and other extension back-up, and also of difficulty and expense involved in obtaining and transporting cattle.

The average milk production per year from these cattle was 1,700 litres, giving an average annual income of $180 per cow. Their mortality was 60% over the period. The project cost about $3,000 per month to administer. Loan repayment was very unsatisfactory and there was a 69% default rate. Milk products were still being brought into the district as local, supplies failed to meet demand.

B. A Multipurpose Co-operative Loan Scheme

An extensive programme aimed at providing credit for a whole range of small farmers (with average holdings of a half to two hectares) was set up in Transylvistan. The objectives of the programme were to improve the standard of living of poor farmers, to upgrade farming practices, and to work towards the self-sufficiency of local co-operative loan schemes. Under this programme local co-operative societies were the vehicle for loans. Advance of loan funds from the central agency was conditional on the following factors: the society had to have been established at least two years. It had to show that members had regularly attended monthly meetings and it had to have accumulated a minimum sum per head from members' savings. The lending agency acted as input supplier, making standard agricultural inputs available locally.

The lending agency also provided training for elected representatives from each society in management techniques and new farming practices, so that these trained people could become local 'resource persons' in their areas. Once the initial probationary period was passed loans were granted to the societies to be distributed to approved members. These were farmers with a good attendance record at society meetings, who had saved regularly.

An elaborate loan appraisal system was adopted, and each applicant was interviewed by the. manager of his society. If the applicant was successful the loan granted would cover up to 80% of the. loan project costs, the rest of the costs being found by the. borrower.

Results of the Project

The project has been markedly successful in reaching small f,srme.rs, and has achieved a widespread increase in agricultural productivity. Its repayment rate from borrowers has been around 89%. It has been particularly successful in mobilising rural savings to provide credit.

Assignment

Compare the schemes.

- Which was successful in achieving its objectives?
- What factors contributed to their success or failure?
- What improvements would you have. made.?

topic

5

assessing the need for savings and credit facilities

-

SESSION 5.1

IDENTIFYING EXISTING NEEDS FOR SAVINGS AND CREDIT FACILITIES

Objective: To enable trainees to identify existing needs for savings and credit facilities in their area.

Time: Two hours.

Material: Handouts 1 and 2. Summary of a typical farm family from Session 1.

Session Guide:

1) Remind trainees of the profile of a typical farm household they developed in Session 1. Distribute a summary of their consensus of the family's characteristics as recorded at that session.

   Stress that savings and credit schemes must be designed according to farmers' needs, which requires knowledge of their income, skills, resources, knowledge and attitudes.

   Distribute Handout 1. Ask trainees to read the three descriptions and then to write a similar description of a typical farmer from their area, as indicated in the profile developed in Session 1.

2) Divide trainees into the same groups as used in Session 1. Ask each group to compare the descriptions written by each of its members, and to come to an agreement as to which of them, modified if necessary, best typifies the small farmer as they know him whether he is a member or not.

3) Allow up to twenty minutes for this. Then ask each group briefly to note down the features of a savings and credit service which would best suit such a farmer, with particular reference to the features identified in Session 2.1, namely:

   - Loan Conditions
   - Technical Back-up

- Paperwork
- Interest Rates
- Speed of Appraisal
- Location of Branches
- Approachability
- Opening Hours

- They should remember that the scheme must be viable, so that heavy costs in one feature must be covered elsewhere.
- They should ignore existing schemes, and attempt to base their conclusions only on the farmers' needs.
- They should not concentrate only on co-operative society members if they are not typical of the country's small farmers.
- They should remember the farmers' savings as well as his credit needs.

4) Allow up to twenty minutes for this; circulate among groups to ensure that they have covered each point. Distribute Handout 2, and allow groups up to a further thirty minutes to prepare their presentations.

5) Ask a spokesman from each group to present their presentations. The context of these presentations will vary according to the area and the individual views of participants. Discuss variations of opinion and point out that groups have not been asked to verify any of their assumptions. Where difference of opinion exist the only way to settle them is by reference to actual circumstances and conditions. The following issues should emerge from discussion:

- Awareness of farmers of the potential for agricultural investment. This is crucial to the success of development credit and most co-operative credit schemes accept the need to educate farmers to create a demand for credit and to help them use it effectively.
- Accessibility of savings and credit facilities. Accessibility is a key factor in the demand for savings and credit. Formal systems are often not used because they are physically inaccessible and involve complex and unfamiliar procedures.
- The present relationship of the **society with farmers in its area is a vital factor.** Farmers want services provided by an organisation they respect and trust. If they do not respect and trust

their society a savings and credit scheme is not likely to be much used or very successful. It may be useful also to discuss the existing membership of co-operative societies.

- What proportion of local farmers are members?
- If many farmers are not members why is this? (The society is specialised and provides only certain services; the society is inaccessible to certain parts of the community; the society is inefficient in the services it does provide).
- Would membership be increased if savings and credit facilities were available? Could the other departments service an increased membership?

6) In the next session trainees will devise ways in which they can verify their assumptions about the demand for savings and credit facilities. Ask trainees to remain in the same groups and to retain the notes for their presentation.

Handout 1 - Three Farmers

1. Juma is a farmer with a medium (11 hectares) holding in a remote area. He grows four or five hectares of maize and keeps twelve native cattle. He is a member of the local Multipurpose Co-operative Society but not a very active one. He uses it to buy supplies but does not attend meetings often. He markets his surplus grain and occasional meat locally, and his milk through the milk marketing board. He has an annual cash income of about $500, and meets most of his family's subsistence needs from the farm. He is a good hard-working farmer, not very ambitious, who knows he can provide for his family and has his life savings under a stone to prove it. Like everyone else he would like to be richer, but does not expect to be so and wishes to see his three sons better educated than he is, but he is himself a reasonably contented man, except, like all farmers, when he considers the weather and the ups and downs of prices.

2. Abdul farms the local cash crop on five hectares. His wife grows a little maize and some fruit and vegetables for the family's needs on a further half hectare. He saved up for years to make the in vestment and is doing well out of it. He is now saving to buy and plant another five hectares, which, with help from his four children who are growing up, he thinks he will be well able to manage. He is an ambitious man and has sacrificed a lot to get on in life. He is a member of the local co-operative society, whose main activity is as a marketing link for the cash crop (which may not be legally sold to any other purchaser). Abdul makes about $2,000 a year. He has a savings account in the National Development Bank, where he makes two trips a year - one after the crop sales, to deposit his surplus cash, and one at the beginning of the season to withdraw enough to pay for essential inputs.

3. Sorab is a very small farmer. He owns one and a half hectares of land, on which he grows enough rice to feed his family, which consists of a wife and five children. He has a few hens and a small vegetable patch and is occasionally able to sell or barter a few eggs and vegetables or a chicken, but most of his cash income is

derived from odd jobs as a casual labourer. He is lucky to earn as much as $200 a year. Usually it is nearer $100. He has no savings. He is not a member of the local Multipurpose Co-operative Society because he has never been able to afford the share investment of $25 demanded by the local society, and therefore has to buy the very small quantities of farm inputs he uses at a high price from a local trader.

Assignment:

Prepare a description of a typical farmer in your area, using the above examples as a model and drawing information from the profile developed in Session 1 and distributed with this handout. (The farmer need not necessarily be a member of a co-operative society, if members are not typical of the majority of small-scale farmers.)

Handout 2 - Group Exercise

An official from the Ministry of Co-operatives is visiting your area. He is interested in the possibility of funding development through local co-operative savings and credit schemes but he does not know very much about your area. He. asks you briefly to explain why there might be a demand for a new scheme and who would use it. What do you tell him?

Prepare a ten-minute presentation to answer the official's question. Structure your presentation around the following questions:

1) Does potential exist for increased productivity based on increased farm investment? Is investment really the. key to realising this potential or would improved management or farming techniques be just as, or more., effective?

2) Are existing credit facilities, if any, used by farmers? Is there any particular category of farmers who are <u>not</u> served by existing facilities? Are existing facilities unsuitable for these farmers and if so, why? (e.g. are they too far away, not geared to small-scale lending, not geared to agricultural lending?).

3) Do you have any evidence that there is an <u>active</u> demand for new credit facilities for farmers? If so, which farmers are asking for credit? Are they doing so because they want to develop their farms, or just to survive, or both?

4) What kind of project do you think farmers would like to be able to finance with new money in your area? (Development of new crops, use of improved methods for seasonal crops, upgraded livestock, irrigation/drainage/clearance projects, etc.)

5) To what extent is the society already involved with the development of such projects, e.g. through provision of supplies, marketing facilities, services, etc?

6) Is there any particular part of your area where you would expect demand for credit facilities to be high?

7) Generally, do you think farmers in your area have significant savings? How do they keep their savings? Have you any evidence for your views?

8) Are formal savings facilities used much by farmers in your area? If not, in what ways are they unsuitable for farmers' needs (high initial deposits, too far away, too impersonal)?

9) What are farmers' savings mostly used for? How often would they make withdrawals and deposits?

10) What is the. standing of the society in members' and other farmers' eyes? Is it seen as efficient, accessible and well-geared to farmers' needs? Is there a history of losses, bad management, failure to recover members' debts? Has it been seen as belonging to a particular section of the community? Is it seen as a local community enterprise or as an alien government inspired body? Do members feel any loyalty to the society, or will they try to take. advantage of accessible credit to acquire funds and not repay them? (Be honest.)

11) Are local farmers already in debt to the society, to money-lenders, to suppliers, or to the bank? Would further credit merely make things more difficult for them?

SESSION 5.2

OBTAINING INFORMATION TO ASSESS THE NEED FOR SAVINGS AND CREDIT FACILITIES

Objective: To enable trainees fo carry out a survey to assess the need for co-operative savings and credit facilities in a particular area.

Time: Two to three hours.

Material: Handout - Questionnaire.

Session Guide:

1) Divide. trainees into the same groups as in the previous session. Remind them that so far they have based their assessment of savings and credit needs on one. hypothetical family, with no concrete information on the numbers, location and needs of the population.

Refer to the second group exercise and discuss how they might predict more precisely the size and kind of demand for savings and credit facilities in their area, in terms that would help to plan the. funding of the. scheme. and the services it would offer.

Ask trainees what quantitative. information they would need before planning any savings and credit scheme. They will mention many items. Stress that information costs money, is often difficult to obtain, and tends to be unreliable. Only the. following four items are. essential:

A. Size of the savings scheme: Amount and number of savings, deposits and withdrawals likely to be made..

B. Size of credit scheme: Amount and number of loans likely to be sought.

C. Timing of demands: Annual patterns of savings and credit.

D. Places where demands are likely to occur.

2) Allow groups up to thirty minutes to decide exactly how they would set about obtaining this information. Reconvene the trainees and ask each group briefly to outline their suggestions. Stress that any new scheme or even continuing existing arrangements involves taking a risk, informed risk-taking is still risky.

3) The following points should arise in discussion:

- It is not possible to acquire hard facts about the future. Exact demand cannot be known because it depends on people's reactions to something that does not yet exist. Even their stated opinions and intentions may not prove reliable.

- However, reasonable predictions can be arrived at in two different ways:

  i) By assessing the present situation and drawing conclusions from it (thus if there are 250 farmers in a certain area there will be a demand for fewer than 250 loans).

  ii) By finding out from farmers if and how they would use the scheme. In assessing farmers' intentions, any known existing demand for savings or credit will be helpful, but it will not usually be sufficient guidance.

- To estimate the number and size of loans likely to be sought, information will be needed about the number of local farmers, their average holdings, what they grow, and what they earn.

- Estimating people's savings is difficult because they are likely to be secretive about it. Estimates of income can be compared with stated expenditure and spending on gold ornaments. 'Status' cattle or other non-productive assets may be considered as a form of savings.

- The timing of demand for savings and credit will be related to the crops grown in the area.

- Demand is likely to be greatest at the centre where most farmers likely to be involved in the scheme go for marketing, buying supplies for social or religious purposes.

4) Distribute the handout and ask trainees to return to their groups to study it and to prepare a questionnaire that could be used in

their own work situation. They should draft an actual form and i¢ possible reproduce it on a flipchart sheet or OHP slide for displa~j to the rest of the group.

5) Reconvene the trainees and ask group spokesman to present their suggestions. Invite comments and check that every question could in fact be answered realistically. Ensure that no unnecessary questions are included by asking each group to say what <u>use</u> they will make of each item of information.

Ask groups where they would obtain answers to the questions they have drawn up. The following sources of information may be useful:

- Society membership records.
- Existing credit agencies (but stress that information on particular individuals is confidential and the agency may in any case not want to give out general information).
- Local suppliers.
- Local marketing agencies.
- Land registers.
- District officers or other local authorities.
- Agricultural extension staff.
- Society members and potential members.

6) Ask groups to finalise their questionnaire, and present and compare the completed versions. Arrive at an agreed final version for the whole group, if trainees come from the same area or different areas with similar credit needs; if not, produce as many agreed variants as are necessary.

7) If possible, ask groups actually to carry out the survey they have designed. It may be necessary to make arrangements for them to consult society membership records, etc., and it would be helpful to make appointments in advance for them to call on various people in the areas they cover. Point out that in normal circumstances these appointments would be made by the persons responsible for the survey. Divide the local area into as many sections as there are

groups. Each group should cover one area, and carry out the survey as planned. This exercise would take about two days, depending on the size of the area. Groups should be asked to report back with their findings at the end of the agreed time.

Every effort should be made to arrange for field contact of this sort during the course. If two complete days are not available, a shorter period might allow at least a few interviews, arid it is in any case essential to maintain contact with reality during a course of this sort. Days or halfdays in the field should be arranged at least every week if at all possible, not for sightseeing but for guided tours for contacts with farmers or societies. The course should not be held in a location which is so removed from the far rning area that such contacts are impossible.

Questionnaire

	All	Co-operative Members
1) Number of farmers in the area:		
2)* Average size of holding:		
3)* Average income:		

* If there is a wide difference between rich and poor in the area it may be useful to determine the variations in size of holdings and income and the numbers of those with above and below average holdings and income.

4) Main source of income:

Crop/Livestock	Percentage of Farmers Deriving Main Income from Each Source	
	All	Co-operative Members
e.g. Maize Sorghum Rice Tobacco Cocoa Sugar Coffee etc. Mixed		

5) Main crop inputs: estimated amounts used per hectare.

Inputs: e.g. Improved Seed
Pesticide
etc.

Amount per Hectare		Cost per Bag
Used Now	Could be Productively Used	
x bags	x + y bags	

6) If applicable:

a) Volume of co-operative's input sales to members:

Input	Annual Amount	Value
e.g. Seed Fertilizer etc.	x bags	$ y

Amount and value of produce marketed through co-operative

Produce	Amount	Value
e.g. Maize Coffee Tea etc.	x bags	$ y

7) Annual pattern of peak input need and harvest for main crops.

Crop	January	February	March	April	May	June
Maize			e.g. Start Season			
Coffee		e.g. Start Season				
Rice						
etc.						

Crop	July	August	Sept.	October	November	December
Maize				Harvest		
Coffee						Harvest
Rice						
etc.						

8) Estimated average percentage of farmers getting income at different intervals.

Main Income	Percentage Receiving
Weekly	
Monthly or more frequently but not as often as weekly	
Quarterly or more frequently but not as often as monthly	
Half-yearly or more frequently but not as often as monthly	
Annually	
Unpredictable	

9) What percentage of farmers are already in debt to the co-operative or elsewhere?

10) How many farmers borrow money from formal and informal sources now?

For seasonal needs			For longer-term investments		
Formal	________	?	Formal	________	?
Informal	________	?	Informal	________	?
Average amount	________	?	Average amount	________	?

11) What percentage of farmers have savings in what forms which they can draw on for emergency or investment purposes? What is the average?

12) Are farmers aware of how they could benefit from investing more money on their farms, and of ways in which they might use more loan finance to increase their incomes?

13) Why are farmers not presently borrowing more money from banks or other formal sources of loans?

topic

6

designing a savings and credit scheme

SESSION 6

DESIGNING A SAVINGS AND CREDIT SCHEME

Objective: To enable trainees to design savings and credit schemes which are appropriate for the needs of members and potential members of their societies.

Time: Three hours.

Material: Case study - The Transylvanian Savings and Credit Scheme (this should be replaced with a locally based example if possible).

Session Guide:

1) Divide the trainees into the same groups as were used in the previous two sessions. Distribute the case study and allow groups up to one and a half hours to answer the questions faced by the secretary of the Transylvanian society.

   Stress that they must produce specific answers. Any scheme must be based on some estimate of demand and even if these estimates are inaccurate, some information is better than nothing.

2) Ask a spokesman from each group to present their suggestions. These may be summarised on the chalkboard/OHP in the following form:

Seasonal Loans		Long-Term Loans	
Number:	600	Number:	200
Average Amount:	$ 100	Average Amount	$ 200
Average Period:	6 *months*	Average Period:	5 *years*

Savings Accounts

Number:	200
Average Credit Balance:	$ 200

Package Loan Schemes:	*Yes*
For What Purpose:	*Maize*

What Amount:	*five bags of fertilizer and one bag of seed, total value $55.*
Service Hours:	*Office hours plus field availability and late opening on one or more occasions per week when farmers are expected to be in the town.*
Responsibility:	A *special officer to be employed.*
Disbursement in Cash or Kind:	*Both*
If in Kind, How?	A *certain number of bags according to individual agreement.*
Collection in Cash or Kind:	*Cash or kind as preferred by borrower.*
If in Kind, How?	*Credits from maize and vegetable deliveries may be credited against loan accounts.*
Total Amount Borrowed:	$ 100,000
Less Total Savings Deposits:	$ 40,000
Total to be Borrowed from Co-operative Bank:	60,000
Interest of Savings @ 7%	$ 2,800
Interest on Co-operative Bank Loan @ 8%:	$ 4,800
Total Interest Payments:	$ 7,600
Interest Paid by Members in Loans @ 12%	$ 12,000
Gross Surplus:	$ 4,400
Salary for Administrative Assistant:	$ 2,000
Stationery and Administrative Expenses:	$ 400
Allowance for Bad Debts @ 2%:	$ 2,000
Total Cost:	$ 4,400

3) The figures given in the above list are only illustrative. Trainees may not be accustomed to making estimates of this sort, but stress again that any estimate is better than none. Each group must just ify its findings, and trainees should be encouraged to use figures from their own experience.

There is no one right answer to a problem of this type. Group' answers must be internally consistent, but may differ widely from one another and still be equally appropriate for the situation outlined in the case study.

By way of example the basis of the estimates given above is as follows:

Number of Loans

60% of the. farmers said they could invest more money on their farms This figure has been halved and the same figure as is presently being borrowed from informal sources used for the. average amount of a seasonal loan.

Seasonal Loan Period

This estimate is based on the cropping pattern shown in the case study for maize and for seasonable vegetables.

Long-Term Loans

The numbers are based on a doubling of existing borrowers from other sources, since this type of borrowing is more likely to be inhibited by high interest rates charged by money-lenders. The average amount is the same as that presently being borrowed and the period is typical for loans of this sort.

Saving Accounts

The. number is based on half existing savers by all methods; and the. average amount they save is the average of the current savings with banks and using juwellery.

Package Loans

It is probably appropriate to introduce a modest package loan scheme for one hectare of maize. It would be asking too much to include herbicides and pesticides in this, considering the present low level of use.

Disbursement and Collection

These are allowed for in cash or in kind because insistence on payment in kind is more likely to lead to evasion. The viability of the scheme is a very approximate estimate, and the. allowance for bad debts is perhaps too modest. Trainees should discuss the. experience of well-run schemes in relation to this.

4) Trainees may overstate the loan take.-up and savings rate. for one or more. of the following reasons:

- They may underestimate the. inertia involved in decisions of this type; if a farmer has behaved in a certain way for many years he is unlikely to change at once even if an obviously attractive alternative. becomes available. Farmers are. naturally conservative and rightly so. For the. poorest farmer the penalty of failure. with a new method may be. starvation so that lie is right to reject it in favour of what is known, even if the chances of success with a new method are good and it would greatly improve. his situation.
- Trainees may underestimate the quality of service. farmers are. receiving from other formal or informal sources, and overestimate the. attraction of their own society's services. They should remember that interest rates are by no means the only element in the. decision on where to borrow.
- They may rely on compulsion and proposed national legislation or internal society penalties against those who borrow from moneylenders, or legally enforced monopoly or other ways of depriving farmers of access to alternative. forms of savings and credit. Such devices, as well as being against members' interests, usually fail to achieve. even the society's narrower objectives.

Stress the importance of promoting a new service such as credit to members, however attractive it may appear. Even the best product has to be 'sold'.

5) Discuss and compare groups' suggestions for the. ways in which the credit scheme is to be operated:

<u>Package Loan Schemes</u>

- Are the target borrowers sufficiently alike to avoid the danger of forcing unsuitable loans on to some of them?

- If there is no package scheme, will the proposed administrative staff be able to deal properly with all the individual loan applicants?

Security

- How will the. society actually use whatever security is proposed?
- Will demands for repayment lose credibility because it will not be feasible to call in the security if the. loan is not repaid?
- Will members be. discouraged from borrowing money because the. society's requirements for security appear frightening to them?

Interest Rate

- Is the interest rate. high enough to cover all administrative. costs?
- Is the 'spread' between the cost of money, whether raised by a loan from the bank or from members' savings, and the. return on the loans, sufficient to cover all costs of the credit scheme, including the. expected defaults?

Administration

- Are the staff, administrative facilities and access well enough organised to persuade members to undertake what is for them a new and risky activity namely, borrowing from, or lending to, a local, formally constituted organisation, without the status of a national bank or the. familiarity and traditional position of a jeweller or money-lender?

The Transylvanian Savings and Credit Scheme

The Transylvanian Co-operative Farmers' Society marketed its members' maize to the Government Marketing Board, and about half their vegetable crop through city traders. The society did not supply any inputs, since a number of competing traders in the region sold all that were necessary, and the co-operative department did not encourage societies to become involved in input supply unless members were inadequately served or private traders acted in a monopolistic way.

A number of members wished to improve their incomes by using more fertilizers as had been advised by the government extension staff, and some wanted to purchase tractors or to install pumpsets for irrigation.

There was no local bank nearby, and the co-operative bank manager in the district headquarters town, about 150 kilometres away, said that he could not possibly make small seasonal or long-term loans of the kind needed, since Transylvania was too far away for effective appraisal and supervision. There were not enough farmers, he thought, to justify a branch. The local commercial banks were also unwilling to extend their branch network as far as Transylvania. The co-operative branch manager suggested to the secretary of the Transylvanian society that the co-operative might itself borrow a lump sum from the bank under a special government scheme and then lend smaller amounts on to its members.

He also supposed that a number of farmers might want to make regular savings. They could not travel all the way to the bank for that purpose and he suggested that the society should consider offering savings facilities as well; in this way they would not have to borrow so much money from the bank.

The secretary realised that he needed more information before he could react to this suggestion. With the bank manager's help he made a list of the data he believed to be necessary in order to decide whether or not there was a need for such a service, and if so what sort of service it should be.

After some weeks he succeeded in finding answers to all the questions he had posed. He obtained information from members themselves, local traders, the Ministry of Agriculture and other sources, and considered that his results were the best estimates that were available. The completed list of answers is attached. The secretary then had to use this information to answer the following questions which the co-operative bank manager said he must respond to as a basis for discussing the proposal any further.

a) How many farmers will borrow money, in what amounts, and for what duration, assuming that funds are available for viable investment proposals, short or long term, and that interest rates are reasonable?

b) How many farmers will open savings accounts, and what average balance will they maintain?

c) What form of security will the society demand?

The bank was obviously concerned to ensure that any loan they made to the Transylvanian society would be repaid. The bank manager therefore asked the secretary to let him know the basic outline of any credit scheme he would propose and in particular he wanted to know the following:

a) Would the society offer standard 'package loans' for any purpose, and if so which; or would each application be individually processed for that member's particular situation?

b) Who would be responsible for running the credit scheme, and at what times and places would lending and savings business be transacted?

c) Would the scheme be self-supporting?

d) What would be the approximate income and expenditure attributable to the society's savings and credit operation in a typical year once it was properly established?

e) What arrangements were proposed for disbursement or collection in kind?

The manager had said that if the bank did make a bulk loan to the society they would charge the special subsidized interest rate of 7 ½ % per annum. A few individual farmers were presently borrowing money from the co-operative bank at 12%, or 13% from the other commercial banks. Private money-lenders were believed to be charging anything between 25% and 75% per annum. The normal rate of interest payable by banks on savings accounts was 7% a year.

Completed Questionnaire

	All	Co-operative Members
1) Number of farmers in the area:	2,000	1,000
2)* Average size of holding:	2 hectares	3 hectares
3)* Average income:	$ 300 per annum	$ 500 per annum

* If there is a wide difference between rich and poor in the area it may be useful to determine the variations in size of holding and income and the numbers of those with above and below average holdings and income.

4) Main source of income:

Crop/Livestock	Percentage of Farmers Deriving Main Income from Each Source	
	All	Co-operative Members
Maize/Vegetables	95%	100%
Cattle	5%	-

5) Main crop inputs: estimated amounts used per hectare:

Input	Amount per Hectare		Value per Bag
	Used Now	Could be Productively Used	
Fertilizer	2 bags	10 bags	$ 10
Improved Seed	-	2 bags	$ 5
Herbicide	-	1 drum	$ 10
Pesticide	-	1 drum	$ 15

6) If applicable:

a) Volume of co-operative's input sales to members.

Input	Annual Amount	Value
nil	-	-

b) Amount and value of produce marketed through co-operative.

Produce	Amount	Value
Maize	50,000 bags	$ 800,000
Vegetables	250 lorry-loads	$ 100,000

7) Annual pattern of peak input need and harvests for main crops:

Crop	January	February	March	April	May	June
Maize			Ferti-lizer, Seed			
Veg-etables		Main Harvest		Seed and Ferti-lizer for Small Crop		

Crop	July	August	Sept.	October	November	December
Maize				Harvest		
Veg-etables			Small Crop Harvest	Seed and Ferti-lizer for Main Crop		

8) Estimated average percentage of farmers getting income at different intervals.

Main Income	Percentage Receiving
Weekly	10%
Monthly or more frequently but not as often as weekly	25%
Quarterly or more frequently but not as often as monthly	-
Half-yearly or more frequently but not as often as monthly	55%
Annually	10%
Unpredictable	-

9) What percentage of farmers are already in debt to the co-operative or elsewhere?

Money Lenders	30%
Bank	1%

10) How many farmers borrow money from formal and informal sources now?

For Seasonal Needs		For Longer-term Investments	
Formal	-	Formal	1%
Informal	25%	Informal	5%
Average Amount	$ 100	Average Amount	$ 200

11) What percentage of farmers have savings in what forms which they can draw on for emergency or investment purposes? What is the average?

a) 1% of farmers are presently saving money in a bank. Their average credit balance is $300 and transactions take place monthly.

b) 15% of farmers are saving money by purcbsse and resale of jewellery; the average value is $100 and sales and re-purchase take place on average annually.

12) Are farmers aware of how they could benefit from investing more money on their farms, and of ways in which they might use more loan finance to increase their incomes?

60% of all farmers, members or non-members, were able to answer positively and realistically the question: 'What change would you make to your farm if you had money to invest in it?'

13) Why are farmers not presently borrowing more money from banks or other formal sources of loans?

Farmers said they were not borrowing from the bank at present for the following reasons:

Percentage	Reasons Given
55%	It is too far away
20%	No reason stated
10%	The bank is only for traders and salaried people
10%	It takes too long to arrange
5%	The bank will seize your land if you repay late

topic

7

assessing loan projects

SESSION 7.1

ASSESSING LOAN APPLICATIONS

Objective: To enable trainees to identify the information required about the present position of a farmer and the project he proposes in order to assess his loan application.

Time: Approximately one and a half hours.

Material: Handouts 1 to 4.

Session Guide:

1) Distribute Handouts 1, 2 and 3. Ask trainees to examine each in turn and to suggest what further information would be needed before each loan could be appraised. Elicit the following points:

- The letter contains very little information, but Handouts 2 and contain something about the applicant's financial situation and about the intended purpose of the loan.

Ask trainees to compare Handouts 2 and 3 with forms in use in their societies. Could all the information required for Handout 3, which is used in the Republic of Ireland, be provided by their members?

- Handouts 2 and 3 contain information about the security or surety the applicant is offering.
- In all cases more would have to be known about the way the applicant intends to use the loan.
- More would need to be known about how and when the loan would be repaid and hence about the applicant's actual and expected income and outgoings.
- More would need to be known about the applicant himself.

2) Summarise the discussion on chalkboard/OHP. The Application Form is the starting point for loan evaluation, which involves obtaining information about:

- The applicant himself.

- The applicant's present farm plan and financial status.
- Available security or surety.
- The loan project.

Evaluation of loan projects is discussed in Sessions 7.2 and 7.3.

3) Allow trainees up to twenty minutes to draw up a checklist of the personal information they would need about an applicant. Lists should include the following:

a) Farming experience and ability.

b) Evidence of ability to work hard.

c) Educational standard.

d) Age of applicant.

e) Number of family members and their ages.

f) Standing in the community.

g) Credit record, if any.

Stress the importance of these points in assessing small-farm borrowers, who may have little financial information and no security to offer. Discuss how each type of information can be obtained. Stress that information is expensive and time-consuming to obtain. Every item should be 'tested' by asking 'What difference will the answer make to the loan decision?'

4) Distribute Handout 4 (Farm Assets and Liabilities sheet for Zuni Kiwombe). Remind trainees of the conventional layout of balance sheets. Assets and liabilities are listed as in the handout in the following order:

i) Fixed (property and buildings; long-term loans).

ii) Intermediate (equipment, machinery, breeding stock; intermediate loans).

iii) Current (cash, produce for sale, bills owed to applicant; short-term loans and immediate debts).

If trainees are not familiar with balance sheets, ensure that they learn the basic principles before proceeding with this course.

Although the present handout is not a formal balance sheet it gives similar information. Ask trainees to discuss the nature of this information and how it could help in loan assessment. They should make the following points:

a) The balance sheet or statement of assets and liabilities is a description at a particular point in time. of the financial condition of a business (or farm).

b) It lists the business assets and liabilities at that particular point in time.

c) From it can be derived information about the value of particular items and the applicant's net worth, that is, the value of his possessions less any amounts he owes to other people or institutions.

d) It tells little about the personal qualities of the applicant.

e) It tells nothing about the possibilities of any new projects for which a loan may be requested.

5) Ask trainees to draw up a statement of assets and liabilities for J. Obongwe using the data in Handout 3. Compare their versions with the following:

Liabilities	$	Assets	$
Surety	500	Property	2,000
Sundry Creditors)		Buildings	1,000
Co-operative)		Equipment	1,250
Tractor Hire)	304	Livestock	530
Shops)		Crops	500
Net Worth	4,636	Cash in Bank	120
		Cash in Hand	40
	$ 5,440		$5,440

Explain if necessary that the figure for net worth is a balancing item which shows the. value of what the farmer owns after meeting all his obligations.

6) Security is discussed in Sessions 8.3 and 8.4. Point out that the preparation of a balance sheet or of a statement of assets and liabilities gives the lending agency an indication of the kind of se curity an applicant might be able to offer and of its real value. It also shows how much of his own resources the member can afford to commit to the new investment.

Stress that though small farmers are most unlikely to have audited balance sheets, a simple summary like the above can and should be drawn up for new loan applicants. Such a statement helps in the assessment of the applicant's present financial position and farm plan and forms an essential starting point for assessing the likely success of the loan project.

7) Ask trainees what further information about the loan project would be needed from each applicant in order to evaluate the loan. Write each suggestion on the chalkboard/OHP. The follcwing are examples of the kind of information needed.

Handout 1: Poultry Project

- Does the applicant have any knowledge or experience of poultry farming?
- What size of poultry farm is he going to establish?
- Will he be selling eggs, or table birds?
- Are water and electricity available?
- How does he propose to market the poultry/eggs?
- What is his expected income?
- What inputs will he need to buy?
- Will he be able to repay the loan out of the profits of the project?

Handout 2: Cotton-growing Project

- How much land does the farmer occupy?
- Will he be growing cotton on all of it?
- If so, what will his family eat?
- What experience does he have of cotton growing?

- What facilities exist for marketing?
- What are his expected income and outgoings?
- How will his position compare with his present financial condition?
- How will he repay the loan?

Handout 3: Maize Project

- How will the applicant dispose of his livestock and will the proceeds be available as his share of the investment?
- Exactly what area of land will the applicant be farming?
- Will he be employing the two labourers and if not, what will happen to them?
- What will be his income and outgoings and how will he repay the loan?

8) Ask trainees to suggest what kind of informations are required to evaluate any loan project. Suggestions should include the following:

Project Information:

- What exactly is the loan project?
- How does the project relate to the applicant's present activities, including his experience, land use, his equipment and the available labour?
- Is there adequate support for the project in terms of markets, transport, inputs, water and whatever else is needed?

Financial Information:

- What are the expected income and outgoings of the loan project?

Personal Information:

- Does the applicant have the necessary technical and management skill?

- Has the applicant shown commitment and loyalty to the society in the past or has he joined merely to obtain a loan and perhaps then to resign?
- Has the applicant handled other financial dealings in the past?

9) Stress that financial information alone does not always indicate whether a loan should be granted. In discussion, elicit the following points:

- The project may involve changes in the member's way of life which he or his family cannot accept.
- The project may be unacceptable to the community of which the applicant is a member.
- The project may be successful in itself but may do unacceptable damage by causing unemployment, or by reducing other farmers' access to grazing or water.

10) Ask trainees for examples of farm investments where the project's technical and financial details were satisfactory, but which failed because of personal or community problems.

- How could the lending agency have foreseen the problems?
- How can technical and financial appraisal be effectively supplemented in order to avoid this?

Stress the importance of close personal contact with members and the community. Loan applications must be appraised in the field as well as in the office.

Handout 1

To the Manager,
Ardella Branch,
Utopia Co-operative Bank.

Dear Sir,

I am a member in good standing of the Azikur Co-operative Society. I have heard that the Co-operative Bank will grant loans for agricultural development purposes. I have recently bought some land near Azikur village and wish to establish a poultry farm.

I therefore wish to apply for a loan of $2,000 for this purpose and can offer sureties for this amount.

Yours faithfully,

Abdel Mohammed

Handout 2 - Utopia Co-operative Bank
Loan Application

Name: *Zuni Kiwombe* Address: *Rilo ViZZage*

Amount of Loan Applied for: *$ 250*

Other Debts:

Date	Owed To	Purpose	Amount
10.7.1979	*Shone Vilume*	*Buying materials for new roof*	*$ 25*
		Total:	*$ 25*

Sureties:

1) Member's Name: *AZi Bukaga* Member's Number: *7568*

2) Member's Name: *Peter Kimaro* Member's Number: *3412*

Date for Repayment: *31.6.80* Purpose of Loan: *Growing Cotton*

Dated: *17.7.1979* Signed: *Zuni Kiwombe*

THE AGRICULTURAL CREDIT CORPORATION LIMITED

CONFIDENTIAL

APPLICATION FORM

NOTE:

It is essential that a full and accurate statement of the applicant's position be given on the form. A blank or stroke will not be accepted as an answer. Where the reply to any question is "no" or "none", the appropriate word should be written.

I/~~We~~ JAMES OBONGWE

of (address) SIAMO VILLAGE

Nearest Post Office SIAMO

hereby apply for a loan of $5,000 repayable over FIVE years.

for the purpose of PURCHASE OF TRACTOR, CONVERSION OF WHOLE FARM - INCLUDING TWO ACRES LET AT PRESENT - TO GROWING HYBRID MAIZE.

and I/~~We~~ offer the following security: FARM AND BUILDINGS WORTH $5,800 (SEE OVER).

NOTE: *Every query must be answered. If the reply is "No", or "None", that should be stated in the reply.*

L I A B I L I T I E S

1. Bank Debt(s) $ ______

   Name and Branch of Bank(s) .... NONE ....

   Date(s) incurred and original amount ....

   Security given ....

   Purpose for which incurred ....

2. Mortgage or Charge other than to Banks $ ______

   Name of owner of Mortgage or Charge .... NONE ....

3. Hire Purchase Debt(s) $ ______

   Name(s) of Company/ies .... NONE ....

   Article(s) hired ....

   Amount(s) financed ....

4. Other Debts

   Purpose for which debt incurred

   a) Relatives .... NONE .... $ ______
   b) Shops .... FOOD AND HOUSEHOLD ITEMS .... $ 48
   c) Co-operative Societies FODDER .... $ 56
   d) Contractors .... TRACTOR HIRE .... $ 200
   e) Others .... NONE .... $ ______

5. Liabilities as a Surety ....TO ELDEST SON FOR BANK LOAN... $ 500

TOTAL LIABILITIES $ 804

Net Worth $ ______
(for office use oniy)

ASSETS

6. Market Value of Lands (if you have more than one holding, state value of each separately) $ 2,000

7. Livestock

	Number	Value
Horses	NONE	
Cows	5	250
Incalf Heifers	2	120
Cattle - 2 years	1	40
Cattle - 1 year	2	60
Calves	NONE	
Goats	NONE	
Pigs	NONE	
Poultry	12	60

Total $ 530 — $ 530

8. Crops

	Hectares	Value
Corn	5	500
Other	NONE	

Total $ 500 — $ 500

9. Machinery (value) $ 1,250

10. Cash

(a) In Hand $ 40

(b) In Bank $ 120

(c) On Deposit with ACC $ ______

11. Stock and Shares Market Value = $ ______

12. Total Surrender Value of Life Assurance Policies (if available) $ ______

(Give particulars of policy/ies, e.g. date, sum assured, annual premium, details of any mortgage on policy) NONE

TOTAL ASSETS $ 4,440

13. Details of Applicant's Land (Forwarded Latest Rate Demand Note and Receivable Order(s)

Name of Land	County	Area (Statute Measure) a. r. p.	Poor Law Valuation	Receivable Order Number

Total area of lands TWELVE HECTARES

14. Are you full owner of the lands? YES

15. State if any rights (e.g. rights of residence and support) affect the lands TWO FARM LABOURERS HAVE GARDENS AND HOUSES ON MY FARM (ABOUT 1½ HAs).

16. State area and price of any land let or rented

Let: 2 hectares - $ 100

Rented: ___ hectares - $ ___

17. Describe the dwelling-house and outoffices 1 HOUSE, 1 BARN, 2 SMALL SHEDS, VALUE $1,000

18. Describe the farm machinery 1 PLOUGH, DAIRY EQUIPMENT, 1 LORRY.

19. Applicant's age: 42 Wife's/~~husband~~'s age: 38

Ages of children: Males 18, 15 Females 10, 8

Ages of any other adults: MOTHER 64, FATHER 71

Number of full-time employees: TWO

20. State amount and source of income other than from farming LET SMALL FARM $100 P.A.

21. Name and Branch of any Bank(s) with which you have had dealings UTOPIA NATIONAL BANK

I declare that the above particulars are true and correct and I have not suppressed any material fact.

The applicant must personally sign this form. Failure to do so will only delay the issue of the loan if granted.

Signature of Applicant: ____________________

Date: ____________________

Handout 4 - Kiwombe's Farm

Liabilities	$	Assets	$
Loan - Shone Vilume	25	Property	1,500
Sundry Creditors:		Buildings	850
Co-operative	80	Equipment	250
		Livestock	150
		Crops	300
		Stores	25
		Cash at Bank	100
		Cash in Hand	17
	$ 105		$ 3,192

SESSION 7.2

CALCULATION OF THE FINANCIAL OUTLOOK

Objective: To enable trainees to use simple financial techniques to calculate the financial outlook for loan projects and to appreciate the need to take factors other than the purely financial into account when assessing loan applications.

Time: Approximately two hours.

Material: Handouts 1 to 5, plus Handouts 1 to 3 from Session 7.1.

Session Guide:

1) Distribute Handout 1; allow trainees up to twenty minutes to prepare answers to the assignment, ensuring that they also use Handout 2 from the previous session.

   Ask selected trainees for their answers.

   a) The project appears to be viable.

   b) Will Kiwombe be better off after repaying the loan, than he is now? What will the cattle be sold for and how will the money be used? How will the land enclosure affect the neighbour's farm?

   c) If no problem arises through the above, the loan should be approved.

2) Distribute Handout 2 (project details for Obongwe's farm). Ask trainees to examine it in conjunction with Handout 3 from Session 7.1. Record their answers and then allow up to twenty minutes to complete the assignment.

   Their answers should be similar to the following:

Expenditure	$	Income	$
Seed	40	Sales of Maize	2,400
Fertilizer	300		
Labour	400		
Pesticide	150		
Transport, Packing for Harvest	60		
Repayment on Tractor	900		
Interest (12% on $5,000)	600		
	2,450		2,400

Remind trainees how many of them thought the loan seemed a reasonable proposition before they drew up these figures and stress the need to calculate income and expenditure. Ask what surplus would be a reasonable return for a small-farm borrower on a project of this sort.

Stress that a borrower should be about 20% better off as a result of a loan, <u>after</u> repayment. The surplus should in this case be around $400 to $500.

3) Point out that while. the income and expenditure figures give an overall picture of the profitability of the project they do not indicate the timings of any of the. expenditures or when the income can be expected. Ask trainees to consider why timing is important in the. evaluation of loan projects and how the timing of income and expenditure might be estimated. Elicit the following points:

- The loan should be repaid at or before the end of the life of the loan project. If repayments extend beyond the period when the. project is producing income there is little likelihood that they will be made.
- The success of farm projects depends on adequate funding at the correct times; thus the. timing of loan disbursements must be calculated in relation to the farmer's needs.

- The repayment of farm loans must be arranged for times when the farmer has cash available.
- The farmer needs some cash in hand at all times to meet emergencies and to provide subsistence for his family.

4) Ask trainees to refer to Handout 1, Kiwombe's Cotton Project. Write the following timing information on the chalkboard/OHP :

- Cotton sale process will be received in October.
- Seed, fertilizer and $20 worth of labour will be paid for in February.
- Half the pesticide will be paid for in April and half in July, as will the sprayer charges.
- The balance of $30 for labour will be used in September for harvest.
- The baling charges will be paid at harvest time, in September.
- The interest charges will be payable in October.

Allow trainees up to thirty minutes to work out the amount of loan Kiwombe will need each month, and the maximum amount he will need. Ask trainees for their solutions, and distribute Handout 3 as an example of cash budget layout. Stress that few crops or other seasonal projects require the full amount of the loan for more than a few weeks. How can borrowers avoid unnecessary interest charges? Can co-operatives match the flexibility of commercial bank overdrafts?

5) Distribute Handout 4; allow trainees up to thirty minutes to complete the assignment.

Ask a selected trainee to write his solution to Part A on the chalkboard/OHP. Compare this with other trainees' results and ensure that all trainees have agreed to Part A, and have corrected their answers to Part B, before asking another trainee to write out his solution to Part B.

Distribute Handout 5 if necessary to show the layout adopted for this cash budget, and the relationship between the annual totals and the monthly flows of cash.

6) Ask trainees for their answers to Parts C and D. Clearly the project as it is estimated can succeed, and the cash for repayment can be generated in two years leaving almost $1,000 surplus. Ask trainees to suggest factors which may influence the project's outcome, favourably or otherwise; would they suggest any conditions for approving the application?

7) Stress that the evaluation methods suggested are simple; too simple for complex long-term projects. They are, however, suitable for most small-farm loans.

Trainees may be familiar with discounting and other more sophisticated techniques of loan appraisal. Stress that shortage of time, skilled staff and data make such techniques impractical and valueless for co-operative small-farm lending; they may even be dangerous, in that a neatly appraised project on paper may blind credit management to the greater importance of the borrower's personality and ability.

Handout 1 - Zuni Kiwombe's Cotton Project

(To be read in conjunction with Handout 2 from Session 7.1,Utopia Co-operative Bank - Loan Application)

The applicant has five hectares of land. At present he grows maize and vegetables on three hectares and the other two are used as part of the rough grazing for his own three cows and those of his neighbour. He proposes to sell his cattle and to retain one hectare for a small mixed crop for his family's subsistence. He wishes to grow cotton on the rest of his land. He is quite an able man but has no previous experience of growing cotton.

The following is the loan officer's estimate of his expected costs and income for the first year.

Costs	$	Income	$
Seed	20	Cotton Sold	530
Fertilizer	48		
Pesticides	56		
Labour	50		
Bales	20		
Hire of Sprayer	40		
Interest*	30		
	$ 264		$ 530

* Interest on S250 at 12% for one year.

Assignment:

A. Can the project succeed?

B. What other information should be obtained?

C. Should the Co-operative Bank approve the loan?

Handout 2 - Obongwe's Maize Farm

James Obongwe owns twelve hectares of land, which support his own family plus the families of two labourers who graze their cattle with his and grow a small subsistence crop, on about one and a half hectares of the land.

Obongwe's assets and liabilities are outlined in Handout 3 from Session 7.1. Obongwe proposes to sell most of his cattle and to buy a tractor. He will then convert all his land to growing hybrid maize, except a total of two hectares which will be used for grazing one or two cows to supply milk for his family, and for growing vegetables. He proposes to dismiss one of his labourers and allow the other to stay on, but the remaining labourer will have to give up his subsistence crop and accept a higher wage instead.

The second-hand tractor he has found will cost $4,500. Costs for the first year's hybrid maize crop on ten hectares are as follows

Seed	$ 40
Fertilizer	300
Labour	400
Pesticide	150
Transport and Packing for Harvest	60
	$950

He expects to harvest about 3,000 kg per hectare. Maize sells at eight cents per kg.

He has applied for a loan of $5,000 to start the project. (This will not cover his initial costs, but he will make up the difference by using some of the money he obtains when he sells his cattle).

Assignment:

If the bank agrees to this loan they will expect the tractor loan to be repaid in five years. Work out figures for Obongwe's income and expenditure for the first year, if he is paying interest at 12% per annum.

Handout 3

Monthly Cash Flow Budget for Kiwombe's Project

	Jan. $	Feb. $	March $	April $	May $	June $	July $	August $	Sept. $	Oct. $	Nov. $	Dec. $	Annual $
Income:													
Sales of Cotton										530			
Total										530			530
Expenses:													
Seed		20											
Fertilizer		48											
Pesticides				28			28						
Labour		20							30				
Bales									20				
Hire of Sprayer				20			20						
Interest										30			
Total		88		48			48		50	30			$ 264
Cumulative Total		-88		-136			-184		-234	+266			+$ 266

Handout 4 - Abdul Mohammed's Chicken Farm

(To be read in conjunction with Handout 1 from Session 7.1)

The Loan Evaluation Officer has visited Abdel Mohammed and collected the following information.

Mohammed owns a bar in Azikwi Village, from which his income is largely derived. He has purchased out of savings two hectares of land near the village (value $500) and had it cleared at a cost of $350. Mohammed is a customer in good standing at the Standard Bank and has proved himself a capable manager of his bar. He has however no farming experience at all and the poultry farm was suggested by his brother-in-law who runs a poultry unit rather profitably in the next village, and who has offered to help Mohammed get himself established. The Utopia Co-operative Bank has no knowledge of the brother-in-law, but Mohammed seems to have been sensibly advised.

He proposes to finance his operation with a loan of $2,000 from the bank to be repaid over two years, and to invest $1,000 of his own money in the construction of poultry sheds using a deep-litter system. He has set aside $1,000 for current expenses before the birds start to lay. He proposes to sell eggs, and in due course, table birds, and will use his bar as the main marketing outlet. He will start off with 200 day-old chicks.

The costs are as follows:

<u>Sheds</u>: It costs $25 per square meter to construct poultry sheds. Each laying bird needs 0.2 square meter.

<u>Birds</u>: Day-old chicks are $2 each.

<u>Equipment</u>: For layers $2.50 per bird should be allowed.

<u>Feed</u>: Feed requirements obviously rise as the birds grow bigger. Average cost per bird per week over the first year of its life is $0.15.

<u>Water</u>: Supply will cost $50 per year.

<u>Veterinary Expenses</u>: Average $50 per year per 100 birds.

Labour: Mohammed will employ a youth to work on the poultry farm. His wife and elder daughter will do the bulk of the work. The youth will earn $400 per annum.

Interest: Interest on bank loans is at 12% per annum.

The chickens come into lay at 22 weeks, and will lay about four eggs per week each thereafter. Eggs fetch $0.50 for five.

Assignment:

A. Prepare a statement of operating expenses and income for the first year.

B. Prepare a cash budget showing the monthly receipts and disbursements for the first year.

C. Is the project viable from Mohammed's point of view?

D. Should Mohammed's loan application be approved?

Handout 5

Statement of Income and Expenditure
for Mohammed's Poultry Project: Ist Year

Expenditure	$	Income	$
Sheds	1,000	Egg Sales	2,400
Equipment	500		
Chicks	400		
Feed	1,560		
Veterinary	100		
Water	48		
Labour	480		
Interest (on $2,000)	240		
	$4,328		$2,400

Monthly Cash Budget

	Jan. $	Feb. $	March $	April $	May $	June $	July $	August $	Sept. $	Oct. $	Nov. $	Dec. $	Annual $
Income:													
Egg Sales						160	373.3	373.3	373.3	373.3	373.3	373.3	2.399.8
Total						160	373.3	373.3	373.3	373.3	373.3	373.3	2,399.8
Expenses:													
Sheds	1,000												1,000
Equipment	500												500
Chicks	400												400
Water	4	4	4	4	4	4	4	4	4	4	4	4	48
Feed	130	130	130	130	130	130	130	130	130	130	130	130	1,560
Labour	40	40	40	40	40	40	40	40	40	40	40	40	480
Veterinary			25			25			25			25	100
Interest												240	240
Total	2,074	174	199	174	174	199	174	174	199	174	174	439	4,328
Difference	-2,074	-2,248	-2,447	-2,621	-2,795	-2,834	-2,634.7	-2,435.4	-2,261.1	-2,061.8	-1,862.5	-1,928.2	-1,928.2

- SESSION 7.3

THE SOCIAL AND FAMILY EFFECTS OF LOAN PROJECTS

Objective: To enable trainees to assess the social effects of loan projects.

Time: Approximately two hours.

Material: Case studies 1 to 4.

Session Guide:

1) Divide the trainees into four groups. Allot one case study to each and ask each group to read all the case studies and to be ready to comment on the one allotted to them.

   Remind trainees that the case studies are designed to show various ways in which loan projects, in themselves perfectly viable, may carry unexpected or undesired social and economic consequences if the context of the project is not fully considered.

   Case Study 1

   a) As stated the plan is sound, so long as the former users of the land have really agreed and not simply been overruled by a majority. Have they somewhere else to graze their cattle? It must also be assumed that there is a market for the vegetables.

   b) The objection to the plan is that an outside contractor is to be used. Since farmers are already familiar with the type of irrigation system required there is no reason why village labour could not be hired. This would keep the $15,000 in the village, by providing paid work for members of the community.

   c) Although the contractor would be quicker, speed is not essential to the success of projects like this and the work could be timed for slack periods in the farming year.

Case Study 2

a) Again the project is sound in itself. Participants may suggest that the loan officer might have been well-advised to verify the driving skills of the borrowers, but otherwise there is no real objection to the project.

b) The reason for failure is that the resources of the local community are not sufficient to keep the lorry on the road - the necessary mechanical skills are not available when needed.

c) It might have been possible to suggest alternative means of transport such as an ox-cart, where resources in the community could cope with likely emergencies. The alternative strategy is to ensure by insisting on, and if necessary providing, appropriate training, that the required skills are developed in the community.

Case Study 3

a) Obviously there is room for debate about the objectives of development lending. On the one hand there is a need to increase productivity, but on the other to maintain and, if possible, increase the well-being of farm families. Cases like this illustrate the possible conflict between these two objectives.

b) Generally where agricultural innovation offers economies of scale, large-scale farmers will be most likely to benefit. This is how the rich get richer and the poor poorer, as in this case. Ask trainees if Amadu or his displaced tenants are more typical of their society's membership. Do members' improvement plans improve or damage the lot of the poorest people?

c) There may be a number of alternatives for increasing productivity while retaining small holdings. Economies of scale can be made available to smaller farmers through machinery sharing schemes; or a deliberate policy can be adopted of refusing support for schemes which seem likely to lead to the kind of result shown in the case study and of offering support to similar scale projects involving 'intermediate' technology - in this case improved ploughs, not tractors.

Case Study 4

a) Here a sound plan has led to unexpected and unwelcome changes in the family's way of life. The extra work involved in the new project has led to neglect of the rest of the farm, and the women of the family have been deprived of an important part of their lives.

b) The project has been planned without full appreciation of what is involved for the family as a whole.

c) The farmer could allow his women to market the vegetables for him thus allowing him more time on the farm and satisfying their social needs.

2) Ask trainees to suggest any parallels to these case studies that they are familiar with in their own areas. Are co-operative credit officers aware of problems of this sort or do such projects go through without comment, leading to lost opportunities for development and social problems?

3) Ask trainees the following:

- Who is affected by farm projects, apart from the farmer?
- What is one critical difference between a non-farm business and a family farm?
- What are overall objectives of rural development?

Elicit the following suggestions, and summarise them on chalkboard/OHP:

a) The way farms and agricultural projects are managed affects not only the people directly involved but also the local farm community and the country at large. Similarly farmers need support from the resources of the community and from the country at large. It follows that farm projects have to be evaluated not only as business propositions but as elements within a wider social and economic context.

b) Farm projects differ from ordinary businesses in that they affect the pattern of life of the whole farm family and must be considered in this context as well as being purely economic activities.

c) In most countries the objectives of rural development include:

- Raising the productivity of the land to produce more food and more cash crops.
- Increasing the standard of living of the rural poor.
- Increasing employment in the country, partly to avoid the drift to towns and partly to improve living standards.

4) In view of these objectives and of the case studies, ask groups now to suggest some guidelines for loan officers in their own institution to help them evaluate loan projects from this wider social and economic viewpoint, rather than simply as financial propositions. What kind of social and economic implications should they look for in such projects and how would they try to discourage undesirable outcomes?

Attempt in discussion to elicit the following suggestions, among others:

- Projects involving advanced technology need support from the resources of the locality. (Case Study 2 is an example of this.) Such support may take the form of expertise (as in the case study) or of inputs such as HYV seeds, electricity or specialised equipment for hire. Where this kind of support is not available it is better to adapt loan projects to the kind of technology that is available to support them.
- This 'appropriate technology' may involve the use of non-mechanical tools, improvements on traditional methods, which are still basically similar to former ways, or the use of locally avail able materials such as wood or iron, rather than steel or plastic. Such technology is 'appropriate' in the sense that it can be understood, used and maintained by the people who use it, without 'expert' assistance.
- Projects involving advanced technology (either equipment or

techniques) may depend for their economic efficiency on the fact that they are labour saving (Case Study 1). In most developing countries labour is relatively cheap and plentiful and it may be more socially beneficial to prefer a labour-intensive project.

- Generally it is not the aim of development projects to assist the rich, specially not at the expense of the poor. Projects should always be examined to see whose interests they may damage (Case Study 3).

- Changes in farm plan may involve changes in the family's whole life style. These changes are not necessarily either good or bad. They may cause problems if they are unforeseen and loan projects should be examined with this consideration in mind so that changes can be prepared for.

Case Study 1

A co-operative society applied for a loan to level and irrigate an area of about twenty hectares of rough river valley land formerly used for grazing. The former users had agreed to the plan. The land thus cleared would be rented out to members of the society for cultivating vegetables. (The society had cleared all the legal barriers relating to the problems of ownership and change of customary use of this land.) The objective of the plan was to increase the incomes of the poor members of the co-operative society. The plan was to construct a weir and elaborate irrigation system. The villagers were familiar with this type of system and some farmers had already constructed their own irrigation ditches farther up the river. A contractor from the regional capital had estimated that the job would take a month using bulldozers and heavy equipment, and would cost $15,000. This was the lowest of several quotations from similar firms, so the society applied for a loan of this amount.

The Co-operative Bank replied in due course that although the project was sound and seemed likely to succeed, they would not grant the loan for the work as proposed, and gave reasons for this refusal. They also suggested an alternative course of action for setting up the project.

The Co-operative Bank's objectives included raising the incomes of the poorest group of farmers.

Assignment

Why did the bank object to the society's plans, and what alternative course of action might it have suggested?

Case Study 2

A group of four farmers in a very remote area whose lands adjoined one another had worked together for several seasons, having jointly taken a loan for the digging of a well. This loan had been successfully repaid and the farmers, looking for a new investment, submitted the following project to the Co-operative Bank.

They wished to borrow $6,000 for the purchase of a lorry, which would be a great help to them. Since they were 30 kilometres from the nearest small town, the marketing and collection of supplies would be much easier. The lorry would cost $5,250 to buy and they were allowing $750 a year for running costs. In order to reach two of the farms the existing track would have to be widened but the group reckoned they could do this themselves without hiring extra labour. All the group claimed to be able to drive.

The first year all went well; the lorry was earning its keep, and loan repayments were maintained according to schedule. After fifteen months, however, the lorry developed mechanical problems and kept breaking down. The garage in the local town where there was no qualified mechanic, was unable to find the fault, but the owners were not unduly worried as they always managed to get the lorry started again. Finally, however, the lorry broke down completely, at a very inconvenient moment, being loaded with seed and fertilizer for the beginning of the new season. The farmers had to hire carts to deliver their inputs and planting was delayed. It took over a week for the repair truck to come from the regional capital to tow the lorry away, by which time all the tyres, the interior fittings and the lights had been stolen. Altogether it cost $850 to get the lorry on the road again and the farmers then sold it and repaid the loan.

Assignment

1) Should this loan have been granted?

2) Could the loan officer have foreseen what would happen?

3) Could he have suggested any reasonable alternative?

Case Study 3

In a small farming community 80% of the farmers had 10 hectares of land or less each and of these, about half were tenant farmers on smallholdings of 5 hectares or less.

Among the 20% of farmers owning more than 10 hectares of land was Amadu Horea, whose 25 hectares included three smallholdings (5, 32 and 3 hectares) which were rented out to tenants.

When the National Development Bank made loans available for the purchase of tractors, Amadu reckoned he would now be able to cultivate all his land himself growing hybrid maize with the new farm technology. He therefore took a tractor loan and repossessed the 112 hectares previously rented out. Of his three former tenants and their families one left the area and went to look for work in the regional capital, one became a full-time labourer and the third had another 12 hectares rented from another landlord on which he went to live.

Amadu reckoned he doubled the productivity of the land in the first season, and regularly tells his friends that if all farming were as efficiently managed as his own, the country would be exporting food, not importing it as at present.

Assignment

1) Did Amadu's project satisfy the objectives of development lending?

2) If you had been asked to approve this loan what would you have done?

3) Is there any way in which the productivity of the land could have been increased without dispossessing the tenant farmers?

Case Study 4

A farmer owns some swampy land which is covered with reeds. This land is not in use; he makes his living out of an adjoining patch of better drained land where he grows maize and sorghum. He obtains a loan for the purpose of draining his swampy land and establishing a market garden.

He does this, and the market garden is quite successful, though he complains bitterly of the extra work and the time taken in marketing. His yields of maize and sorghum, however, are much reduced, so that he is not a great deal better off in spite of the success of the market garden.

In addition to his other troubles he is faced with domestic unrest. His wife and daughters have been accustomed to use reeds from the swamp to make baskets, which they sold in the market. They miss the extra earnings as well as the opportunities to meet their friends at the market.

Assignment

1) Why should his maize and sorghum yields have been so much reduced?
2) Would you say this loan was a success or not?
3) Could the farmer solve his family problem without sacrificing his new venture?

SESSION 7.4

APPRAISING AND NEGOTIATING LOANS

Objective: To enable trainees to make decisions as to whether loans should be granted and to negotiate loan terms with farmers.

Time: Approximately four hours.

Material: Case studies 1 to 4. Role-play briefs.

Session Guide:

1) Divide trainees into four groups and distribute the handout. Ask each group to discuss all the case studies. Allow up to thirty minutes for this. Reconvene the trainees and ask group spokesmen for their suggestions.

2) Comments on the case studies should include the following:

Case Study 1

On the figures provided the loan should not be granted. The farmer proposes a change from a food to a cash crop, but is not clear if the extra income generated will enable him to provide for the food needs of his family. The project needs to be changed to enable him to increase his income without losing his subsistence crop completely.

Case Study 2

a) It is not clear whether the new equipment will increase the farmer's income in any way; for instance, will improved milk storage reduce wastage? The maintenance requirements should also be costed.

b) On the figures provided the loan might well be refused. The new equipment does not apparently contribute directly to the farmer's income and the new total loan and interest repayments at about $680 per annum would represent a disproportionately high fraction of his total annual outgoings.

Case Study 3

On the figures provided the loan should not be granted. Out of a total income of $1,250 per annum the applicant is proposing to repay a debt of $2,000 in two years, which including interest payments will involve him in payments of about $1,240 a year. The terms of the loan should be changed to allow three or four years to pay for the well and pumpset. The seasonal crop component should be dealt with separately.

Case Study 4

a) Not enough information is available to reach a decision. More detail about the building costs is needed, in particular the following:

- Who provided these figures? Are other quotes available?
- Why are transport costs so high?
- Are local materials/labour to be used?
- How are repayments to be met?

b) There is no indication of the increased surplus the society will make as a result of the new store, but most credit agencies would favour this type of project, provided it can pay for itself, and the costs are not unnecessarily high.

3) Ask each group to nominate two members, one to play the role of the applicant and the other the loan officer from one of the case studies. Give the nominated trainees the role-play briefs, ensuring that the 'applicants' and 'loan officers' do not see each other's papers. Allow the role players ten minutes in which to 'think themselves' into their roles. The 'loan officer' should keep to the positions decided on for each application in earlier discussion, but they may change the suggested terms, but not the interest rate, if this will make the loan more attractive. The 'applicants' may add details to their projects as appropriate, so long as they are consistent with the material in the case studies and the role-play briefs.

4) Allow each pair of trainees up to ten minutes to role-play the discussion and negotiation between them. The remainder of the group should act as observers and should in particular notice how effectively the 'loan officer' remained patient, firm and persistent when negotiating with the 'applicant', but did not discourage the 'applicant' from pursuing his application any further. If the role-players were able to come to agreement, compare the terms actually agreed on with the terms included in the case study. Were the projects improved and do the observers agree that it would be reasonable to approve the loan applications on the new terms?

Case Study 1

A subsistence farmer called Adebayo applies for a loan of $225 to finance the change from growing cassava to growing pyrethrum on his 22 hectare plot. The money will be spent as follows:

Plants	$115
Fertilizer	40
Pesticide	50
Drying	12
Transport	8
	$225

(Pyrethrum has a productive life of about five years. The yield is about 132 kg per hectare and the crop sells for about $1 per kg.) He requests a five-year loan.

Case Study 2

A cattle farmer called Bango applies for a loan of $1,500 for new dairy equipment. He has a herd of 15 cows. With milk fetching 60 cents a litre and occasional sales of calves his annual gross income is $4,500 (assuming that his cattle yield an average of 60 litres per month each for 8 months). His annual expenses are as follows:

Feed	$ 750
Veterinary	120
Repayment on Existing Loan	300
Transport	500
	$1,670

He requests a three-year loan at 12%.

Case Study 3

A farmer called Castillo owns a 3 hectare plot of land which requires irrigation. Present yields of rice from this land brings him in $180 per annum from sales, as well as providing for his family. He reckons that if he dug a well and bought a pumpset his land would yield 2 crops a year, and using HYV rice he could increase output and make $500 from each crop. He could also make $250 per annum by selling water to the neighbouring farmer. Digging and equipping the well would cost $1,600. He applies for a loan of $2,000 at 12%, payable over two years made up as follows:

Digging Well	$ 300
Purchase of Pumpset	300
Improved Seed, Fertilizer and Pesticide for 2 Crops	400
	$2,000

Case Study 4

The Divalkar Village Co-operative Society applies for a loan of $13,500 to build and equip a store where they will keep farm inputs for members. Attached to this store will be a small office. Costs are made up as follows:

Materials	$ 5,000
Transport	1,500
Labour	5,500
Equipment	1,500
	$ 13,500

(Assume these costs are average to high for small town building in the country.) The loan is to be repaid over eight years.

Assignment

1) Decide whether each application should be approved or not.

2) Give reasons for your decision in each case.

Role-play Briefs

Applicant 1: Adebayo

You are one of the poorer farmers in your neighbourhood and many of your neighbours have recently started growing pyrethrum, a flower from which insecticide is manufactured. They are receiving regular cash proceeds from sales of this flower, the tasks of cultivating and picking the flowers provide year-round labour and you wish to do the same and thus improve your income. You can barely feed your family on the cassava and few other crops you grow on your 22 hectare plot, and you are sure that you will do better, like your neighbours, if you grow pyrethrum. You know that the recently formed co-operative is designed to help the poorer members of society such as yourself and you are determined not to be deprived of the opportunity to grow the new crop.
(See also Case Study 1).

Cut Here

Loan Officer 1

You are the credit officer of the newly formed co-operative to which Adebayo belongs and he has submitted his application to you. You are worried because the majority of the loan applications that have been received have been submitted by the larger and wealthier members of the society and you welcome an application from a poorer farmer such as Adebayo. You appreciate the subsistence problem, however, and you are anxious to help Adebayo in order to benefit him and also encourage similarly disadvantaged members to apply for credit.
(See also Case Study 1).

Applicant 2: Bango

You are a prosperous farmer earning a very satisfactory income from the milk from your fifteen cows. Electricity has recently been installed in your village and you wish to take advantage of this by purchasing a package milking set including cooler and a two-unit milking machine. This will cost $1,500 and you feel sure that this is the. kind of investment *which* the new Dairy Farmers' Society has been formed to encourage. You and all the other members of your family presently milk the cows without difficulty, and you have had few or no problems with spoilt milk because your farm is near to the society collection point. You are well-known as a progressive and successful farmer in the area and you wish to continue to lead by being one of the first farmers in the area to have the new equipment.
(See also Case Study 2).

Cut Here

Loan Officer 2

You are the credit officer for the newly formed Dairy Farmers' Society and one of the first applicants for credit was Bango, a prominent and prosperous member of the local community who was also one of the group involved in the establishment of the society. He manages his small herd very effectively and appears to earn about as much money from a herd of this size as would be possible. You dare not risk offending him, and you are anxious to encourage his initiative, but you cannot see how the new equipment would in any way increase his income so that the interest and principal repayments would be a net drain on his present earnings. You are aware, however, that outright rejection would be a serious blow to your own credibility and indeed to the society as a whole.
(See also Case Study 2).

Applicant 3: Castillo

You have applied to your society for a loan to purchase a pumpset and dig a well. This would enable you to adopt the new high-yielding variety of rice, as the Ministry of Agriculture is encouraging farmers to do, and you will thus significantly increase your income. You have always avoided being in debt in the past, and you wish to repay the loan as quickly as possible. Your oldest child will start secondary school in two years' time and you realise that you will need money for the fees so you have applied for a loan to be repaid in two years. You are aware that this will be a heavy burden on your resources but you wish to get the obligation out of the way as soon as possible.
(See also Case Study 3).

Cut Here

Loan Officer 3

You are the credit officer for a well-established multipurpose society and have received Castillo's application. You respect him as a hard working and honest member of the community and you are all the more anxious to prevent him from saddling himself with a burden which will be too much for him. You are sure that he will see your point of view and you expect him in fact to welcome your suggestion that his loan should be rescheduled so as to be repaid over four years or more and that the seasonal credit should be dealt with separately.
(See also Case Study 3).

Applicant 4: The Divalkar Village Co-operative Society

You are the secretary of the Divalkar Society and you are sure that the Co-operative Bank will approve your application for a loan to build a new store since the government is actively encouraging co-operative societies to provide farm inputs to their members. The son of one of your members has produced an extremely attractive design for a store and you are delighted to think that the new store will be dramatic evidence of the society's success and will help overcome some members' reluctance to deposit their savings with the society because, they say, the society has no concrete assets on which to fall back if necessary. Your present farm input supply service is operated from a very shabby lean-to store which one of the members rents to the society for a nominal amount. You know that this is not a satisfactory arrangement and are anxious to do better for your members.
(See also Case Study 4).

Cut Here

Loan Officer 4

You are a loan officer for the Co-operative Bank and the secretary of the Divalkar Village Co-operative Society has submitted his application to you. You are impressed with this society's desire to provide a high level of service to its members in every way but you are concerned at the rather luxurious standard of the building and you are not sure how the building will save money for the society. You have been trained to ensure that investments made with loans you approve pay for themselves as quickly as possible and that borrowers should not be worse off as a result of loans which you approve. You are not sure how this can be done by the Divalkar Society unless they are paying a very high rent for their existing premises.
(See also Case Study 4).

topic

8

the management of loan schemes

SESSION 8.1

THE CONCEPT OF INTEREST

Objective: To enable trainees to justify to others the concept of interest and explain why it is charged.

Time: Approximately two and a half hours.

Material: Handouts 1 and 2.

Session Guide:

1) Point out that since money that has been borrowed has in due course to be returned many borrowers, including quite sophisticated ones, are not clear why they should pay interest for having something which they are going to return in any case. Stress that it is important that trainees should understand exactly what is being paid for in interest charges, in order both to improve their ability to manage a lending operation and to explain the reasons for interest to borrowers who may object to paying a charge they do not understand.

   Allow trainees up to ten minutes to note down the reasons why interest has to be charged. Point out that it may help them to put themselves in the position of an individual lending money to somebody else; why should they demand that he pays interest as well as repaying the principal?

2) Ask each trainee to suggest one reason and note them on the chalkboard/OHP until all trainees' suggestions have been taken. Their suggestions should include at least the following:

   - Interest compensates the lender for the risk that his money may not be returned.
   - Interest is an incentive to the lender, or depositor, to make his money available for others to use it.
   - Interest charges encourage borrowers to repay on time so that others may use the money they have borrowed.

- Interest charges must compensate the lender for whatever else he might have done with the money instead of lending it to whoever has borrowed it.

- Interest is necessary to cover the administrative costs involved in appraising, supervising and collecting loans.

- Interest can be viewed as rent for the use of money. Even if a house or field is returned in exactly the same condition its owner expects somebody who uses it to pay rent for the period of occupation.

Ensure that trainees themselves understand all these points, and that they are aware of the need to explain interest charges to borrowers from co-operatives who may as a result of their past experience regard interest as something which extortionate moneylenders demand and therefore do not expect a co-operative to levy an interest charge as well.

3) Ensure by posing one or two simple problems to the trainees that everyone knows how to calculate interest. If necessary distribute the self-teaching exercise (Handout 1) and either allow trainees time to complete it on their own before proceeding with the rest of the session, or go through it with the whole group, ensuring that every individual is able to answer the questions correctly.

4) Introduce the group exercise by pointing out that interest charged on money lent by a co-operative society or a bank is the lender's way of recovering the costs to the institution of lending. The exercise is intended to enable groups to work out what these costs consist of and approximately how much they amount to in the case of various types of loans. Divide the trainees into groups and distribute Handout 2; allow up to forty-five minutes to complete the exercise.

On completion of the exercise, ask each group to present its answer to the problems. Costs of lending will be variably estimated but should include the following items:

- Loan acquisition costs including investigation of project and processing of application. (These figures can be approximately estimated by multiplying the staff time per application by staff cost per hour, including overhead.)

- Loan supervision costs.
- Record-keeping costs.
- Cost of money or interest paid by the lender to its sources of money (the co-operative bank, savings account holders, government, international agencies, etc.).
- Reserve for default, based on real experience.
- Mark-up as a percentage of direct costs, to build reserves for future on-lending or distribution to members.

Trainees should be encouraged to draw the following conclusions from their calculation of costs of each of the three loans:

- The costs of lending are highest when small sums of money are lent for a short period.
- The cost of lending can be reduced by lending through groups rather than to individuals. These need not be formalised co-operatives but can be small informal groups, each member of which agrees jointly and severally to guarantee the total amount.
- Lending costs are lowest on large loans which are made for long periods.

5) Ask groups which of the three loans shows a profit for the lender. Loan A is almost certain to show a loss, if the figures are at all realistically calculated, while B and C <u>may</u> be marginally profitable. Ask trainees how this situation can be improved and also to suggest what disadvantages each possible remedy may have. Their suggestions should include the following:

<u>Remedy</u>	<u>Disadvantage</u>
Encouraging group borrowing	Group responsibility can never be as clear as individual responsibility.
The use of standardised loan packages	These may be unsuitable for some members and may exclude some potential borrowers altogether.

Simplified record systems	Over-simplification can lead to inadequate information or opportunities for dishonesty.
Reducing appraisal and supervision visits	Members may through ignorance or dishonesty misuse loan funds.
Setting a reasonably high minimum loan figure	This may discourage the poorest members.
Minimising lending to distant members or those with unusual projects	This will hurt those most in need of help and also discourage those with initiative.
Lending only to experienced members with adequate security	This policy contributes to making the rich richer and the poor poorer.
Paying a lower interest on sums deposited with the society by members	Members are unlikely to deposit savings unless they receive a competitive rate of interest.
Discouraging short-term lending	Short-term crop loans are most needed by the poorest farmers.

Clearly all these policies would totally destroy the concept of developmental co-operative lending. Ask trainees which of these policies their societies adopt and whether a judicious mixture of some of them might improve the performance of their lending operation without frustrating its objectives.

6) Emphasise that lending schemes which lose money cannot survive. The opportunities for reducing costs are limited. Ask trainees to suggest therefore how revenue might be increased.

- Charging fees for each loan or loan application.
- Increasing interest charges.

Charging fees bears proportionately harder on poorer borrowers but is quite a common practice.

Ask trainees to compare co-operative interest rates with prevailing commercial rates in their country. They will almost always find they are lower.

Ask trainees why small farmers and co-operative members should pay lower rates of interest, even if it costs more to lend to them.

They are poorer than most people and should be helped first.

- Agricultural development is vital in the national interest.

Ask trainees what the effects of low interest rates are:

- Co-operatives and other lenders lose money and their loan programmes fail.
- Lenders are forced to cut costs, avoid risks and omit services which are particularly valuable to poorer borrowers.
- There is an artificially high demand for low interest loan funds by borrowers. The larger, more powerful borrowers in particular tend to succeed, and may not be the intended main beneficiaries of loan programmes.

7) Ask groups to recalculate exercises A to C with 15% and 20% interest rates. These higher rates may substantially alter the profitability of each loan to the lender. How important are the extra sums to the borrowers?

- $5 or $10 is unlikely to make an important difference to Farmer A who may previously have borrowed from money-lenders.
- Farmer B may be affected by the difference but he can afford to pay $450 for three years and $675 may not make much difference to him.
- The extra $5 or $10 payable by each of the farmers in Exercise C is no more important than the extra payable by Farmer A.

These extra charges do matter, but the smaller sums are unlikely to be seen as very important by the borrowers. They should be seen in the following contexts:

- The income earned from loan projects.
- The cost of not being able to get a loan at all (because the loan scheme was unviable).
- The cost of alternative sources of loans.

8) Trainees are not likely to be in a position to determine or influence interest rates, which often involve political factors in any case, but they should nevertheless understand that interest rates are an important part of lending policy and that there are arguments for higher rates. It is wrong to take low interest rates for granted even in agricultural credit.

Handout 1

Self-Teaching Exercise on
Percentages and Interest Charges

Work through .this self-learning exercise by moving a piece of paper and reading one line at a time. Whenever you come to a question, calculate the answer before moving down to the next line.

'Percentage' means 'per hundred'.

15% means 15 'per hundred'.

3% means 3 'per hundred'.

If a money principal is lent at an interest rate of 15%, $15 will be charged as interest for every $100 lent.

Question 1: Answer the following

What sum of money will be charged as interest on the following loans?

a) $ 100 at 3%
b) $ 200 at 15%
c) $ 50 at 3%

Answers to Question 1

a) $ 3
b) $ 30
c) $ 1.50

You could probably work these questions out in your head, but if we write out the calculation we need to express percentages in a different way. '15% can be expressed as '15 per hundred'

Another way of saying this is: $15\% = \frac{15}{100}$

As you remember from school 'of' means multiply, so 15% of $100 can be written as: — 15/100 x $10

and as you know, the answer is $15.

Similarly:

3% of \$100 = 3/100 x \$100 = \$ 3

15% of \$200 = 15/100 x\$200 = \$ 30

3% of \$ 50 = 30/100 X 50 = \$ 1.50

Question 2

Calculate the following, writing out your calculations as above:

a) 15% of \$ 150

b) 12% of \$ 80

c) 5% of \$ 1,500

Answers to Question 2

a) ~~15~~/100 x 150 = \$ 22.50

b) 12/100 x 80 = \$ 9.60

c) 5/100 X 1,500

The amount of interest charged on a loan is calculated in the same way, as a percentage of the principal.

The rate of interest is usually given as 'so much percent per year', so when we talk about a loan of \$100 at 15% we usually mean that the interest charged is at 15% per annum.

Question 3

Use the answers you worked out for the last set of questions to work out the following:

a) The amount of interest on a loan of \$150 for 2 years at 15%.

b) The amount of interest on a loan of \$80 at 12% for 3 years.

c) The amount of interest on a loan of \$1,500 at 5% for 6 months.

Answers to Question 3

a) \$ 45

b) \$ 28.80

c) \$ 37.50

Again you could probably do these in your head, but it is still useful to have a formula. Here it is:

The amount of interest paid = the principal (sum lent) x rate of interest x time in years.

Question 4:

What is the amount of interest on the following?

a) $ 60 at 25% for 3 years

b) $ 1,250 at 15% for 1 year

c) $ 275 at 122% for 2 years

d) $ 600 at 17% for 12 years

e) $ 350 at 9% for 5 years

Answers to Question 4

a) $ 45

b) $ 187.50

c) $ 68.75

d) $ 153

e) $ 157.50

Handout 2 - Exercise on Cost and Revenue

A) Calculate the cost and revenue to your co-operative society of lending $100 to a single farmer for one year at 10% interest.

B) Calculate the cost and revenue to your co-operative society of lending $1,500 to a single farmer for three years at 10% interest rate.

C) Calculate the cost and revenue to a co-operative bank of lending a total of $2,000 through an informal credit group of twenty members. The money is to be lent to the group at 10% interest for one year and the members are jointly and severally responsible for repayment.

Note:

Itemize the costs of receiving the application, appraising the loan, disbursing the funds, supervising the loan and eventually collecting the funds, together with some allowance for cost of default and the cost to the lender of obtaining the funds which are in turn lent to the farmers. It may be impossible to obtain precise figures for each item but groups should agree on an estimate for each of the items for each of three loans.

SESSION 8.2

THE NEED FOR INTEREST CHARGES

Objective: To enable trainees to explain the need for interest charges to members.

Time: Approximately one hour.

Material: Role-play briefs.

Session Guide:

1) Remind trainees of the conclusions of the previous session, to which this session is an extension. Remind trainees that they, and many other bankers, are not completely clear as to all the reasons for interest charges, and the respective importance of each. Ask trainees whether all their members are likely to understand the need for interest charges, particularly since they, rather than the bankers, are those who have to pay.

   It is necessary for co-operative credit officers to be able not only themselves to understand the reasons for interest charges, but, more importantly, to explain these reasons to the satisfaction of members who may not understand, or may even actively object to being asked to pay a charge for which they believe there is no justification.

2) Give copies of the Farmer's Brief to each of five trainees who have previously been selected to play the role of an applicant group of five farmers, and give copies of the Manager and Loan Officer's Brief to two trainees who have previously been selected to play these roles. Ensure that neither group has the opportunity to see each other's briefs, or to overhear conversation about them. Allow the role players up to fifteen minutes to discuss their negotiating strategy, preferably in two separate rooms.

   While they are doing this warn the remainder of the trainees that they are about to observe a simulated negotiation between a group of five prospective borrowers who cannot, or will not, understand interest charges, and a co-operative loan officer and bank manager who must explain the principle to them. Ask the observer trainees to write down as many arguments or illustrations as they can that they might use to explain interest charges to someone who had never heard of them before, or had only experienced extortionate interest charges levied by money-lenders and considers that all forms of interest to be extortionate.

3) Arrange a table with two chairs on one side and five on the other so that it will be clear which role players are prospective borrowers and which are the credit officials. Invite the role players back into the room and allow them up to thirty minutes to play out the negotiation.

The credit officer and bank manager can consider that they have succeeded if the farmers finally accept that they should pay interest charges.

4) After the negotiation has been completed, first ask the role players to describe how they felt. Did the farmers feel that the bankers sympathised with their difficulty and were trying to help them understand? Did the credit officer and the bank manager feel that the farmers were unable to understand interest, or that they were pretending in order to attempt to reduce the charge that would be levied on them?

5) Ask the observer trainees to comment on the negotiation. They should introduce any arguments or illustrations which they have noted down which were not used by the lending side and should discuss whether it would have been useful to employ them.

Stress that co-operative credit officers must be understanding and authoritative (<u>not</u> authoritarian) when dealing with individuals or groups of farmers.

Ask trainees what the most important thing is that a co-operative credit officer should do when attempting to deal with any objections from a prospective borrower.

(The most important thing is not what the officer says but that he should <u>listen</u> to what the farmers say and respond to it accordingly.)

Farmer's Brief

You are one of a group of five farmers who have applied to their co-operative for a small group loan of $1,000 to dig a well. None of you has borrowed money from an official source before. Your application has been processed by the manager, and when he mentions that you will be charged 15% interest for the three-year term of the loan you demand an explanation; you have never heard of interest being charged in this way before. Since the co-operative is yours you do not see why it should be allowed to charge for lending you what is in a sense your money.

You think that if you protest enough the society might waive the interest payments, so you are not going to give up the point easily.

You have discussed the problem among yourselves at length, and the following points have been made:

- The co-operative society is owned and controlled by its members; it should not charge them for what belongs to them in any case.
- The government provides money to the society. Why should the society charge members for it since they are taxpayers like everyone else?
- Members' investments are contributing to national development and increased agricultural production which is government policy. Members should not be discouraged by interest charges from doing what the government wants.
- Most co-operative officials are paid by the government. Why should they take members' money as well?
- Possibly the society is seeking a bribe; members must be alert to any behaviour of this sort by officials of their own society.

You are about to meet with the society's credit officer and an official from the co-operative bank in order to discuss your loan.

Co-operative Credit Officer and Co-operative Bank Official's Brief

You are conducting a routine interview to explain the conditions of a loan which has been approved in principle. The borrowers are a group of five members who propose borrowing $1,000 for three years to dig a well. When you previously mentioned the interest rate they were most indignant, claiming never to have heard of interest being charged in this way before. You are about to meet them; you should try to explain to them, in terms they will be able to understand and accept, exactly why you are charging interest and any benefits they are getting for their money.

Remember that the farmers have something to gain by remaining ignorant. If interest cannot be explained to them they may well think they will get away with not paying it. Also remember that you will not convince them just by telling them the rules and regulations. Really to understand the point, however reluctantly, they need to be able to relate it to ideas that are already familiar to them.

You have various ideas about how you might explain the principle of interest to the group of farmers, including the following:

- You might relate the charging of interest to something that farmers are familiar with such as charging rent for land.
- You can explain the various ways in which the society is serving its members by providing technical advice as well as loans. This costs money and must be paid for.
- You can remind any members who have savings deposited with the society or elsewhere that they expect interest on their savings; the co-operative does not act any differently.

SESSION 8.3

TYPES OF SECURITY

Objective: To enable trainees to identify various forms of security and determine which is most suitable for a specified loan.

Time: Approximately two hours.

Material: Case studies.

Session Guide:

1) Ask trainees to describe their society's or other employers' legal position in the event of a member's default on a loan. Depending on the nature of the loan scheme and trainees' employers, various alternatives are possible:

- If the society or bank has actually loaned the money to the member then the organisation is itself responsible for recovering the loan, including the use of whatever security has been taken.
- If the society or other organisation has merely acted as a goodwill introductory intermediary, without taking any legal responsibility, the responsibility lies legally with the actual borrower. The goodwill intermediary may nevertheless wish to assist in recovery of a loan, if necessary through the seizing of security, in order to preserve its credibility with the lending institution.
- The society or other organisation may have guaranteed a loan made by another body. In this case it will have to reimburse the lending institution for a proportion, usually something between 75% and 90%, of any default. The guaranteeing organisation then takes over responsibility for the 'bad' loan and for seizing and disposing of any security that has been taken.

It is vital that all trainees should be clear as to their organisation's position in this regard.

2) Ask trainees to suggest as many forms of loan security as they can, which may be suitable for small farmers. Elicit at least the following and list them on the chalkboard/OHP:

- Land
- Savings account balances
- Equipment
- Livestock
- Crops
- Buildings
- Farm input stocks
- Personal possessions
- Guarantees, guarantors
- Recourse arrangements by which the borrower instructs his marketing agency to make payments to the lender out of sums due to him for produce sold.

3) Discuss with the group the advantages and disadvantages of each of these types of security from the bank's point of view.

<u>Land</u>

- Poor farmers may not own land themselves.
- Difficulties may arise where the title of the land is not clear, as when rights to land are based on custom and/or are not supported by documents.
- Problems may also arise if the land comes up for sale. For practical purposes it may be unsaleable to anyone who is not a member of the local community and no member of the community may be willing to dispossess the owner.
- Seizure may be politically impossible.
- Where these problems are not foreseen land is a useful collateral as no farmer wishes to part with his land and would much sooner repay than be dispossessed.

Savings Account Balances

- Prospective borrowers are unlikely to have savings which ever approach the amount they wish to borrow.

Mobile Assets (including equipment, livestock, stored crops and building materials)

- It can be difficult to establish control over these; farmers can move them to other premises and the creditor can then be unable to seize them.
- It may be difficult to be sure of ownership.
- Such assets are acceptable as security only if there is an established market.

Crops

- Standing crops are often acceptable as security for seasonal loans.
- There is no security in case of crop failure.
- A creditor must be able economically to harvest crops or to subcontract the harvest of the crops.

Buildings

- These are often difficult to value.
- It is often impossible to expel a farmer from his own house.
- Poor farmers are often tenants.

Farm Input Stocks

- These are usually unacceptable as security, since they can easily be sold.

Personal Possessions (such as jewellery)

- These are acceptable if they have a regular market value.
- They are acceptable if they can physically be held in trust by the credit agency.
- Their values fluctuate.

Guarantees, Guarantors

- If guarantors can be found, they can be the best form of security provided that:

  a) they are really able to repay commitments;

  b) they are not over-committed by standing surety to several borrowers.

- It may be difficult to put pressure on very influential guarantors.

- The system can be very effective where guarantors put social pressure on borrowers to repay.

- Joint arrangements are consistent with co-operative traditions of mutual self-help.

Recourse Arrangements

- Acceptable if there is adequate contact with produce buyers or marketing agents.

- Convenient when a co-operative society lends money, distributes inputs and markets output.

The suitability of any one form of security in a particular case will depend on circumstances. It must depend on whether it would be feasible to claim the security in case of default, and whether the asset would be resaleable if it were claimed.

4) Distribute the handout and allow trainees up to thirty minutes to complete the exercise. Ask individual trainees to suggest what might be used as security in each case and in each case ask trainees who makes the suggestion to state how he would actually use the security in case of default.

5) Trainees' solutions will vary. The following are suggestions for procedures which might be useful. In any of these cases trainees may suggest ways of putting social pressure on the borrower, and such suggestions should be carefully considered, bearing in mind that guarantors have to be carefully selected and able to carry out their obligations.

A. Hamid

One solution is to take ox-plough and oxen, plus $100 of the savings account, as security. Trainees may feel that this could seem unduly threatening to a borrower like this, with a good record, and might be prepared to take one or the other, with recourse arrangements on the maize crop.

B. Alfred

In some countries it might be possible to attach part of Alfred's salary by agreement with his employer. Discuss this form of security.

The principal problem is that the borrower has only to leave or change his job if he wants to avoid repayment.

The simplest solution is to take the land as collateral, since in xthis case title should be clear and the plot is likely to be saleable.

C. Abdul

With hereditary tenure there may be difficulty in using land as security. The most suitable security is the cattle, but mobile livestock can be hard to track down unless they are clearly identifiable, and this farmer cannot really offer acceptable security for this loan, unless he can find a guarantor.

D. Simon

If possible the bracelets should be used as a pledge, with the poultry unit equipment making up the difference. Pressure from the wife should ensure repayment of this loan.

6) Guide discussion of the case studies so that the following points are covered:

- All lending agencies, and in particular co-operative ones, prefer not to have to claim securities. They would rather have loans repaid.

- Claiming securities often involves legal action.

  a) This cost money.

  b) Courts may prefer to give extended repayment orders.

  c) Legal action may not support the lender.

  d) The publicity damages the 'image' of the lender.

- Security should be seen as a form of pressure on the borrower to repay; social pressure from guarantors or family can be as effective as the threat of dispossession.

- The type of security required on a loan must be carefully judged in view of

  a) The feasibility of claiming the security itself in case of default.

  b) The particular circumstances of the individual borrower.

7) Discuss the actual practice of trainees' societies or banks. Stress that the type of security demanded in any one case depends on the lending agency's rules and policies. In small farm lending it is quite common to use guarantees or recourse arrangements. This is particularly effective when the security offered is the member's savings, which he may need to support his family through the period before the loan begins to generate income.

   Ask trainees what kind of security is appropriate in the case of loans to informal groups or to local co-operative societies.

   Discussion should elicit the following:

   - Repayment of group loans depends on the efficiency and cohesiveness of the group. The best security is therefore evidence of these characteristics.

   - Group assets such as buildings, transport and equipment may be assigned as security but the property of individual members is usually not acceptable. In some situations the property of the group's committee may be acceptable as security.

   - Lending institutions will normally have rules relating the size of loans to groups to the amount of group funds available.

8) Stress that in all credit operations, and in particular when lending to small-scale farmers and groups of such farmers, security can at best be no more than a very unprofitable last resort. The way to minimise default is to appraise loan applications correctly and to avoid lending money to farmers who are likely not to repay it.

Ask trainees to suggest why so many co-operative credit schemes experience a very high rate of default. They may make many suggestions, but point out that one of the most important reasons is that experience shows members that they will not lose by not repaying. Members can scarcely be blamed for avoiding repayment when they observe that others have succeeded in doing this without suffering any penalty.

Stress that no small farm co-operative credit operation can succeed unless it is strictly run and wilful defaulters are rigorously followed up. It is often necessary to seize securities from one or two such defaulters, not so much in order to recover the funds (since the cost of seizure may exceed the value of the assets seized) but in order to show that wilful default is not a profitable activity.

Case Studies

Read through the following case studies in order to decide what form of security would be appropriate in each case.

A. Hamid wishes to borrow $250 from his society to grow maize. He farms 22 hectares of good land which he holds by customary right. He has an ox-plough and two oxen valued at $150, and other equipment worth about $50. He has $112 in a savings account, and he has a good credit record, having borrowed and repaid seasonal loans under a package loan scheme, which is no longer in operation, for the last three years.

B. Alfred is a new farmer who has just bought and cleared six hectares of land, on five hectares of which he intends to grow coffee. He wants to borrow $2,000 altogether from his society, $1,000 this year to buy the coffee bushes and farm inputs, and $250 a year for essential, inputs over the next four years, until the coffee starts bearing. In the meantime he proposes to earn a living and service the debt by working as a driver for the Co-operative Union at a salary of $1,500 per annum. He is living in his father's house for the time being but intends to build a house on his land later. He and his wife have personal. possessions, including some jewellery, a radio, a motor-bicycle and a sewing machine, worth about $700.

C. Abdul wishes to borrow $350 from his society in order to dig a well so that he can grow vegetables on a one hectare plot on the farm he has just inherited. There is also another 12 hectares on which he grows a little maize and other crops mainly for subsistence, and where he grazes his eight cattle, which also have access to communal grazing grounds. He has no money or pledgeable personal possessions but his farm equipment is worth about $80 and he has farm buildings whose salvage value is $120.

D. Simon has applied to his society for a loan of $400 to establish a small poultry unit on the farm he rents. He has previously successfully borrowed and repaid two seasonal loans for maize under the former package loan scheme, and has done well.enough with the maize to be able to finance the use of hybrid maize with adequate fertilizer and pesticide without a loan for this purpose in the third year. He has no money but there is equipment worth about $70 on his farm, he has stocks of inputs for his maize for which he has paid $215, and his wife has two gold bracelets together worth about $250.

Assignment :

1) Identify an appropriate form of security for each applicant.

2) State how the security should be used by the lender if the applicant goes into arrears or defaults.

SESSION 8.4

THE NEED FOR SECURITY

Objective: To enable trainees to explain to farmers the need for security.

Time: Approximately one and a half hours.

Material: Role-play briefs.
Case studies from Session 8.3.

Session Guide:

1) Remind trainees of the content of Session 8.1 and 8.2 on interest rates. Co-operative credit officers must not only themselves understand the reasons for charging interest rates, but also be able to explain these reasons to prospective borrowers.

Stress that the need for security is even more likely to be misunderstood, and to discourage members from borrowing, than the necessity of charging interest. Interest charges marginally increase the sum that has to be repaid, but pledging a security can mean that the borrower is faced with the loss of his home and source of livelihood.

2) Select four trainees to play the role of the four farmers described in the case studies for Session 8.3, and a further four trainees to play the role of credit officers who must meet with these farmers. Ensure that each of the eight role players has a copy of the handout from Session 8.3; give each of the 'farmers' a copy of one of the role-play briefs from this session, and give each of the 'credit officers' a copy of their role-play brief.

Allow the role players up to ten minutes to 'think themselves into' their roles. While they are doing this ask trainees, as before, to write down as many ways as they can by which they might attempt to justify the need for security to a suspicious or ignorant borrower.

3) Allow each pair of role players up to ten minutes to enact the simulated discussion between them. After each discussion ask the 'farmer' to say whether he really felt convinced and ask the 'credit officer' to say whether he was satisfied with what he achieved. Keep this discussion short until all four role plays have been completed.

4) Ask the remaining trainees to comment on the role plays and in particular to mention any ways of explaining security which they previously noted down and which were not used by the 'credit officers'.

The following arguments may have been used, among others:

a) Ask the borrower whether he himself would lend his own money to somebody based only on a promise to repay. Should the society, as trustee of its members' funds, be any less demanding?

b) If the prospective borrower is very nervous about pledging security, this may suggest he is not confident about the success of his loan project. If he genuinely believes that there is a good chance of the security having to be forfeited, he should re-examine the project itself.

c) The funds which are being lent are either members' own savings, or funds from outside the co-operative which nevertheless have their origin from individual savings. Depositors, or lenders to the society, will expect to be repaid and will ensure before lending their money to the society that the society itself is taking every possible step to ensure that those who borrow from it also repay what they have borrowed.

d) The borrower is likely to realise how difficult it would be for the society to seize his security or otherwise call a pledge. The credit officer may admit this and point out that it is therefore in the society's own interest to make every effort to help its members to repay if they are in genuine trouble, but that the final sanction of security must nevertheless be taken.

5). Stress the need of a balanced approach to taking and using security, and the value of using joint and several guarantees, even if the guarantors' resources are not individually sufficient to repay the loan, rather than real property which cannot actually be seized.

Ask trainees to recall their own or other societies' experience with co-operative credit, or other agricultural lending schemes. Does their experience suggest that they were excessively harsh or excessively lenient in the matter of demanding and if necessary seizing security?

Most agricultural lending schemes suffer from excessive lenience, which is in the end against the interests of borrowers since funds are rapidly exhausted and defaulters from then on have no access to institutional credit.

Stress that sensitive but firm use of security, even going as far as making a **small** number of exemplary foreclosures or calling of guarantees, is in the long-term interests not only of the society but its members as a whole.

Farmers' Brief

(To be read in conjunction with case studies from Session 8.3)

A. Hamid

Your society has previously made seasonal loans to members and recovered repayments automatically from crop receipts. Now they have introduced a medium term scheme and you believe your proposal qualifies. You have borrowed and repaid money under the package loan scheme before; under that scheme there was no formal security, loans were repaid in kind from the harvested crop and you do not understand why you should now be asked for any other security. You feel it is particularly unfair inview of your good credit record.

Cut Here

B. Alfred

Your society has previously made seasonal loans to members and recovered repayments automatically from crop receipts. Now they have introduced a medium-term scheme and you believe your proposal qualifies. You understood that loans from the credit agency were fairly easily available for this type of project and you have never considered the possibility of having to pledge your land to get the loan. You are most reluctant to do this, because you have saved for several years to buy and clear the land and you intend to keep it at almost any cost.

C. Abdul

Your society has previously made seasonal loans to members and recovered repayments automatically from crop receipts. Now they have introduced a medium-term scheme and you believe your proposal qualifies. You do not know very much about credit but you have heard loans are available and wish to take advantage of the chance to get one. You are (privately) horrified at the idea of having to find a guarantor because you do not wish other people in the community to know you are borrowing.

Cut Here

D. Simon

Your society has previously made seasonal loans to members and recovered repayments automatically from crop receipts. Now they have introduced a medium-term scheme and you believe your proposal qualifies. Like Hamid, you used the package loan scheme. Under this scheme, no formal security was required and repayment was made in kind from the harvested crop. You have never been asked to pledge your possessions before and find the idea wholly unacceptable.

SESSION 8.5

SOCIAL PRESSURE FOR REPAYMENT

Objective: To enable trainees to indentify the ways in which social pressure is and is not an effective encouragement to repayment, and to use such pressure effectively when it is appropriate.

Time: Two hours.

Material: Role-play briefs.

Session Guide:

1) Remind trainees of the difficulties involved in finding physical security for small-farm loans made by co-operative societies, and of the even greater difficulty of foreclosing on such security should this be necessary. Ask trainees what alternative form of security is often available.

- The borrower may be required to find one or more individuals of standing who are prepared to guarantee that he will repay his loan, and if he does not, to take responsibility for it themselves.
- Prospective borrowers may be asked to form themselves into small credit groups, probably not exceeding twenty members each, where each member agrees jointly and severally to guarantee the repayment of all the others. This means that if any member is unable to repay, all the other members are responsible for repaying to the limit of their resources. In this case it is not necessary that each member of such a group should be able to repay the borrowings of all the others.

Ask trainees how guarantees of this sort help the co-operative or other lending organisation to recover funds from the original borrower and minimise the risk of default.

- The co-operative effectively recruits the guarantors as assistant collecting agents. By being close to the borrower, and because they will financially suffer if he does not repay, they can bring pressure on him far more effectively than a more distant co-operative or other institution.

2) Role-play Briefs 1 to 3 can be adapted to suit the size of the group. Each trainee should have the opportunity to take part in at least one role play and to watch at least one.

The simplest way of organising this is to divide trainees into two groups. Group 1 then takes Role-play Briefs 1 and 3, and Group 2 takes Role-play Brief 2. Allocate the roles as the briefs are distributed.

3) Allow groups five to ten minutes for discussion and to 'think themselves into' their roles.

Warn the observer group in each case to note the following:

- What kind of pressure can the defaulter's friends and relations exert, that the lender cannot?
- In each case, what is the implicit consequence if the defaulter fails to pay up? Is it more or less threatening than the penalties the lender could impose?
- When will a social group exert pressure to repay? Are there circumstances in which such a group would be more or less severe than a credit agency?

4) Ask trainees to act out their role plays and allow up to fifteen minutes for each. It is preferable to have all the role plays enacted one after another and then to discuss them together.

Reconvene the trainees and lead discussion as follows:

a) Request the 'defaulters' to say how they felt when confronted by the 'guarantors'.

b) Request the 'guarantors' to describe their feelings about the 'defaulters'. To what extent were their actions motivated by their desire to ensure repayment, their anxiety to assist a relative, neighbour or friend in time of difficulty, fear for their own financial position, or mere anger?

c) Ask actors and observers to comment on the effect of the relationship between guarantors and defaulters if both belong to the same co-operative society. Will problems lead to greater solidarity through a desire to help one another, or to break down because of suspicion?

Role-Play Brief 1

Combine Harvester Credit Group

Fifteen farmers have formed a credit group to buy a combine harvester. They have taken out a loan of $18,000 on the security of the machine itself, to be repaid over four years. They are doing well out of the machine and are pleased with their venture, which is now towards the end of its second year. The arrangement is that the loan is to be repaid in equal instalments of $4,500 plus interest (i.e. $300 each, plus interest) and they share the running costs equally (another $150 a year each).

One member of the group, Peter, has been having trouble finding his share of the money. He has explained his problems by saying that he had to put a new roof on his house, and as the others know he has had a very successful harvest they have assumed that he will be able to pay up at the end of the second year when the instalment on the loan falls due. Four members of the group meet Peter to discuss the problem. He explains that he has no money; are the others willing to buy him out? They do not wish to do so, as none of them can afford the extra payments; equally they are very unwilling to lose the machine and they badly want him to pay up.

Roles:

Peter and four other group members.

Role-Play Brief 2

The Co-operative Society Loan

A co-operative society takes out a block loan from the bank and allocates individual loans to farm members to grow hybrid maize under a package scheme. The society borrows at 12% and lends to members at 14%, leaving just enough margin to cover its expenses. The society is responsible to the bank for the whole debt and should any individual default, it must find the amount out of its very limited funds. Failure to repay in full will mean no loan funds will be available next year.

Simnel is one of the farmers who has borrowed money from the society. It has been an average to good year but he is not a very well-organised farmer and because of delayed planting and insufficient weeding his yield has been rather disappointing. The other borrowers know this, but they also believe that Simnel can repay his loan, until the repayment day arrives and he does not appear. He is known to have sold his crop; what has happened to the money? A group of co-operative society members who are borrowers under the loan scheme and the manager call on Simnel to find out why he has not paid.

Roles:

Simnel

The manager of the co-operative society

Co-operative society members who have borrowed through the loan scheme

Role-Play Brief 3

The Aziz Family

Two years ago Aziz borrowed $400 from his co-operative society to fence some land on which he kept his four grade cows and six native cattle. As he had no security his father and his rich maternal uncle stood surety for $200 each for this loan. Last year things went well and Aziz paid back $125 of the loan, but this has not been a very good year for any of the farming community. Aziz lost one of his grade cows and three calves which he had expected to be able to sell, and his father and uncle have been complaining about their mediocre harvests.

Aziz has not managed to make any payments on his loan this year. His father is very worried. In the first place, he can't afford to pay up if the society asks him to honour his guarantee; in the second place his wife does not know about this guarantee and he is not sure how she will react if she finds out; in the third place he does not wish his family to be obliged to his richer brother-in-law.

The uncle does not see Aziz very often. He has not forgotten about the guarantee but has heard nothing more about it and assumes everything is in order.

The due date for repayment of Aziz's next instalment comes and goes, and the society, hearing nothing from Aziz, sends out a routine letter of reminder, with copies to his father and uncle.

At this point, Aziz's paternal grandfather dies. After the funeral, his uncle stays behind to have a word with Aziz and his father about the loan.

Roles:

Aziz, his father and uncle

topic

9

credit in kind

SESSION 9.1

DISBURSEMENTS AND REPAYMENTS IN KIND

Objective: To enable trainees to assess when disbursements and repayments in kind can be used as part of a credit package.

Time: Approximately three hours.

Material: Handouts 1 to 3.

Session Guide:

1) Distribute Handout 1 and allow trainees fifteen minutes to complete the assignment. Go round the group asking each trainee to suggest one problem and summarise these on the chalkboard/OHP. Continue until all trainees' suggestions have been given. The list should include the following:

- Cash can be used for any purpose.
- Cash is easily lost or stolen.
- Cash repayments often involve long journeys to the co-operative or other lending agency's office.
- The possession of a large amount of cash, particularly to somebody who is not used to handling such sums of money, may provide a temptation to him and his family to spend it for other purposes than that for which it was intended.
- If loans have to be repaid in cash this may involve two journeys, one to collect the cash and another to pay it in, with all the consequent dangers and temptations.
- If the loan project has not succeeded as well as expected the extra effort of obtaining and paying in cash may discourage the borrower from repaying at all.

2) Remind trainees of the objectives of this session and elicit the suggestion that in order to avoid these problems lending agencies have two alternative approaches:

a) <u>Timing</u>

- of loan disbursements. Cash is made available only at certain stages of the life of the loan project to minimise the risk of loan funds being diverted;
- of repayments, at times in the life of the loan project when the borrower can expect to have income available, such as at harvest time.

b) <u>Credit in Kind</u>

In suitable circumstances co-operatives or other lenders may arrange that:

- Disbursements may be made in the form of agricultural inputs.
- Disbursements may be made only in the form of payments direct to suppliers.
- Repayments may be accepted in kind.

3) Distribute Handout 2 and allow trainees up to twenty minutes to complete the assignment. Ask selected trainees for their answers, and discuss these with the rest of the group. The following points should be covered.

a) The farmer must have cash to pay labour, and normally to pay irrigation and electricity charges.

- Normally cash would be needed to pay for purpose-built items such as sheds, stores, etc; the digging of wells, fencing, etc.
- Livestock is normally purchased direct but specified quality livestock could be paid for by the lender to the nominated supplier.
- Materials for sheds or fences could be paid for direct by the lender.
- Any contractor services such as digging a well may be paid by the lender to the contractor.

b) Credit could be granted in kind only if the exact nature of the purchases is known, for example:

- Predictable quantities of specified inputs such as pesticide, seed, fertilizer, measured in quantities per hectare.
- A particular piece of equipment, to be bought at a known price, like a specified sort of tractor, particular items of equipment, etc.

c) Credit in kind has to be arranged with the co-operation of suppliers and the exact details of inputs which can be supplied to borrowers in kind depend on local supply arrangements.

4) Compare the loan packages in the handout with the type(s) of project most commonly provided for in loan packages under trainees' own credit schemes. Ask trainees what inputs their own borrowers use which could be supplied in kind. Some credit schemes keep the cash components of loans down to about 30%; in other cases no cash at all is granted as part of the loan. Is this feasible under their loan schemes?

- The results of the discussion will depend on the nature of loan schemes which trainees are going to operate.
- Co-operatives which are the sole or main local suppliers of inputs would find credit in kind easy to arrange for seasonal loans.
- Elsewhere, arrangements can be made with official or sole suppliers, or loans may be disbursed by paying invoices from authorised suppliers.
- Where there are a number of different suppliers, arrangements for credit in kind present problems especially if prices vary within an area, but these can usually be solved. Local labour is the only input which can be paid for by the borrower only in cash. This may be a reasonable commitment to demand from the member's own resources so that no cash is lent at all.

5) Ask trainees if there are any disadvantages associated with providing credit in kind. They should suggest the following among others:

- Borrowers may be tied to nominated suppliers who are willing to work in this way and may not be the most economical sources.

- The appointment of nominated suppliers provides opportunities for corruption.
- Borrowers are deprived of flexibility in the choice of inputs or supplier.
- If a particular input, or supplier, fails because of unavailability, unexpected low quality or any other reason, it may be very difficult to change the system in time.
- Borrowers may be prevented from making alternative investments which are more profitable than their loan project, because circumstances have changed and the original project is not now the most profitable one.

Point out to trainees that cases have arisen where borrowers have requested funds for a particular project but have no intention of investing in it. They have actually invested their funds in something far more profitable which for some reason lay outside the rules of the lending agency. Supply in kind implies that the lending agency knows better than the borrower what is good for him, which is not always the case.

6) Ask trainees if there are any advantages to the society if it is able to supply credit in kind to borrowers. Discussion should suggest the following:

- The society may be able to predict demand for inputs more accurately.
- Supplies to borrowers may be more assured.
- Borrowers gain the advantage of bulk buying such as price discounts on quantity and better likelihood of timely delivery of supplies;

  but the lender may have to provide facilities for storage and distribution.
- The co-operative is committed to pay for the whole order if some borrowers do not take up their loans.
- The co-operative must calculate input requirements for borrowers well in advance.
- The co-operative must avoid the complacency and poor service which may arise from what is in effect a monopoly.

7) Ask trainees to suggest ways in which co-operatives can arrange for repayment in kind.

- Where the co-operative is also the produce purchaser there is no problem.
- Where the co-operative is not the produce purchaser, arrangements can be made with other marketing links, if these are the sole local purchasers of the produce, such as marketing boards or processing factories.
- Where there are several local purchasers, repayment in kind is harder to arrange and may be unfair to farmers who are thus not free to seek the best possible price for their produce.

8) Ask trainees to suggest ways in which borrowers may evade the requirement to receive loans or repay them in kind. Their suggestions may include the following:

- Borrowers may persuade a supplier to supply them with something other than the product which is nominated on the order from the society or other lender. This usually involves paying a higher price than would normally be the case.
- The borrower may sell the fertilizer or other inputs he has received as credit in order to obtain cash for other purposes. He will usually have to accept a lower price than he would have had to pay for the input in question.

  Borrowers may sell their crop for cash to a different buyer and may then claim that their crop totally failed or was sufficient only for subsistence needs. If this sale is 'illegal' it usually involves accepting a far lower than normal price.

Stress that all these devices, and many others, usually involve the borrower in a substantial loss. Why has he been willing to suffer this loss?

- The borrower presumably believes that he needs cash so badly that he is willing to make the sacrifice, or that the co-operative or other lending agency will not press its claim for repay ment when the loan is due so he is effectively obtaining cash for nothing. This belief should prompt the lender to ask whether he loan programme is in fact answering the most serious needs of members, and whether it is administered rigorously enough.

9) Divide the trainees into pairs and agree with them on a particular loan package which they are to attempt to analyse according to the exercise. Distribute Handout 3 and allow up to thirty minutes for completion of the exercise.

Reconvene the trainees and ask a spokesman for each pair briefly to present the diagrams they have prepared. Ask other trainees to comment and improve on these as appropriate.

10) Refer to the example diagram on Handout 3. Ask trainees to suggest what documents would be required to authorise each of the four transactions. Who would issue these documents?

Transaction 1: Input to Farmers

Normally the lender would issue a voucher to the farmer authorising him to collect inputs from the supplier. This supplier may or may not be specified by name on the voucher.

Transaction 2: Cash to Supplier

This would be authorised by the original voucher. The supplier returns it to the lender, who upon receipt pays out the agreed value of the voucher.

Transaction 3: Produce to Marketing Link

The lender can try to control this by asking the member to sign a binding letter of agreement to market through an agreed link. (This binding letter is not necessary if there is only one legal market for his produce, as in the case of some cash crop marketing boards.) The co-operative society may in fact be the sole legal purchaser of the product.

Transactions 4a and 4b: Cash to Farmer and Cash to Lender

These are more or less simultaneous because both are payments on the same purchase from the marketing link, but are authorised in quite different ways.

4a) The marketing link may pay the farmer in cash or on production of sales receipts, depending on the kind of produce being sold. (See 4b)

4b) The payment of cash to the lender is normally ensured by a binding letter of authority from the borrower to the marketing link authorising the payment of all, or an agreed part of, the proceeds of sales to the lender. There are a number of possible variations of this:

- The purchaser pays the whole proceeds of the sale of produce to the lending agency, which deducts repayments as due and makes the rest of the proceeds available to the farmer.
- The purchaser deducts loan instalments from the sale proceeds and pays the rest to the farmer.
- The purchaser issues a receipt to the farmer, which the farmer must present to the lending agency, which deducts one loan instalment and pays the remainder of the purchase price to the farmer.

11) Ask trainees which of these methods would most suit the needs of their co-operative lending agency and its borrowers. Discussion should elicit the following:

- Farmers usually prefer to receive some cash immediately produce is sold, and do not want the trouble of collecting it later or elsewhere.
- Payment of the whole amount to the lending agency is simpler for the purchaser.
- Direct payment to the lending agency ensures that all the borrower's obligations, including savings convenants, are met.

12) Allow trainees five minutes to write down as long a list as they can of the various agencies, suppliers or other outside organisations whose co-operation would be needed to operate a system which disbursed and collected as high a proportion as possible of loans in kind. Ask each trainee to make one suggestion and write down the list on the chalkboard/OHP. Mention that the problems of co-ordination with a large number of organisations will be dealt with in Session 13. When proposing systems for payment or collection in kind, co-operative credit staff should not ignore the problems of co-ordination with large numbers of other organisations whose interests may not be the same as those of the co-operative.

Handout 1 - Mini Cases

1) A farmer was granted a loan to invest in a grain store. Just after the money was made available to him, the veranda of his house collapsed. He spent the money repairing the house. As there was then nothing left to build a grain store the expected advantages of having one did not materialise and he had great difficulty repaying the loan.

2) A farmer obtained a cash loan to buy hybrid maize seed, pesticide and fertilizer. At the time the loan was made available, the co-operative society store had no hybrid maize seed available for him. A private trader sold him a bag of seed, which cost the same as the hybrid seed. The farmer planted this but it turned out to be seed of the ordinary sort and although his yield was quite high it was nothing like what he had been told to expect.

3) A cattle farmer is repaying a loan on dairy equipment. He makes his payments monthly and usually obtains a lift into town (where the co-operative society's branch is) on the lorry which collects his milk. When the society's rules for drivers are tightened up, he is no longer allowed to take this lift. He finds it difficult to get into town, and gradually his repayments fall into arrears.

4) A farmer obtains a three year loan for the purchase of a groundnut shelter. His nephew, however, needs to earn some money, so the farmer pays the boy to do the work instead. The money left over after the wages have been paid from the loan is spent on other things for the farm. He makes his repayments on the loan in the first year but in the second year he still has to hire labour and find the loan repayments.

5) A farmer is going into town to make a repayment on the loan he ob-

tained to finance his poultry unit. He is on foot. At a bend in the road he comes on a lorry which has overturned. A lot of people are standing round helping and/or offering advice. He joins them. After all the excitement is over and the injured have been taken away, he adjourns for a drink with his new acquaintances. Later he goes into town, but when he gets to the lending agency's office he finds he has lost his money.

Assignment

Identify the specific problem in each case and make a list of all the problems that are likely to arise, including those illustrated in the case studies, when credit is disbursed and/or collected in cash.

Handout 2

Utopia Co-operative Bank

Loan Component Schedule

Seasonal Crop Loans: (including maize, rice, sorghum, etc.)

In calculating these loans, allowance is made for the following types of inputs:

Short-term Loans:
(Improved Varieties of Seed
(Fertilizer
(Pesticide
(Labour Charges
(Irrigation Charges
(Fuel for Running Engines (where appropriate)
(Electricity Charges

Purchase of Agricultural Machinery: (tractor and essential additional equipment, pumpset, power tiller)

Medium-term loans are available for this type of equipment.

Poultry Units

In calculating these loans norms have been laid down for the costs of building, equipment and feed per bird. Amounts of loans are calculated on the basis of these norms to include finance for the following items:

Medium-term Loans:
(Buildings: sheds, stores
(Fencing
(Construction of Well and Installation of Pumpset
(Poultry Equipment and Installation of Electrical Fittings

Short-term Working Capital:
(Birds
(Feed
(Medicines

Dairy Farming

Norms have been laid down for the costs of buildings, equipment and feed per animal. Amounts of loans are calculated on the basis of these norms to include finance for the following items:

Medium-term Loans
- uildings
- Digging of Well and Installation of Pumpset
- Purchase of Cattle
- Dairy Equipment

Working Capital Short-term Loans
- Fodder
- Concentrates
- Medicine
- Labour

Assignment

Identify which inputs in each of these four types of loan could be made available in kind and which it would be essential to have the borrower pay for in cash.

Handout 3 - Exercises

You should previously have selected a loan package typical of the sort of loan your society grants. This should be agreed with the course instructor in order to avoid duplication with other members of the group. Analyse this loan package, preferably using any written description of it you are able to obtain, and answer the following questions:

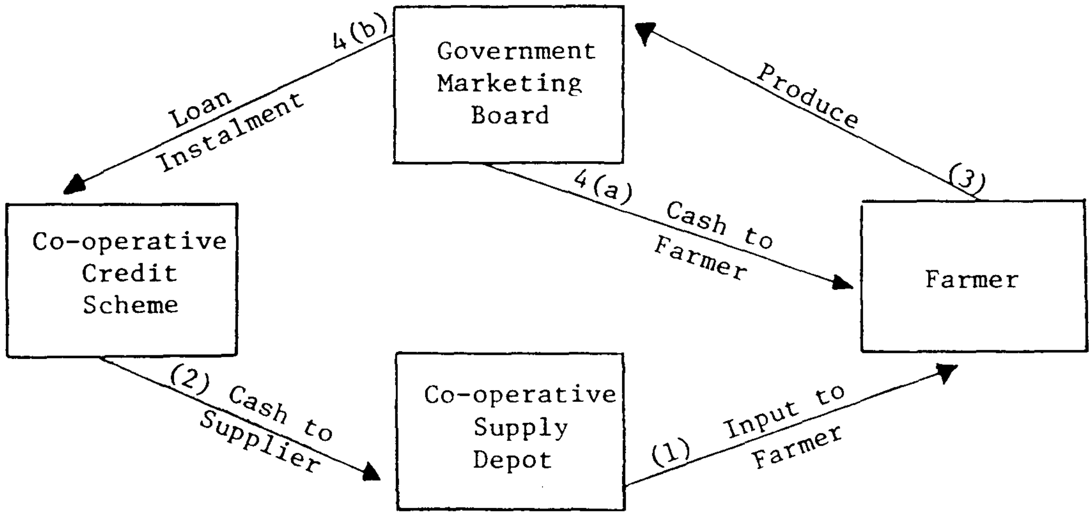
1) List the inputs of this type of loan project.

2) Who are the suppliers of these inputs?

3) What is produced from this type of project and how is the produce marketed?

4) Consider which inputs could be provided in kind; could the loan be repaid in kind? Make a flow diagram like the example below showing how, if all possible transactions were conducted in kind, the so ciety would pay out credit and receive repayment.

   Example: In this example the farmer handles no part of his loan in cash at all. He gets his inputs from the depot, the marketing board takes his produce and pays him for it after deducting loan instalments.



Transactions (the transfer of money or goods) are shown with arrows. Number the arrows in the order in which they occur as in the example above.

Give the name of each supplier and marketing link, and show all the various alternatives which are normally possible. Be prepared to display your diagram to the rest of the group.

SESSION 9.2

PROBLEMS OF CREDIT IN KIND

Objective: To enable trainees to predict ways in which farmers may try to evade their obligations in schemes using credit in kind, to appraise the significance of such attempts and to take appropriate action.

Time: Approximately one and a half hours.

Session Guide:

1) Divide trainees to work in the same pairs as in the last session and to use the diagram they prepared in the exercise contained in Handout 3 from that session.

   Ask the pairs to imagine that they are the borrower in the credit transaction and that they wish to get round the scheme and obtain as much cash as they can. Allow up to twenty minutes for them to list as many ways as possible in which they might:

   - Obtain cash instead of credit in kind.
   - Obtain the full amount of cash for produce rather than having credit repayments deducted at source through the marketing link.

2) Ask each pair to produce one suggestion at a time and continue round the group until no one has any more suggestions. Ideas may include:

   - Selling vouchers to other farmers for cash.
   - Selling inputs for cash.
   - Selling vouchers to a local money-lender for cash.
   - Persuading the supplier to give cash for vouchers.
   - Selling through a friend or relative.
   - Selling through an unauthorised purchaser (which may or may not be against the law).

Selling locally consumable products like maize or milk over the fence.

3) Ask trainees to consider how likely evasions of these sorts are in respect of particular inputs or types of produce which figure in typical loan packages. What circumstances encourage evasion?

- Where there are many alternative suppliers and purchasers' evasions are common because they are easy and farmers may seek more favourable prices from unauthorised suppliers or sales outlets.
- Where official produce prices are pegged and black markets exist for produce.
- Where official supply prices are fixed and cheaper supplies can be found.
- Where the society, because of bad management or inappropriate regulations, is not the best supplier or sales outlet.

4) Ask trainees to suggest what might be the origins of farmers' attempts to evade requirements that they should take credit in kind, or should repay their loans in kind. Trainees may suggest disloyalty, dishonesty, greed or other motives which imply criticism of farmers' behaviour; lead them also to consider possibilities such as the following:

- The co-operative may not pay the best prices or may charge higher prices than may be asked elsewhere for inputs.
- Although the co-operative's prices may be as good as or better than competitive suppliers, borrowers may rightly prefer such competitors because they pay promptly, they weigh produce or supplies honestly, they provide delivery or for other legitimate reasons.
- The co-operative may have a legally enforced monopoly of market purchases or supplies, and may as a result be inefficient and complacent.

Stress that widespread attempts to evade credit or repayment in kind should first be viewed as a symptom of problems within the co-operative. If such evasion is prevalent, management must appraise and improve all relevant aspects of the co-operative's operations. When they have done this they may find that the problem has disappeared since members recognise what is in their best interest. In any case such re-appraisal and improvement must come before any attempts to police or coerce members.

If appropriate, refer trainees to MATCOM Courses on Farm Supply and Marketing.

5) Even if the co-operative is the most suitable supplier and sales outlet, some member borrowers may attempt to evade regulations on disbursement or repayment in kind because they are dishonest or they are ignorant of the necessity of the required inputs in order to make their loan projects successful.

Allow trainees in the same pairs up to ten minutes to list as many ways as they can in which evasions might be controlled in their area. Clearly there are tw0 basic approaches:

- Improved supervision.
- Instilling loyalty in members so that they realise that it is not in their long-term interest to take advantage of short-term price differences or other periods when the co-operative may not be the most advantageous short-term supplier or sales outlet.

Moral and social pressure by fellow members may be used to aiscourage isolated members from acting against the long-term interests of their own co-operative.

Ask trainees to suggest methods of preventing evasion; elicit suggestions such as the following:

- Regular, well-organised supervision of projects, particularly when essential inputs are to be applied or crops are to be harvested.
- Well-organised liaison and record-keeping between the credit department and the supply or marketing organisation, whether this is within or outside the co-operative.

- Efficient record-keeping so that arrears are notified immediately to the responsible credit officer who can follow them up in person.
- Educating members so that all borrowers appreciate the necessity of applying the correct inputs.

Trainees should examine the diagrams they produced in the previous session and ensure that for each type of transaction they have identified appropriate methods to prevent evasion.

6) Stress that it would be impractical to supervise all borrowers so closely that evasion was actually prevented. The cost of the supervisors would far exceed the benefits to the society of reduced evasion, even if enough supervisors with the necessary skills could be recruited.

7) Conclude the session by asking selected trainees to answer the following questions frankly in respect of their own societies:

- Are their societies really the best sources of supply and/or buyers for their members or are improvements necessary?
- How much reliance can they place on group loyalty and social pressure to control evasion and how much is it necessary to rely on 'policing'? In the light of this what are the respective ad vantages of their co-operative or alternative sources of supply or sales outlets?
- How effectively is the routine supervision by their co-operatives organised in order to control evasion? Could evasion be more effectively controlled through better management of record keeping, supervisory visits and contact with marketing links and suppliers, at no extra cost to the society?
- What changes would they suggest in order to reduce evasions in their particular area?

topic

10

credit records

Session 10.1 Credit Records

SESSION 10

CREDIT RECORDS

Objective: To enable trainees to design and use appropriate documentation to record members' credit transactions.

Time: Approximately two hours.

Material: Handouts 1 to 11.

Session Guide:

1) Ask trainees what the functions of credit records are. Elicit responses as follows:

- The legally binding agreements or undertakings must be recorded.
- Transactions which involve the flow of goods or cash from one party to another must be recorded.
- Essential information that will be referred to in the future must be recorded.

Ask trainees whether any of the paperwork used in their own societies or in credit schemes known to them can be shown to perform none of these functions. If so, is there any purpose in maintaining these records?

Stress that record-keeping on its own involves time and expense. Only records which are used to improve the operation of the credit scheme are of any value.

Ask trainees whether a co-operative credit scheme which involves more or one which involves less paperwork is likely, all other things being equal, to be more efficient. Stress that an excess of paperwork is generally a sign of inefficiency and that good management usually eliminates unnecessary documentation.

2) Work out with trainees a flow chart showing the stages through which a loan goes when it is first applied for until it is finally

repaid, or until it is either written off or handed to another party for collection.

If trainees are unfamiliar with flow charts, distribute or display Handout 1 to illustrate how such a chart should be laid out.

3) Ask trainees to identify the stages at which goods or cash change hands, legally binding agreements are made, or essential information recorded.

- Loan Application and Loan Evaluation: essential information is recorded about the borrower and his project.
- Loan Agreement: a legally binding agreement which sets out the terms of the loan is made. As part of this agreement the borrower may make undertakings regarding repayment in kind.
- Disbursements: cash or goods change hands, and both lender and borrower need a record of the account.
- Project Supervision: information is recorded.
- Repayments: cash or goods change hands and both lender and borrower need a record of the account.
- Arrears and Default: form letters are usually used to remind and warn the borrowers of the need to repay and of steps that may otherwise be taken.

4) For the purpose of the following exercise trainees should work in the groups which together designed the credit schemes in Session 6. Ensure that trainees have a record of the schemes they designed during that session and ask them to refer to these schemes and to design forms which will record the necessary details of transactions at the stages identified in 3) above.

Allow groups up to one hour for this purpose. If time is not sufficient, allow trainees to work individually and allocate various items to individual trainees so that the group as a whole produces a complete set of paperwork. Alternatively trainees may work in pairs.

5) Reconvene the trainees and ask groups or individual trainees to reproduce their suggested designs for each item of paperwork. If time allows trainees should have prepared large-scale illustrations of their suggestions on OHP or flipchart sheets.

Ask trainees to compare their suggestions with one another's, and to discuss differences which may arise either from differences in the loan schemes or from differing views as to what should and should not be included.

Issue or display Handouts 2 to 11. Ask trainees to compare their own suggestions with the handouts and in particular to answer the following questions:

- Which form is the easiest to use for the credit officer or other person who must complete it?

- Which form is the easiest to understand, particularly for the borrowers?

- Are there opportunities for combining two or more forms into one, thus saving paper and filing problems?

- Does the same information have to be written down and copied an unnecessary number of times, thus wasting time and creating opportunities for error?

Ask trainees to justify their own forms in terms of the needs of the credit schemes they have designed. Points which may arise include the following:

- Loan Application Form: (Handouts 2A and 2B) This often contains all the information on which the loan evaluation is made, though a separate form such as Handout 3 is sometimes used to record details of the borrower's personal circumstances. Before such a record can be filled in, a visit to the applicant's farm may be necessary (Handout 4).

- Loan Agreements: (Handouts 5 and 6) Where appropriate these should be supported by a binding letter of authority to the society authorising it to deduct repayments from sums due to the borrower from produce marketed, or to the appropriate marketing link authorising it to make repayments directly to the society.

- Disbursements and Repayments: The lender and the borrower both need records of transactions in the borrower's account. Handout 7 illustrates a oage form a typical borrower's passbook. Handout 8 shows a page from the society's loan ledger.

- Disbursement Voucher: A disbursement voucher is illustrated in Handout 9. Vouchers can carry the name of the designated supplier if appropriate.

- Loan Supervision Visits: A suitable layout for a supevisory report is illustrated in Handout 10. It should be adapted and expanded to fit the needs of specific types of project.

- Arrears and Default: Handout 11 suggest form letters.

Ask trainees to describe how each form is prepared in their societies; are there opportunities for savings?

- Are handwritten copies typed before presentation or filing, causing delay and unnecessary cost?

- Are unnecessary copies prepared?

- Is the same information filed in more than one place?

- Are files kept longer than necessary?

- Are complete copies of standard letters kept each time they are used?

Ask trainees what the benefits of eliminating paperwork are. They may suggest saving paper or possibly labour, but their answers should also include the following:

- Every time anything is written down there are opportunities for mistakes in copying, transcription or calculation. The less writing the less opportunity there is for error.

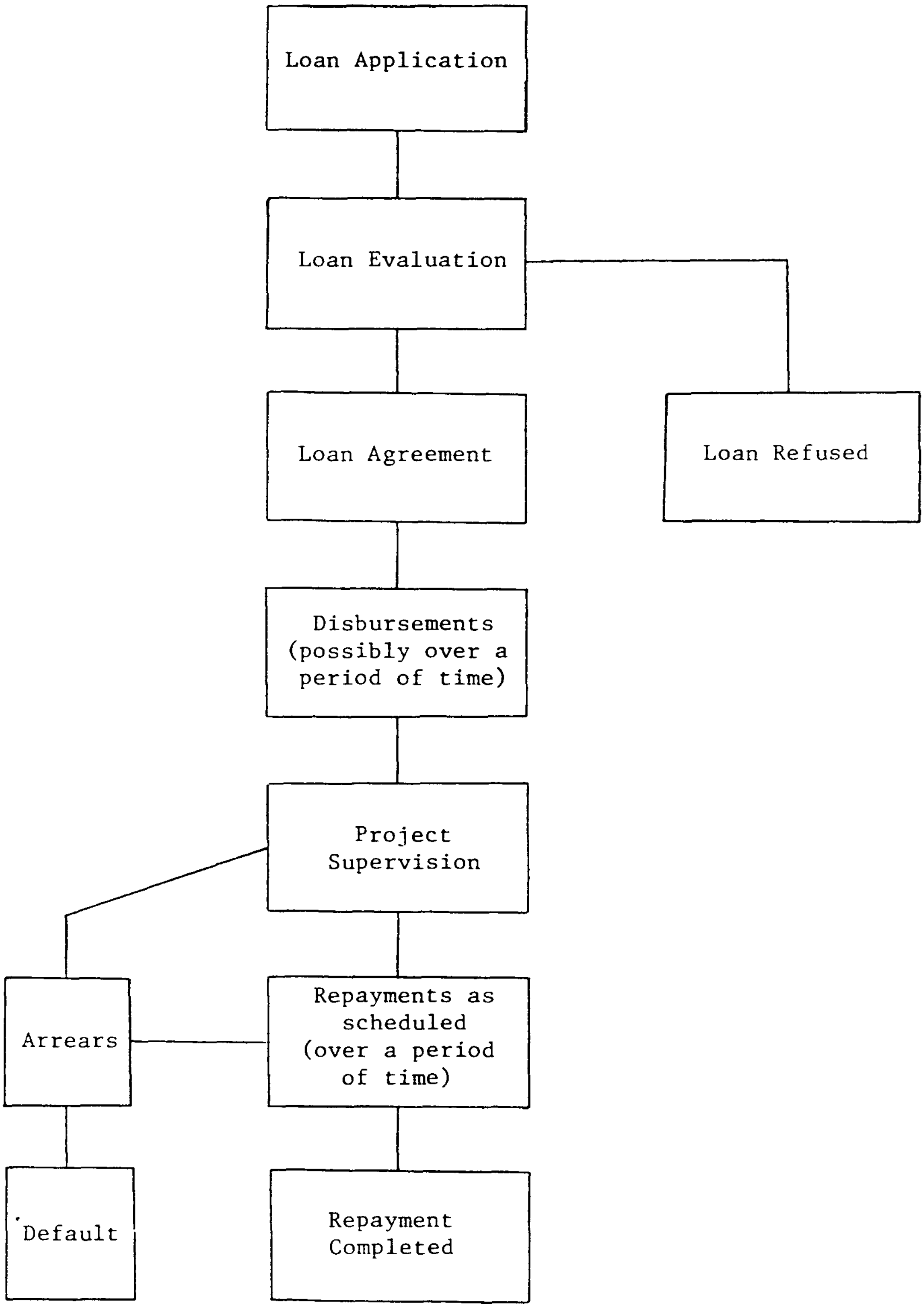
- When credit officers or others spend time on routine record-keeping they are prevented from doing their proper job which is appraising and supervising loans. The cost of superfluous records may be poorly appraised and supervised loans, leading to default.

- The filing of copies of large numbers of documents means not only that valuable space is occupied but also that essential information is hidden among the mass of that which is not necessary.

More paperwork generally means a more complicated system which is less understandable both to those who have to administer it and, more importartly, to borrowers themselves. Complicated paperwork and formal safeguards are no substitute for effective and alert management.

Handout 1

Flow Chart : The Stages of a Loan



Handout 2A - Utopia Co-operative Bank

Loan Application

Name:

Address:

Amount of Loan Applied for:

Other Debts:

Date	Owed To	Purpose	Amount
		Total:	

Sureties:

1) Member's Name:

Member's Number:

2) Member's Name:

Member's Number:

Date for Repayment:

Purpose of Loan:

Dated:

Signed:

THE AGRICULTURAL CREDIT CORPORATION LIMITED

CONFIDENTIAL

APPLICATION FORM

NOTE:

It is essential that a full and accurate statement of the applicant's position be given on the form. A blank or stroke will not be accepted as an answer. Where the reply to any question is "no" or "none", the appropriate word should be written.

I/We ______________________________

of (address) ______________________________

______________________________ Nearest Post Office ______________

hereby apply for a loan of ______________ repayable over ________ years.

for the purpose of ______________________________

____

____

____

and I/We offer the following security: ______________________________

____

____

____

NOTE: *Every query must be answered. If the reply is "No", or "None", that should be stated in the reply.*

L I A B I L I T I E S

1. Bank Debt(s) $ __________

   Name and Branch of Bank(s) ....

   Date(s) incurred and original amount ....

   Security given ....

   Purpose for which incurred ....

2. Mortgage or Charge other than to Banks $ __________

   Name of owner of Mortgage or Charge ....

3. Hire Purchase Debt(s) $ __________

   Name(s) of Company/ies ....

   Article(s) hired ....

   Amount(s) financed ....

4. Other Debts

   Purpose for which debt incurred

   a) Relatives .... $ __________

   b) Shops .... $ __________

   c) Co-operative Societies .... $ __________

   d) Contractors .... $ __________

   e) Others .... $ __________

5. Liabilities as a Surety .... $ __________

TOTAL LIABILITIES $ __________

Net Worth $ __________
(for office use only)

A S S E T S

6. Market Value of Lands (if you have more than one holding, state value of each separately) $ ________

7. Livestock

	Number	Value
Horses		
Cows		
Incalf Heifers		
Cattle - 2 years		
Cattle - 1 year		
Calves		
Goats		
Pigs		
Poultry		

Total $ ________ $ ________

8. Crops

	Hectares	Value
Corn		
Other		

Total $ ________ $ ________

9. Machinery (value) $ ________

10. Cash

(a) In Hand $ ________

(b) In Bank $ ________

(c) On Deposit with ACC $ ________

11. Stock and Shares Market Value = $ ________

12. Total Surrender Value of Life Assurance Policies (if available) $ ________

(Give particulars of policy/ies, e.g. date, sum assured, annual premium, details of any mortgage on policy)

TOTAL ASSETS $ ________

13. Details of Applicant's Land (Forwarded Latest Rate Demand Note and Receivable Order(s)

Name of Land	County	Area (Statute Measure) a. r. p.	Poor Law Valuation	Receivable Order Number

Total area of lands ______________________

14. Are you full owner of the lands? ______________________

15. State if any rights (e.g. rights of residence and support) affect the lands ______________________

____

16. State area and price of any land let or rented

Let: ______ hectares - $ ______

Rented: ______ hectares - $ ______

17. Describe the dwelling-house and outoffices ______________________

____

18. Describe the farm machinery ______________________

19. Applicant's age: __________ Wife's/husband's age: __________

Ages of children: Males __________ Females __________

Ages of any other adults: __________

Number of full-time employees: __________

20. State amount and source of income other than from farming ______________________

21. Name and Branch of any Bank(s) with which you have had dealings ______________________

I declare that the above particulars are true and correct and I have not suppressed any material fact.

The applicant must personally sign this form. Failure to do so will only delay the issue of the loan if granted.

Signature of Applicant: ______________________

Date: ______________________

Handout 3

CO-OPERATIVE SOCIETY OF UTOPIA

Confidential Report

Name of Borrower: ______________________ Age: ________

Address: ____

Family: Name Wife ______________________ Age: ________

Number, Sex and Ages of Children:

____

Previous Credit Record:

With the Society: ______________________________________

With other Institutions (which should be named) __________

____

Loan Officer's Assessment:

Technical Competence: __________________________________

Educational Level: _____________________________________

Management Ability: ____________________________________

Handout 4

Checklist for Farm Visit

1) Take the Application Form.

2) Assess the Project by reference to farm appearance; records cash flow budget.

3) Assess the farmer's capacity and skill.

4) Discuss and clarify terms of the loan:
   - Obligations to borrower and sureties, if any.
   - Schedules of disbursement.
   - Schedules of repayment.
   - Rights of the bank.

5) Fill in Application Form.

6) Warn applicant of delays.

7) Instructions for visit to the bank including:
   - Date.
   - Person to see.
   - Documents required.

Handout 5 - Loan Agreement

Name: ____________________

Address: ____________________

Date of Application: __________

Area of Farm: ______________

Purpose of Loan: ______________________________

Application No:
Loan Officer:

Cash Disbursements:

Date	Amount

Disbursements in Kind:

Date	Details	Value	Agent

Cash Repayments:

Date	Amount

Repayments in Kind:

Date	Details	Value	Agent

Security: __________

OR

Title Deeds Received	
Insurance Completed	

Tick as Appropriate

Sureties: ______________________________

Loan Officer's Comments: ______________________________

Loan Approved for $ _______

Dated:

Signed: ____________________
Manager

Handout 6

Bond No: ______

I agree that I will repay my loan of Dollars ____________________________ with interest at the rate of one cent per dollar per month on or before ____________________. I further agree that the total sum or any part thereof, including interest to the date that the loan is fully repaid, may be deducted from any sums due to me by the society.

Dated: ______________________ 19 __   Signature or Thumb-print : ____________________

Sureties: We, the undersigned, agree to repay the total amount due to the society by the applicant, if he fails to repay by the time the loan becomes due.

Surety Signature: _______________________   Witness: __________________________

Surety Signature: _______________________   Witness: __________________________

Handout 7 - Page from a Passbook

Development Co-operative of Utopia   Member's Name: ______________

LOAN ACCOUNT   No: ______________

Date	DR Disbursement	CR Repayment	Interest Rate % per annum	Borrower's Signature	Authorised by
			Months:		
			Months:		
			Months:		
			Months:		
			Months:		
			Months:		
			Months:		
			Months:		

Handout 8

LOAN LEDGER

Member's Name: ____________					Member's Number
Average Crop Deliveries = $	19	19	19	19	
Shares A/C = $					

Date	Details	Folio	Debit		Credit		Balance		Interest				
									Months	Rate PM		Charged	
			$	c	$	c	$	c		$	c	$	c

Handout 9

BANK OF UTOPIA LTD ESPETIO DISTRICT BRANCH		Voucher No:
LOAN DISBURSEMENT VOUCHER Borrower's Name .... Date		
Manager's or Loan Officer's Signature	Purpose Value	Borrower's Signature or Thumb-print

Handout 10

Supervisory Report	
Name	Address
File	
Progress of Project	
Record Books	
Anticipated Yields and Problems	
Next Visit	
Recommendations	

Handout 11

Arrears and Default - Form Letters

Dear Member,

I am sorry to tell you that repayments on your loan (No: ________) have fallen into arrears. Your last instalment was due on ________________ I should be glad to receive payment of ____________ being all moneys due under the terms of your loan up to ________________ , at your earliest convenience, and not later than ____________________ Failing this, the society may be obliged to take further action.

Yours faithfully,

Dear Member,

I wrote to you on ______________________ asking for payment of instalments on your loan, amounting to $ __________ and due on ________________ Since I have not received payment of this amount I have regretfully placed the matter in the hands of the society's lawyers.

Yours faithfully,

topic

11

arrears and default

SESSION 11.1

CAUSES OF ARREARS AND DEFAULT

Objective: To enable trainees to analyse the causes of arrears and default, and to distinguish between them.

Time: One and a half hours.

Material: Case studies 1 to 4.

Session Guide:

1) Divide the trainees into groups. Ask each group to write down as many reasons as they can why borrowers may fail to repay their loans. Allow up to ten minutes for this and then ask each group to read its list. As each possible reason for default is mentioned, write it up on the chalkboard/OHP and ask groups who have not yet presented their list to cross out suggestions on their lists which have already been made, until every different reason has been listed.

   When listing the groups' suggestions, divide them into three categories as suggested below but do not at this stage explain to trainees why you are classifying them in this way.

2) When all possible reasons have been listed, ask trainees to suggest why they have been grouped in three categories. Lead them to appreciate that they have been broadly divided into default arising from a) borrowers' unwillingness, b) borrowers' inability and c) shortcomings of the lending agency.

   a) Wilful Default

      The borrower is unwilling to repay. This may be for one of several sorts of reasons:

      - Dishonesty: the borrower thinks he may be able to get away with not repaying.

- Inability or unwillingness to cope with the lender's procedures and methods of work.
- Unsatisfactory community attitudes towards co-operatives, government or other official institutions resulting in unwillingness to repay funds from these sources.
- Dissatisfaction with poor co-operative management so that loans are not repaid in order to recover losses suffered by members in other ways.

b) Inability to Repay

The borrower cannot pay. This may arise from:

- Urgent and unexpected demands on the borrower's funds, for family or personal reasons.
- Failure of the loan project to generate sufficient income, because of one or more of the following:
  - Natural disaster.
  - Poor management ability of the borrower.
  - Marketing difficulties.
  - Price fluctuations.
  - Lack of essential inputs.

c) Failures on the Lender's Part

Linked to a) and b) are defaults basically arising from failures on the lender's part such as:

- Unsatisfactory or inadequate loan appraisal.
- Insufficient supervision.
- Inadequate contact with borrowers.
- Complex administrative procedures.

3) Ask trainees to define the difference between a borrower who has defaulted and one who is in arrears.

There is no clear dividing line. A borrower can be said to be in arrears as long as either he or the lender thinks there is a chance his loan may be repaid. Once there is an explicit or implicit admission that the loan will not be repaid without definite action on the lender's part, then the borrower can be said to be in default.

4) Divide trainees into the same groups as before and distribute Case Studies 1 to 4. Allow them up to thirty minutes to complete the assignment.

Reconvene the trainees and ask groups in turn to summarise their conclusions. Opinions may differ but their conclusions should be broadly along the following lines.

Case Study 1

a) It would be reasonable to say that Juma is in default. However, if the case is properly handled, repayments might be available from Juma's earnings, so it would be advantageous to treat him as being in arrears.

b) His failure to repay arises from a number of factors, including his general unwillingness, partly due to inadequate supervision and contact with the bank (a very long period has elapsed before the loan officer calls, during which no money has been received). Though Juma has enough income to make payments he is no longer in a position to make annual payments. Since he has changed his way of life monthly payments would not suit him better.

c) The lending agency's deficiences are suggested above. Ask trainees their views on the diversion of loan funds to finance a different type of project altogether. Most lenders would refuse any future credit on these grounds alone. Stress that cases have been known where borrowers deliberately request a loan for a particular project which is far less profitable for them than what they have in mind, but is known to be acceptable to the lending agency. Ask trainees whether they have experience of this type of diversion of funds. Is the co-operative or other lending agency right to demand that borrowers should invest loan funds in a project which is not the most beneficial for them but happens to conform to the objectives of the lending agency? Trainees should examine the objectives of agricultural credit. Is the ultimate objective to increase borrowers' welfare, and if so is the lending agency right to insist on particular forms of project; does it know better than the borrower what is good for him?

Case Study 2

a) Abdul is in arrears. He clearly has the intention to repay and will be able to do so once egg production is established.

b) This failure can be attributed to bad luck.

c) The society is not really at fault, though Abdul's failure to keep up egg deliveries might have suggested an earlier supervisory visit.

Case Study 3

a) Aziz is in default. He obviously has no intention to repay.

b) Dishonesty is the cause of his default.

c) The society is not at fault. Again, closer supervision might have prevented trouble but there has been no unreasonable deficiency.

Case Study 4

a) The group is in default - they are refusing to pay.

b) The default is caused by Ajuki's dishonesty, which as far as the group is concerned could be called bad luck or bad judgement on their part.

c) The society is at fault; the group was not properly appraised, and its method of working should have been more satisfactorily established.

5) Ask trainees what a co-operative or other lending agency can do when a borrower defaults? There are three basic alternatives. Discuss which is suitable in different types of circumstances, referring to the case studies.

- Rescheduling the Loan: Appropriate where there is reason to believe the borrower has the intention to repay and the project is generating sufficient income (Case Studies 1 and 2).

- Foreclosure: Calling in sureties, taking possession of land or other sureties - appropriate where the borrower is deliberately defaulting or the debt is not otherwise recoverable. (Case Study 3. Some managers might consider calling in sureties in Case Study 4 too, but others would disagree).

- Writing off the Debt: Seldom appropriate, but sometimes preferable to foreclosure when the assets are negligible or unsaleable, or when public sympathy or decision of a court of law is likely to be very much on the side of the borrower (Case Study 4, probably).

In cases of foreclosure or writing off the debt the lending agency can also threaten the defaulter with refusal of further credit. This is not really an alternative to any of the above but can be a useful way of putting pressure on a would-be defaulter.

Ask trainees whether their societies have ever even attempted to foreclose a loan or to seize collateral. Would members be more likely to repay if one or two particularly blatant wilful defaulters lost their security?

Ask trainees to state their societies' total sum due from borrowers, and to relate this to the annual allowance for bad debts. Does the total sum outstanding include a number of loans which will in fact never be collected?

What do their conclusions imply as far as the viability of the credit scheme in question is concerned?

Case Study 1 - Juma's Tractor

Juma borrowed $3,600 from his co-operative to buy a small tractor and attachments to cultivate cotton on his twelve hectare farm. The actual purchase price was $5,000, and if he had not put up $1,400 of his own money the co-operative would have been unlikely to grant the loan, as it tends to prefer more labour intensive projects.

Juma is scheduled to make annual payments of $1,000 for four years including payments of interest. Payments are timed for October, when the cotton is usually sold. The first payment is made at the end of October 1983. By December 1984 Juma had not produced the second instalment. After two warning letters he made a payment of $250 in February 1985. Since then the co-operative has heard nothing from him, and no further payments have been received.

In May 1986 the loan officer calls on Juma, for the last time, to try to obtain payment. Juma is out and his wife tells the officer that he is using the tractor on a neighbouring farm; she says that is what he does most days. The officer notices that only part of Juma's farm is under cotton and several different crops are being grown on the rest. On further investigation it appears that Juma has in fact let out his farm in several small lots. He earns $2,500 a year from the rent and from the income he makes by hiring himself and his tractor out to work on several local farms. He finds this a great deal more profitable than growing cotton.

Case Study 2 - Abdul's Poultry Farm

Abdul took out a loan of $2,000 from the new Egg Marketing Society with his land as security, to set up a small poultry farm with 300 laying hens. Of this loan $1,750 was drawn at once to finance the setting-up of the unit by building sheds, establishing a water supply and buying the birds and basic equipment. The remaining $250 was to be drawn during the first four months, until. the birds came into lay. Repayments would start after six months and would be at the rate of $60 a month for three years, to be deducted from sales of eggs through the society.

The first five monthly repayments were made when due, but in January payments stopped. Enquiry through the marketing department revealed that Abdul has not sold any eggs through the society for the past three months. At the beginning of March, after sending out a warning letter, the loan officer called on Abdul. He was shown round the poultry unit, and was pleased to see that the birds looked healthy and well cared for. Abdul, very apologetically, offered a payment of $30 on the loan. The officer pressed him for an explanation as to why he had not been selling his eggs through the society and had not made any payments till now. Abdul admitted after some questioning that he had sold his eggs privately in order to raise cash and said that nearly all the original consignment of chicks had been crushed when the boxes in which they were delivered fell off the lorry. Abdul had not known what to do; he had ordered some more chicks, which were delivered six weeks later and had only just come into lay, and he had used the $250 partly to pay for the second lot of chicks and partly to make the monthly payments on his loan. To keep going he had borrowed $50 from his uncle but was under pressure to repay this and felt he could not make any more repayments until he had paid his uncle.

Case Study 3 - Aziz's Cotton Loan

Aziz was a farmer who had in March taken out a seasonal loan from the Cotton Society for the first time to grow cotton. The loan was for $250; it was secured by two sureties of $100 and $150, and was due for repayment in full at the beginning of December at the end of the season when the cotton was sold. The society would deduct the amount of the loan from the price of Aziz's cotton when he sent it to them.

However, in December, when all local cotton sales were over, no payment had been received on Aziz's behalf. On January 5, the society's marketing officer told the loan officer that Aziz had not sold any cotton through the society, which was the only local buyer for cotton. The loan officer called at Aziz's farm the next day. Aziz, who had just invested in a new bicycle and was looking rather prosperous, said he was very sorry, but it had nothing to do with him and the marketing officer must have made a mistake. It was obvious that he really had grown and harvested a cotton crop. The loan officer suspected that he might have sold his cotton through a neighbour, thus avoiding having his name on the society's books.

Case Study 4 - The Kyali Village Disaster

A group of 24 farmers, known as the Kyali Village Farmers' Society, have contracts to supply eggs and vegetables to four hotels in the regional capital, 15 kilometres away. They have taken out a loan of $8,000 to buy a small truck, which they need to deliver their produce. The loan is secured by equal personal sureties of $333 from each member of the society. The loan is repayable in monthly instalments of $170 for four years. Ajuki, the leading member of the society, who negotiated the loan, usually delivers the money in cash to the regional office of the lending agency. These monthly payments stop towards the end of the second year. Letters to the group, addressed to Ajuki, are not answered. The lending agency's officer calls after four months have gone by. Ajuki is nowhere to be found but the officer locates another member of the society who tells him that as far as he knows the last three payments have been made by Ajuki as usual; Ajuki himself is now in town making deliveries. It subsequently turns out that Ajuki has absconded, taking with him the truck and about $1,000 of the society's money, including the last three months' loan repayments and the takings from two deliveries. The remaining members of the society refuse to pay any more instalments on the loan - after all, they have not got the truck.

(In assessing this case study, remember that Ajuki personally is not the borrower).

Assignment

a) Do you consider Juma, Abdul Aziz and the Kyali Village farmers in default or in arrears? Justify your answer.

b) What has caused Juma, Abdul, Aziz and the Kyali Village farmers to be in default or in arrears?

c) Who is responsible for the causes identified?

SESSION 11.2

CREDIT SCHEMES INVITING AND NOT INVITING ARREARS AND DEFAULT

Objective: To enable trainees to identify features of credit schemes that are likely to lead to or to minimise arrears and default.

Time: One hour.

Material: Handout - Four Organisations.

Session Guide:

1) Distribute the handout and allow trainees individually up to thirty minutes to complete the assignment.

2) Ask trainees for their suggestions. These should include at least the following:

Case A: The bank achieves its low default rate by

- Good local liaison. Loan officers are accessible to farmers and can get to know them well.
- Ensuring that technical expertise is available to farmers through technically qualified officials and the extension services.
- Ensuring ease of access to farmers applying for loans or making repayments.
- Close links with marketing co-operatives.

Case B: The Transylvania Bank's default rate is high because

- Branches are not located in country areas where they would be convenient for farmers, who therefore have to undertake long journeys to transact loan business.
- The bank is not well represented in country areas and has denied the touring loan officers any effective authority.

- The bank denies itself contact with local co-operatives, which could provide it with essential local links and knowledge.
- The bank has made no effort to establish links with inputs suppliers or marketing agencies.

Case C: Vega's default rate is high because

- The bank has no arrangements for the evaluation of individual loans, and an appreciable number of its loans are unsuitably allocated.
- The bank relies too heavily on the advice of local societies, who can be prone to favouritism and elitism in the allocation of loans.
- The bank has unsatisfactory disbursement arrangements, which can cause delays to farmers at crucial points in the farming year.

Case D: The CCP's default rate is higher than it should be because

- The programme is dispensing government funds and does not have the commercial pressure of an independent bank to replenish its own funds by efficient business practice.
- Borrowers are less conscientious on the whole about default when government funds are involved.
- Programme officials are civil servants, not officials of an independent organisation, and are vulnerable to the pressure which may operate on any government official.
- The officials are unlikely to have had training or experience in agricultural credit.

On the other hand the CCP has several good features:

- The programme is linked with a members' saving scheme.
- The programme has good liaison through the societies.
- The programme ensures that farmers get the technical expertise they need to make their projects succeed.

3) Allow trainees up to fifteen minutes to draw up a list of the

characteristics of a credit scheme which can help to reduce its default rate. When they have completed their lists, compile a definitive list on the chalkboard/OHP, including the following:

- Branches should be accessible to farmers.
- Local liaison should be good.
- Bank procedures should be efficient and flexible.
- Loan evaluation should be efficient.
- Loan projects should be adequately supervised.
- Farmers should be encouraged to develop their technical and managerial skills.
- Care must be taken to avoid the situation where a few rich men take advantage of credit schemes in a locality.
- Bank officials should as far as possible be independent of political and other pressures.
- Arrears and default must be rigorously dealt with.

4) Ask trainees to suggest some of the normal hazards of farming which they believe may lead to default in spite of the best efforts of the co-operative credit organisation. Suggestions may include the following:

- Drought, flood, hail, etc.
- Attack by animals or insects or plant diseases.
- Marketing problems and price fluctuations.
- Lack of essential inputs.
- Poor management ability of borrowers.

Ask trainees why it is that some farmers are more sucessful than others in the same area even when they are growing the same crop on the same type of land.

Trainees' answers should recognise the overall importance of effective management. Ask how the management of a co-operative credit operation can minimise default in spite of apparently uncontrollable problems.

- They can prevent members from borrowing beyond that which they can reasonably repay even if results are not all that are expected.
- They can ensure that loan packages and extension services include finance and suggestions for all necessary veterinary aids, pesticides and other farming aids.
- They can ensure that the credit operation is integrated with an effective marketing system which minimises the effect of price fluctuations on farmers.
- They can establish effective liaison with input suppliers and avoid lending money beyond the likely availability of inputs.

Ask trainees to compare the default rates of co-operative or other credit schemes known to them. Ask whether the default rates are a result of basic farming difficulties or of the quality of management of the scheme itself. Generally speaking, wide divergencies in default rates are caused by the standard of management of the credit schemes and the political climate in which they operate. Genuine price fluctuations, farmer management, technical weaknesses and natural disasters usually account for only a very small proportion of the differences between default rates experienced by different credit operations.

Four Organisations

Read these descriptions of four agricultural credit organisations noting their repayment experience and the way in which each operates.

A. Beta Credit and Savings Bank

Beta Bank specialises in rural credit and employs a staff of technically qualified loan officers who work closely with the extension services. It operates a system of 'temporary branches'; these are small local offices which are opened once a week or every market day in the villages. All are located at the markets. Loan officers are allocated to specific areas and encouraged to involve themselves in local affairs.

Beta serves a number of types of farmers. About half grow the local cash crop and on their loan Beta makes stop-order arrangements so that the local societies deduct loan repayments from the proceeds of the farmers' sales. Farmers who are not members pay cash to loan officers at the markets.

Default rate in this bank is under 5%.

B. The Transylvania Co-operative Bank

The Transylvania Co-operative Bank is a national organisation. It has branches in all the regional capitals and several major towns. Farm credit is available through all these branches. Farmers must be members of registered societies and must apply in person for loans; loan repayments have to be made at the branches. There is a small staff of loan officers who visit borrowers at intervals but are not allowed to negotiate loans or change loan terms. All business has to be transacted through the branches, and final decisions on all loans have to be made at national head office. The bank has few links with local co-operative societies or firms, either for disbursement in kind or marketing links, or for references on borrowers, because previous contacts with such organisations have resulted in political bias and charges of tribalism.

The bank's default rate is 40%.

C. The Vega Co-operative Bank

Vega is a small co-operative bank which offers a highly specialised package credit system for co-operative members growing certain crops. For each of four types of crops a package has been worked out which allocates set quantities of standard inputs per hectare. Loans are granted on the basis of these allocations, to all eligible borrowers on a first-come, first-served basis. The bank relies on the advice of local societies to determine who is eligible, once the minimum qualification of two years' membership of a society has been established.

Disbursement on these standard loans is in kind and the bank arranges delivery of inputs through the local societies, which are sometimes not very efficient at the task.

Default rate on these package loan is 30%.

D. The Co-operative Credit Programme

The CCP is a programme run through local co-operative societies. Through the programme, funds have been made available by the government, but must be matched by the societies' own funds, including savings schemes. All borrowers are required to contribute to their co-operative societies' savings schemes. Most loans are conditional upon the farmers' receiving technical or managerial training and this too is operated through the local societies.

Liaison with the societies is close and permanent. The most common is that whereby a member of the programme staff is seconded on a two to three year basis to each participating society, and is responsible for organising and supervising local loans according to the pattern laid down by the programme. These officials are, ultimately Ministry of Agriculture employees, for the programme is run by the ministry.

Default rate on this scheme is disappointingly high at 21%.

Assignment

Write down the reasons which account for the default rates achieved by each scheme.

SESSION 11.3

DEALING WITH ARREARS

Objective: To enable trainees to identify the reasons why borrowers fail to repay and to decide how to deal with individuals who are in arrears.

Time: Approximately two hours.

Material: Role-play briefs.

Session Guide:

1) Select six trainees to enact the role plays outlined in the handouts. Give them each a role-play brief and allow the rest of the group to read all the briefs. Ensure that none of the role players sees each other's briefs.

   Ask the role players to read their briefs and to 'think themselves into' their roles. Ask the rest of the group to watch the role plays and to consider the following questions which should be written on the chalkboard/OHP:

   a) Why was there a risk of default in each case?
   b) Are the arrears the borrower's fault or the bank's, or the result of bad luck?
   c) In what ways could improved loan processing or bank action have helped to prevent arrears?
   d) How would you handle the situation if you were the loan officer?

2) Ask the pairs of role players to enact their parts and discuss the cases separately at the end of each role play in order to avoid invidious comparisons between the various actors.

   The following points should emerge in discussion.

Role Play 1

a) There was a risk of default because

- The loan project had generated less income than expected.
- The farmer's attitude was hostile.

  i) He was disappointed at having gone to a lot of trouble for little reward.

  ii) He had been persuaded, perhaps incorrectly, to take out the loans.

  iii) As far as he was concerned the society was on trial and had failed at his expense.

b) The threatened default was the society's fault, contributed to by the hostile attitude of the borrower.

- Delivery of the disbursement in kind was not properly organised to meet farmer's needs.
- The borrower has received no support or encouragement through supervision of his project.

c) Better organisation of inputs and ongoing support could have prevented the situation.

d) Handling should be conciliatory and tactful, but the official must be firm. The loan should be rescheduled if possible.

Role Play 2

a) There was a risk of default because

- The borrower's income was temporarily reduced.
- He had discovered it was apparently easy to avoid payment by marketing privately instead of through the society.

b) The threatened default was

- Partly bad luck because of the cattle disease.
- Partly bad loan-scheduling because of bad loan evaluation.
  Quarterly payments are unsuitable in this case - monthly or weekly would be more appropriate for a dairy farmer.
- Partly the borrower trying what he could get away with.

c) The society should have allowed for veterinary charges in its loan scheme.

d) Handling should be firm but friendly. The loan should be re-scheduled, allowing for monthly or weekly repayments.

Role Play 3

a) There was a threat of default because

- The borrower had had the bad luck to break his leg.

b) The threatened default was largely the bank's fault because

- The borrower's money was turned away even when it was available.

- The scheduling of the loan was causing hardship to the farmer.

c) If the bank's loan appraisal were more realistic the repayment schedule could be better adapted to the farmer's needs. The bank needs a more flexible set of procedures, at least allowing it to accept cash when offered.

d) Handling should be diplomatic and firm. The officer must not agree with a borrower about the bank's procedures but should press for improvements within the bank. Again, the loan should be rescheduled.

3) Ask trainees to suggest general conclusions about the ways in which co-operative credit schemes can minimise arrears among rural borrowers.

They should cover the following points among others:

Credit schemes should show a willingness to meet the particular needs of inexperienced farmer borrowers, in particular through the following:

- Careful loan appraisal and scheduling.

- Simplicity and clarity in operating procedures.

- Good technical back-up and loan supervision.

- Flexibility in meeting farmer's unexpected crises.

- A high standard of efficiency in its own operations.

Role Play 1 - Aruni and the Beta Co-operative Loans Officer

A. Brief for Aruni

You are a very disgruntled farmer. At the beginning of the last season you joined the Beta Co-operative and took out a loan to start you off growing hybrid maize using pesticides and fertilizer which were quite unfamiliar to you. You were persuaded r.o take this loan by the promise that your income would be doubled. Payment was made in kind, which meant you had to fetch the special seed and other inputs from the co-operative store 10 kilometres away, which was troublesome. It was even more troublesome when you found that delivery had not been made to the store on the agreed day. You had to make several more journeys and in the end your seeds were planted late. As a result the crop has been only about two-thirds of what was expected, and you are most reluctant to repay the loan because you consider the whole thing is a complete failure, and you believe this is the fault of your society.

Your loan was for $400. It was due for repayment in full three months ago and you are not surprised when you see the Beta Co-operative loans officer coming up to you on your farm.

Role Play 1 - Aruni and the Beta Co-operative Loans Officer

B. Brief for Beta Co-operative Loans Officer

You were very pleased with your success last year when Aruni, who is an old-fashioned farmer but very well respected in the area, joined the Beta Co-operative Society and borrowed th~ standard loan package to enable him to start cultivating hybrid maize with pesticide and fertilizer. You worked very hard to persuade him because you believed that if you could convert him to the new variety many would follow his example.

The loan was disbursed in kind but was to be repaid in cash. Aruni's farm is some distance from the co-operative office and store and you have therefore not been able to visit him before although his $400 loan was due for repayment three months ago. It has been a good season and you expect him to be pleased with his crop. You cannot understand why he has not repaid the loan but you assume that he has in some way misunderstood the terms. As you come on to his farm you see him by his house and you look forward to a brief and simple explanation.

Role Play 2 - Bejad and the Dairy Society Credit Officer

A. Brief for Bejad

You are a cattle farmer. You took out a loan from the Dairy Society a year ago to buy two grade cows to add to your herd of eight native cattle and to equip your dairy, and to have been paying it off in quarterly instalments ever since. Payments have been through deductions from your milk cheque and each quarter's payment has left you with a minor financial crisis. This last quarter has presented you with real trouble. One of your native cattle and one of the grade cows have sickened; you have a large veterinary bill and you have lost production too. You have told your wife to sell the milk to her friends in the village, and the society has therefore received no payment from you on the last quarter day. You rather think you will cease marketing through the society and forget the loan repayments.

Your total debt was $700. You have to make sixteen quarterly payments of $50 and you have made seven of them. You are now nearly three months in arrears and you are therefore not surprised when you see the dairy society's credit officer walking across your land towards you.

Role Play 2 - Bejad and the Dairy Society Credit Officer

B. Brief for Dairy Society Credit Officer

Bejad borrowed $700 a year ago to buy two grade cows and to re-equip his dairy. Since then he has satisfactorily made seven of the sixteen quarterly payments of $50 by which he is to repay the loan; these have been deducted from his milk cheque without any difficulty. When he visits the society he says that his herd is progressing satisfactorily.

You see that his eighth payment is nearly three months in arrears and you cannot understand why such a regular payer should fall behind in this way. You have gone to his farm and you walk across the pasture towards Bejad in order to find out what has gone wrong.

Role Play 3 - George and the Upland Co-operative Bank Officer

A. Brief for George

You are a rice farmer who has invested in a tube well and pumpset. You are supposed to make monthly repayments on your loan, and though this is not very easy, since your main income is from your annual rice crop, you scrape together the repayments each month.

Two months ago you broke your leg, and could not undertake the tedious journey into town. Your wife went for you but she forgot to take your passbook and the Co-operative Bank refused to accept the money without it. She came home very upset. You now feel that as the bank has turned your money away, you will not make any more repayments till it suits you; that is, at harvest.

Your total debt is $800. You have to make forty monthly payments of $25, and you have already made eight; you are two months in arrears and since you have no cash available you are somewhat alarmed when you see the Upland Co-operative Bank credit officer coming across the field towards you as you sit in front of your house with your leg on a stool.

Role Play 3 - :eorge and the Upland Co-operative Bank Officer

B. Brief for she Upland Co-operative Bank Officer

George borrowed $800 almost a year ago to invest in a tube well and pumpset. He has satisfactorily made eight of the forty monthly payments of $25 by which he is to repay the loan but you see that he is now almost two months behind with the ninth payment. Somebody told you a few weeks ago that George had broken his leg but since several members of his family regularly come to town, where repayments have to be made at the Upland Co-operative branch, you do not think this accident is responsible for his falling into arrears. George is an old friend of yours and as you walk towards his farm you see him sitting under the veranda supporting his broken leg on a stool.

topic

12

funds for on-lending

SESSION 12.1

IDENTIFYING SOURCES OF FUNDS

Objective: To enable trainees to identify the sources of funds available for a co-operative society and to select an appropriate 'mix' of sources for a given credit programme.

Time: Two hours.

Material: Handout - The 'Mix' of Funds for On-Lending.

Session Guide:

1) Allow trainees up to ten minutes to write down different sources of funds which might be available to a co-operative for on-lending to its members. When trainees have completed their lists, go round the group asking each trainee to make one suggestion. Draw up as long a list as possible on the chalkboard/OHP, including at least the following possibilities:

- Members' savings deposits with the society.
- Members' original share capital.
- The society's accumulated surplus which has not been distributed to members.
- Loans from a co-operative bank.
- Loans from commercial or development banks.
- Loans or grants from government.
- Loans or grants, normally received through government, from foreign aid sources.

Ensure that trainees understand the nature of each of these sources, and refer to examples of co-operative or other agricultural credit schemes which have drawn on one or more of these sources for funds for on-lending.

2) If appropriate give trainees details of any centrally funded development programmes in their country under which u co-operative society might qualify for access to funds. Point out particularly any conditions that apply, by answering the following questions:

- How does a society qualify for access to these funds? (in terms of age of society, number of members, ownership of reserve funds, etc.)
- Are the funds designed to support any particular type of loan scheme?
- Would participation in the programme attract any additional central support services such as extension services, access to scarce inputs or supplies, or access to marketing links?
- If known, how have ocher societies fared under these programmes?

Ask trainees what changes their societies might have to make in order to qualify for funds from whatever scheme you have described. Would these changes be possible or desirable?

Stress that the needs of members and prospective borrowers are more important than the requirements of any particular development programme. A society should attempt to obtain funds from such a programme only if the conditions are appropriate for the needs of its members.

3) Ask trainees to suggest ways in which their government does, or possibly should, assist in providing funds to co-operatives for on-lending to their members. Possible forms of government assistance include:

- Outright grants by government which can form the basis of a permanent loan fund.
- Government purchase of a minority proportion of share capital.
- Government loans.
- Government guarantees of loans made by commercial banks or other organisations.
- Government introduction to sources of foreign grants or loans.

Ask trainees who have had experience with government supported schemes of this type to describe their advantages and disadvantages.

Ask trainees to compare the possibilities of borrowing from commercial and from co-operative banks in their country. How do they compare in terms of interest rates, efficiency of operation, supervision and degree of control over the use of funds?

Ask trainees whether lower interest rates charged by co-operative or development banks necessarily make them a more attractive source of funds, since other advantages of commercial banks such as wide branch network, simple procedures and speed of decision-making may compensate for somewhat higher interest rates. Trainees should compare their own reactions to those of co-operative members to the services associated with credit from their societies.

4) Ask trainees to compare the costs of each of the various sources of funds. They should compare each source according to each of the following criteria:

- The interest charge or, in the case of funds already in the possession of the society, the opportunity cost or return that might have been earned through an alternative investment.
- The degree to which the society's loan scheme can maintain its independence or must submit to the control of the ultimate lender.
- The advantages of technical and other centrally-based support systems such as extension services, input supplies or marketing services, which may be associated with borrowing from central funds.
- The 'image' of the source of funds in terms of the degree to which members will feel obligated to repay. It is likely that they will feel more responsible to societies or members' own funds than for funds provided from government or foreign sources.

5) Divide the trainees into groups and distribute copies of the case study. If trainees are unfamiliar with sources of funds for on-lending to society members it may be appropriate to ask them the

following questions before they start their group discussions; alternatively, the following issues may be elicited from them as the basic ones involved, after they have analysed the case study in the group.

- What are 'the best interests of the society'?
- Must the society remain wholly independent?
- Should the society be expected to grow and to expand its activities or to remain at its present size and membership?
- Should a society be expected to provide for all its members' credit needs?

How important is the rate of interest at which the society is able to lend money to its members? Are other factors more important and what rate of interest should the society aim to charge?

How much money should the society attempt to borrow in order to fund its lending schemes? Stress that it would not be appropriate to use the whole reserve fund of a society to fund the loan scheme and it is unlikely that more than $20,000, or half the reserves, would be available for this purpose.

6) Allow groups up to one hour to decide on an appropriate mix of funds. Reconvene the group. If the issues in 5) above have not yet been discussed elicit these from the group and then ask them to present their 'mix' of sources of funds.

Groups' solutions will depend on the importance they attach to the issues discussed in 5) above. A total of $60,000 (20,000 from reserves) is required to launch and support the scheme for the first year. Trainees should realise that any source of funds will expect to exercise some control over how the funds are used, and a society will always need to consider carefully the conditions attached to any funding before accepting it. Most solutions will involve accepting the conditions imposed by the foreign aid programme or the government programme since one or the other of these is most likely to be used.

Possible mixes include the following:

a) If a society believes that it should retain freedom of action at all costs, the whole sum must be borrowed from the Commercial Bank on the security of committee members' property.

- Interest charges would have to be 13% to 14% which may be considered high.
- Higher than normal rate if interest might be offered for members' deposits which might reduce the need for borrowing from the Commercial Bank.
- Complete independence can be bought only at the cost of high interest rates which may or may not be considered critical to the success of a loan scheme.

b) The society may be concerned only to provide its members with credit. It may not be interested in growth or extending its activities. The co-operative movement may already be tightly controlled by government.

In these circumstances the simplest solution is to allow the whole credit scheme to be financed and managed by the department of co-operatives.

c) The above solutions represent two extremes. A compromise is more likely to be acceptable, in order to reduce the interest rate as much as possible and to take advantage of the services and low interest rates from the foreign aid scheme and from government. Various alternatives are possible:

- $30,000 can be borrowed from the aid programme and from the government scheme.
  - i) This solution implies that low interest rates are all-important. Is this the case?
  - ii) Is there any loss of flexibility involved in obtaining the maximum possible loan from each of these two sources?
- It is perhaps more flexible to borrow $20,000 from each of the three sources, or $25,000 from the foreign aid programme and the government and $10,000 from the bank.

The average interest rate paid by the society can be calculated as the following example:

$20,000 from reserves at 7%		$ 1,400
$20,000 from the foreign aid scheme at 6%	=	1,200
$20,000 from the government at 6%		1,200
$20,000 from the commercial bank ac 10%	=	2,000
Total Cost of Funds	=	$ 5,800

Average rate "f interest therefore = 7.25%

Total Costs:

Interest charge payable by the society	=	$ 5,800
Running charges	=	$6,000
Total	=	$11,800

Interest rate to be charged by the society = 15% on $80,000 = $ 12,000

Net Surplus = $ 200

Trainees may suggest that this is an insufficient surplus, or that the running charges including allowance for bad debts are under-stated. They should be encouraged to examine the implications of the need for a higher surplus, or for covering higher running costs, on the race of interest to be charged to members. How do the economics of this hypothetical scheme compare with the genuine costs and income of their own societies' credit schemes, particularly if sums in arrears are not carried forward from one year to the next but are written off when they are genuinely believed to he uncollectable?

The 'Mix' of Funds for On-lending

A co-operative society wishes to set up a credit scheme to enable members to finance the change-over from traditional to hybrid maize. The society reckons that under this scheme about 200 farmers, who among them own 600 hectares, will participate in the scheme. Funds required for on-lending to all these farmers will amount to about $80,000 and the full scheme will cost $6,000 per annum to run, including staffing, supervision, allowance for bad debts and all other costs except interest payable by the society. It is hoped that the scheme will become self-sustaining in the second year.

The society's available reserves, including members' savings, amount to $40,000. It pays interest on shares and savings at 7% per annum.

Funds could be raised from the following sources:

a) A foreign aid-based development programme which will advance sums equal to the society's total reserves at the rate of 6% per annum. Under this programme the amount of each loan must be strictly geared to the size of the borrower's holding. Technical back-up would be available, and the society would be expected to co-operate in close supervision of loan projects.*

b) A commercial bank, which would lend up to three times the value of the society's reserves at an interest rate of 10%, taking committee members' property as security on the loan. The total value of all committee members' property is about $120,000.

c) A government programme under which the whole scheme would be financed and run by officials from the department of co-operatives. This programme would also match dollar for dollar any funds granted under the foreign aid programme at the same 6% annual interest rate. In this case the running of the credit scheme would remain in the hands of the co-operative, though copies of all scheme records must be lodged with the department and all loan approvals under the scheme must be endorsed by the Ministry's local senior official.*

Note

If any funding is drawn from either of these sources the whole scheme will be subject to the conditions imposed by each source of funds so that if any money is borrowed from the foreign aid programme, the whole scheme must follow the programme's rules and if any money is borrowed from the government, the whole scheme is subject to official supervision.

Assignment :

1) Given that the society would succeed in obtaining any funds it applied for, what applications for funding should it make, in the best interests of the members of the society itself?

2) What will be the average rate of interest paid by the society for the 'mix' of funds you suggest?

3) What interest rate will the society have to charge its members in order to cover all costs associated with the scheme?

SESSION 12.2

SOLICITING FUNDS

Objective: To enable trainees successfully to solicit funds for on-lending.

Time: One and a half hours.

Material: Handout - Word Associations.

Session Guide:

1) Give trainees a copy of the handout each and allow them a maximum of five minutes to complete this brief exercise.

Ask trainees briefly to read out their conclusions. It is likely that most will have allocated the words more or less as follows:

Lender	Borrower
Ruler	Slave
Superior	Inferior
Lord	Petitioner
Master	Servant
Boss	Employee
Imposing	Humble
Arrogant	Requesting
Powerful	Weak
Rich	Poor
High	Lower
Dominant	Suppliant
Adult	Child

Ask trainees whether their own relationships with borrowers or prospective borrowers in their societies reflect the same differences of power and status which are implied in their allocation of the words to the two roles.

If trainees are frank they will probably admit that something of this nature pervades most relationships between borrowers and lenders.

Ask trainees whether they would have allocated the words in the same way if they had been asked to divide them between the role of a co-operative society attempting to borrow money, and the bank or other agency which might lend it money for on-lending to members.

Trainees may admit that something of the same nature pervades this relationship also, although perhaps not in so extreme a way. If they find this distasteful, point out that the position of their member borrowers is actually more anomalous, in that members should actually control the society which they nominally own.

2) Ask trainees whether the relationship between a borrower and a lender should be unequal in this way. Should it not be a mutually satisfactory transaction which is equally profitable to both parties?

Stress that it is inevitable that small-scale farmers who may still be at a subsistence level should view themselves, and be viewed as, 'inferior' even to junior officials of a co-operative society. Their poverty, lack of education and traditional acceptance of their position means that this is difficult to avoid.

The objective of co-operative lending is to improve the status of borrowers so that the relationship becomes more equitable. Stress that the relationship between a co-operative and its sources of funds need not be so inequitable and can form a model for that between the co-operative and its member borrowers.

3) Divide the trainees into two large groups. Refer them to the case study from the previous session. They are to imagine that the society is to solicit funds from the foreign aid-based development programme mentioned in that case study. The society is to have the opportunity of meeting for thirty minutes with the directors of this programme who decide which societies will be able to borrow money from it.

One sub-group is to imagine itself to be the committee of the society. They should write down the basic headings and information which they will include in their presentation. The other sub-group should imagine themselves to be the directors of the programme. They should write down the information which they feel they will need in order to make a decision.

Allow up to thirty minutes for this exercise. Clearly neither group should be able to hear or see what the other is doing.

4) Ask a spokesman from each group to read out their list of conclusions. Write them up on chalkboard/OHP under the two headings, in order to bring out the points at which they converge and the items of information which may have been included by the co-operative, but are not wanted by the programme directors, or questions put by the directors which are not answered by the co-operative committee.

Attempt to produce a consensus of information which is reasonable for the lender to want and for the borrower to provide. This should include the following items:

a) The background history of the society, including its present activities and other successful programmes.

b) Figures as to the membership, its growth, and the proportion of qualified farmers who are members.

c) Evidence as to the management skill of the co-operative staff. This can best be put over not by reference to paper qualifications but to successful programmes and by the skill with which they make the presentation.

d) The society's accounts for the last three or four years, showing that these are produced correctly and are up to date.

e) Evidence that detailed credit or other records are properly kept and are up to date.

f) A statement of previous borrowings by the society, from where they have been borrowed and a summary of the repayment record.

g) The purpose to which the proposed loan is to be put, including its economic and its social effects.

h) The actual amount required and the timing of its disbursement.

i) Any other sources from which complementary funds are being sought.

j) The schedule of proposed repayment.

k) The economics of the proposed scheme including interest charged to and by the society, operating expenses and a reasonable allowance for bad debts.

l) Details of any security that may be demanded or offered.

m} Reference,,, LO the society's bankers and to one or more disinterested authorities to whom the prospective lenders can ap-ply in confidence.

5) Ask trainees to suggest bow the actual presentation should he con-ducted. Elicit the following general guidelines:

a) The. presentation should not be too long and should allow the maximum amount of time for the prospective lenders to ask questions.

b} Any sources of influence or pressure should be referred to obliquely and subtly and should not be crudely displayed to the prospective lender.

c) The main factor determining success is the quality of society management. The way the presentation is organised and the personal performance of the managers conducting U will he the most important evidence for the prospective lenders.

Word Associations

Below you will find a random list of words. Go rapidly through the list writing by each word a B or a L depending on whether you think it might refer more appropriately to a farmer borrowing money from a society or to an officer of the society who is dealing with the application and the loan. You have five minutes in which to complete the exercise.

B = Borrower (farmer)

L = Lender (society officer)

Slave	Boss	High
Requesting	Master	Servant
Powerful	Rich	Employee
Lord	Arrogant	Humble
Superior	Poor	Imposing
Lower	Dominant	Weak
Inferior	Suppliant	Child
Petitioner	Ruler	Adult

SESSION 13.1

CO-ORDINATION BETWEEN INSTITUTIONS

Objective: To enable trainees to co-ordinate credit activities with other organisations involved in assisting agriculture.

Time: Approximately two hours.

Material: Handouts 1 to 6.

Session Guide:

1) Ask trainees for examples of how credit or other co-operative initiatives to help their members have been frustrated by the failure of other organisations to perform their tasks properly. Stress that co-ordination is a vital part of the management of agricultural credit. The co-operative society, as the central organisation in direct touch with borrowers, is responsible for organising and promoting co-ordination between institutions. If a scheme fails because of poor co-ordination or apparent failure on the part of another institution, it is basically the fault of the co-operative society for failure to co-ordinate or for promoting a scheme where it might have been foreseen that other organisations would not play their roles correctly.

2) Nominate three trainees to play the role of the Management Committee of the Loan Scheme and four further trainees to play the roles of the Co-operative Marketing Department Manager, the Depot Manager from the Ministry of Agriculture, the Agricultural Extension Officer and the Loan Supervisor from the bank. Give each of these trainees a copy of Handout 1 which covers the background to the forthcoming simulated meeting and gives the agenda. Give each of the Management Committee a copy of Handout 2 and give each of the other individuals their copies of Handouts 3, 4, or 5.

   Allow the role players ten minutes to 'think themselves into' their roles and in particular for the Management Committee to decide how they are to conduct the meeting. This should be done outside the main classroom and apart from the Management Committee. The other role players should not be able to see each other's briefs or to overhear their conversations.

Distribute a copy of Handout 1 to each of the remaining trainees and tell them that they are to act as observers of the forthcoming simulated meeting.

While the role players are 'thinking themselves into' their roles, the remaining trainees should study Handout 1 and note down some of the potential conflicts that they notice as being inherent in the situation.

Warn the observers that during the simulated meeting they should observe the proceedings carefully and in particular be prepared to comment on the following points:

- Was the meeting successful, in that it achieved the objective as stated at the end of Handout 1?
- Did the members of the Management Committee appear to have considered what might be the objectives of the individuals and organisations whose co-operative they needed? Did they appear to have considered these possibly conflicting objectives when commenting on the representative's views or asking for their help?
- Were the representatives of organisations other than the co-operative apparently concerned for their personal interests, the narrower interests of their own organisation or for the welfare of the farmers whom the proposed scheme is designed to help?
- Was the meeting effectively chaired, in that an appropriate amount of time was devoted to each individual's responsibilities and problems and time was not wasted on unnecessary debate or argument?

3) Arrange a table and seven chairs as for a meeting. Ask the role players to come back and to simulate the meeting. The Management Committee of the society should have nominated a chairman from their number. Allow up to thirty minutes for the meeting and warn the role players that they only have this much time and must

topic

13

co-ordination between institutions

Session 13.1 Co-ordination between Institutions attempt to achieve the stated objective of the meeting in this time.

4) When the meeting is concluded ask selected observers to comment on it along the lines suggested in the questions posed to them before it took place. The role players should also be asked to respond to the observers' comments and to comment on the way in which they felt they had achieved their objectives or not, and the way in which their views were received by the others participating in the meeting.

5) Ask trainees generally to summarise guidelines for co-ordination, whether it is being promoted through a formal meeting such as they have just witnessed or through informal contacts between staff of various institutions on the job. They should cover the following points:

- Individuals and institutions have different personal and institutional objectives. Whoever is attempting to get their co-operation must ensure that whatever they are asked to do satisfies both their personal or institutional objectives as well as those of the co-operative or other body.

- People will generally work harder if they feel they are going to get credit for what they have done. A co-operative society must ensure that due credit is given, or will be given, to other individuals and institutions who co-operate in their programmes.

- Requests for co-operation can be facilitated by some form of 'horse trading'. A co-operative manager may want the local bank manager to do something for his co-operative, but there is probably something that the co-operative can do for the bank manager as well. A mutually satisfactory relationship, with no imbalance of obligation, is more likely to be one that survives.

- It is unwise to rely on formal channels and written documents. Communication should take place informally between individuals, and at the field level as much as or more than at the headquarters level where the programme may initially be put together.

Handout 1

The Background to the Meeting

The Co-operative Society of Villega is about to launch its first credit scheme, to enable its members to finance the change from traditional to hybrid maize.

The society has financed this scheme with two loans from the National Development Bank and from the Ministry of Agriculture.

Under the loan conditions the bank and the ministry are entitled to send representatives to inspect the society's books and attend its meetings. The bank has designated one of its officials to supervise the project and he will initially guide the scheme's manager, cashier and book-keeper in the administrative procedures, as an additional support to their initial training. The ministry has made available the services of the local agricultural extension office and an officer has been appointed to supervise technical aspects of the scheme.

The society has also arranged with the ministry that input supplies will be made available in kind to farmers at the ministry's depot in the centre of Villega. Input supplies will be made available as farmers need them, over a period of three months from early December until February, when planting is completed. Farmers will repay their loans in kind to the society's marketing department, which will deduct loan repayments from the proceeds of farmers' sales to the society and forward them to the loan department. Loans are scheduled to be repaid in full in a lump sum in late September, ten months after the beginning of the project, when the crop is harvested.

The society has asked all individuals who are involved in co-ordinating the scheme to attend a meeting to finalise arrangements and co-ordinate the project's timetable. The purpose of the meeting is to establish what each institution is committed to, and when the various stages in the project will be reached. The agenda i.s as follows:

Co-ordination Meeting Agenda

1) Elect a chairman.

2) Determine the duties of all institutions involved in the scheme. Each member of the meeting will make a short statement describing his role as he sees it.

3) Set an overall timetable for the scheme, giving the sequence of events and relating outside institutions' activities to them, and reach agreement on the nature and extent of these activities.

Handout 2

Management Committee of the Loan Scheme

You are aware of the need for co-operation and assistance from outside institutions to ensure the success of the loan scheme. You are anxious to do all you can to further co-operation. At the same time you are fairly confident that the scheme is well-organised and the staff know their jobs, and you do not want to see too much interference from outside in the day-to-day running of the operation.

You realise that the supply of inputs is crucial to the success of the scheme and are anxious to discover if there is anything you can do to ensure prompt and adequate supplies for borrowers, especially as Ministry depot supplies in the past have been irregular and insufficient.

Your second mayor concern is that borrowers may try to evade repayment by selling through other outlets than the society. You wish to try to persuade the marketing department to give advance warning by keeping track of borrowers' sales levels.

Handout 3

Co-operative Marketing Department Manager

You have agreed to support the society's loan scheme by making direct payments into it from the proceeds of farmers' sales through your department. As a co-operative official, you have an interest in the success of the loan scheme, and you have gone through a lot of trouble to set up administrative arrangements to identify, and make payments on behalf of, farmer borrowers. Harvest is your busiest time so it has involved special staffing arrangements.

Handout 4

Ministry of Agriculture Depot Manager

You have been instructed to co-operate with the scheme to supply inputs - seed, fertilizer and pesticide - to borrowers under the new scheme.

You have had trouble getting regular deliveries of these supplies in the past. Your attitude is rather sceptical. You doubt whether supplies will be any easier to obtain from the ministry's head depot (simply because the ministry is supporting the scheme), but you think it may possibly be a useful weapon in your own continual battle to ensure regular supplies.

You need to give the head depot at least six weeks' notice of your requirements. This means that in order to supply the society's borrowers you will need to know their requirements six weeks in advance, otherwise there is no chance of supplies being available by a specific time.

You have agreed to a voucher scheme for the supply of inputs to individual farmers, whereby you will accept vouchers issued by the loan scheme from farmers and redeem them from the society. You wish it to be clearly understood that while you will support this system and will not give farmers cash for these vouchers, equally you are not going to be responsible for any checking on the identity of farmers presenting vouchers. You are also not entirely confident of the society's long-term security, since so many co-operative societies have had financial difficulties. You want to make it quite clear that if the society has difficulty in redeeming the vouchers you and your depot will in no way be held responsible. You have quite enough customers who pay cash for their supplies, and you really prefer simple cash transactions to all the administrative complications of a voucher scheme.

Handout 5

Ministry of Agriculture Agricultural Extension Officer

You have been appointed to supervise the technical aspects of the scheme. You are concerned about the level of expertise among potential borrowers because you know that similar schemes have run into difficulties in the past through borrowers' failure to understand the technical requirements for successful cultivation of hybrid maize. You wish the society to arrange meetings and visits so that you can discuss these matters with borrowers and ensure that they are carrying out correct practices.

You are also effectively the ministry's representative for its financial interest in the scheme, as your supervisor, who is technically in charge, has asked you to keep an eye on the books on a day-to-day basis. He will himself carry out formal inspections so your job in this respect is informally to help the society set up and follow correct procedures. This is not really your subject and you are rather relying on the loan supervisor from the National Development Bank to help.

You are also concerned to ensure that correct input supplies are available from the ministry's depot when needed. You feel that you may need to assist the society as far as you can by putting what pressure you can on the official in charge of the depot, whose performance in the past has not invariably been good.

Handout 6

National Development Bank Loans Supervisor

As the society has no experience of loan business you are anxious to see it start as it ought to go on. The society's secretary and the loan scheme manager and his assistants have received basic training in loan administration and record-keeping but you are concerned that they have no real life experience of these activities and you wish to be as helpful as possible without appearing to be taking over from them. You feel like this partly because you want your institution to get its money back, and partly out of general goodwill to the project, which you think is a sensible and modest one.

You wish to make yourself available to advise on loan applications, as well as to carry out your duty of attending meetings and inspecting the books, and you are also willing to help the society in its general task of educating borrowers in their part in loan procedures and simple record-keeping.

You are a busy man and you need to know when all these activities should be timed so that you can make yourself available when necessary.

topic

14

promoting savings and credit schemes

SESSION 14.1

PROMOTING SAVINGS AND CREDIT SCHEMES

Objective: To enable trainees to identify the various ways in which savings and credit schemes can be brought to the attention of those whom they are intended to benefit and others whose opinions may be valuable.

Time: One and a half hours.

Session Guide:

1) Ask trainees what else is needed in order to ensure that the planned numbers of members take up opportunities for saving or borrowing through a newly introduced scheme, other than that the scheme should be well planned and organised.

- It is vital that the scheme should be available to members in places where they can easily have access to it.
- It is vital that they should have information about it.
- It is vital that they should be persuaded to save or borrow money through the scheme.

2) Stress that although many co-operative savings and credit schemes might appear to their sponsors to be clearly beneficial to borrowers or savers, and therefore not to be in need of promotion, even a gift needs to be brought to the attention of those for whom it is intended and they need to be persuaded to take advantage of it.

Refer trainees to Session 2.1 and 3.1. Point out that the competitive advantages of co-operative savings and credit schemes may not be as apparent to members as they are to their sponsors. Low interest rates and modest security requirements do not necessarily compensate for slow decision-making, tied use of funds through in kind disbursement or collection or the unfamiliarity of dealing with formal procedures.

3) Ask individual trainees to recall their most recent purchase of anything. They should analyse the reasons why they purchased this particular product or service. Lead discussion to identify the following four components of any decision to purchase or make use of a particular service:

- Price: The product or service was available for a price which appeared reasonable in relation to competitive products or services and to the benefit which the purchaser was to obtain from it.
- Place: The product or service was available in a place which was convenient to the purchaser; the time and effort involved in reaching it appeared reasonable in relation to the benefits to be obtained. Trainees should, for instance, compare their willingness to travel in order to buy a car or a newspaper. Clearly the more important the purchase the farther they are willing to travel.
- Product: The thing they were buying had to be of a quality and reputation which appeared likely to satisfy the particular need which was being satisfied by the purchase.
- Promotion: The purchaser had in some way to be made aware of the existence of the product or service, and of its whereabouts, and to be persuaded that it was worth buying. This promotion could be the result of seeing something which was already familiar, an attractive package or advertisements, word of mouth information or other sources of data which led ultimately to a purchase.

Point out that although co-operative management may feel that a credit scheme is in some sense a 'gift' to its members, the member must nevertheless decide to 'buy' the scheme in that he 'buys' a particular package of security, access and interest rate when he deposits his money, or a particular package of finance, inputs and services when he applies for a loan.

Savings and credit must be marketed like any other product or service.

4) Ask trainees to suggest how the managers of a co-operative savings

and credit scheme can 'market' the scheme, in the same way as a product is successfully marketed, as discussed in 3) above.

Ask them to identify each of the 'four Ps' which were identified in 3).

- Price: The price of a credit or savings scheme is the interest rate that is given to savers or charged to borrowers.
- Place: The place of a credit or savings scheme is the way in which it is 'delivered' to savers or borrowers; that is, the location of the branches or the availability of on-the-farm services for consultation, assistance with applications, helpful supervision and disbursement or collection.
- Product: The product is the lending scheme itself, including the technical services, the ways in which funds are disbursed and collected, and all the operating details of the scheme.
- Promotion: Promotion is the way in which the scheme is brought to the attention of potential savers or borrowers. It is also the way in which they are persuaded to find out the details of the service in order to decide whether to save or borrow through the scheme.

5) Ask trainees to suggest one or two promotion media through which commercial firms bring their products to the attention of consumers and persuade them to buy them. Elicit items such as newspapers, radio advertisements or posters.

Allow trainees on their own up to fifteen minutes to write down as long a list as they can of promotional media which may be used to promote a co-operative savings and credit scheme. They should include media which might be applicable for a scheme offered at a national, a regional or a local level.

When trainees have completed their list or fifteen minutes have elapsed, ask individual trainees to make one suggestion and go round the group until their ideas have been exhausted. The following items at least should have been included, given that they are available in trainees' countries:

Medium	Advantages	Disadvantages
Television Announcements	Graphic and immediate	Expensive and seen only by rich urban minority
Radio Announcements	Immediate and broad coverage	Non-local and of little lasting impact
Newspaper Advertisements	Detailed, likely to be kept and can be provided on a given day	Reaches only the literate minority, not available on a local basis
Specialised Journals	Influential, likely to be kept, reaches a specific interest group	Available only to the literate minority, generally expensive and with a small circulation
Posters	Can be put in an exact location, can have strong immediate impact	Superficial, can have a bad 'image', give little detailed information
Free Editorial Publicity	No cost, influential and high credibility	Cannot be relied on, reaches only a literate minority, may be distorted by editors
Mobile Cinema	High impact, locality specific	Expensive, and slow to cover a large area
Traditional Drama	High impact, cheap and local	Limited coverage, may fail to achieve the objective or be misunderstood
Co-operative Society Meetings	Inexpensive, addressed to those who are directly interested, full details can be given	'Preaching to the converted', slow to cover a wide area
Other Organisations' meetings	Wide outreach, local, cheap	May be irrelevant and ignored or misunderstood
Open Assemblies	Immediate impact, can be followed up personally, attracts those who are marginally interested	May be misinterpreted, open to political influence, audience cannot be specified
Word-Of-Mouth	Personal, can lead to actual negotiations and two-way communication	Slow, limited coverage and expensive per contract

6) Ask trainees to suggest the advantages and disadvantages of each medium and summarise them in two columns against the particular medium as above. The above suggestions are only one set of possible comments but trainees should come to appreciate the 'trade-off' between the highly individual personal contact of word-of-mouth information and the mass-media, one-way, simple message content of newspapers or radio.

7) Ask trainees to suggest who else, apart from prospective borrowers, they might wish to inform about a co-operative savings and credit scheme. Elicit suggestions as follows:

- Staff of other organisations with which the co-operative schemes must be co-ordinated.
- Staff of the department of co-operatives whose approval is essential for government support.
- Government staff in general who may be influential in supporting or failing to support the co-operative sector or a particular society.
- Bankers at all levels, who may have some influence over the provision of funds to a co-operative society.
- Foreigners who may have some influence over the allocation of foreign assistance funds of technical advisory services to co-operative societies.
- Staff of other co-operative societies in order to share useful ideas and initiatives and possibly to encourage their staff to consider moving to your society.
- The general public whose approval of the co-operative sector is vital to the long-term success of its activities.

Show that while some of the media mentioned above may not be appropriate for member/borrowers, they may be worth considering because of their impact on other indirectly connected but nonetheless important groups. Free editorial publicity in particular can be easy to obtain and very useful to a society which wishes to keep its name and innovative activities in the public eye.

8) Ask trainees to describe ways in which their own societies promote their savings and credit schemes, or any other of their activities and services to members. Encourage discussion by posing the following questions:

- Are all members and potential members aware of the advantages they might gain from belonging to the society and/or making full use of its services? How might they be made so aware?
- Are there ways in which organisations or individuals outside the society and its membership could be more positive in their assistance and encouragement of its activities, and could their goodwill be more actively solicited through one or more of the promotional media discussed?
- Do societies, when introducing new savings and credit schemes or other services, generally rely on routine society meetings and word-of-mouth contact to bring the schemes to the attention of members, or do they allocate time and resources to promotion?

Trainees may feel that advertising and promotion are in some way the tools of private profit-making companies, and that a co-operative society which is acting in the interests of its members should not have to make use of them.

Stress that information is an essential component of any programme. Co-operative staff are doing themselves and their members a disservice if they fail to consider, and where appropriate to make use of, suitable promotional media in order to inform and persuade members about services which are in their interest.

topic

15

action commitment

Session 15.1 Action Commitment

SESSION 15.1

ACTION COMMITMENT

Objective: To enable trainees to apply what they have learned about rural savings and credit to their own situation, and, if they are already involved in any form of co operative savings and credit scheme, to develop a solution to a specific problem which is facing them at the moment in this area.

Time: Depending on the number of trainees, but at least fifteen minutes per trainee.

Session Guide:

1) Trainees should throughout the course have been reminded that the purpose of this or any other co-operative training course is not to enable them to recite rules, carry out calculations or pass examinations, but to manage co-operative enterprise more effectively.

   In order to ensure that the link from the classroom to reality is never forgotten, trainees should have been asked throughout to apply what they are learning to their own situations, or to some aspect of the situation they believe they will have to face when they have completed their training.

   They should have been asked to identify a particular problem to which some aspect of the course appears to be especially relevant and to determine specifically how they will deal with this problem on their return to their jobs.

2) Problems selected by trainees will obviously differ according to their responsibilities and the nature of the difficulties facing their societies, but they should be asked to note down their action commitment in the following way:

   a) A statement of the problem.

   b) A statement of its solution.

c) A statement of a specific and measurable stage in that solution which will have been reached by a stated date not more than twelve months after the end of the training programme.

d) Identification of any problems they may have in 'selling' the solution to membership, to society management staff and to authorities outside the society, together with suggestions as to how they will overcome any objections which appear to stand in the way of putting their solution into practice.

A typical action commitment might be noted as follows:

Problem: Members' loan applications are taking so long to process that when loans are eventually approved the planting time has passed. Members have therefore lost faith in the co-operative's credit scheme and have returned to traditional money-lenders for their seasonal credit needs.

Solution: I shall design a package loan scheme based on a one-hectare planting of hybrid maize, which is the most common crop in our society. I shall carry out research into present and recommended cultivation practices and members' resources and constraints, and base the package on the most acceptable compromise.

Time: Having carried out the necessary research, I shall present the new scheme to the credit and savings sub-committee at the meeting on October 1; the scheme will be introduced in January on a pilot basis and at least fifty 'packages' will have been taken up by March 31 next year.

Selling: A number of members of the society, who are well represented on the committee, are the larger-scale farmers in the area and their specialised credit requirements have been satisfactorily met. They are likely to resist any attempt to divert funds to the majority of the more needy membership.

I shall encourage the more influential small-scale members to lobby the more sympathetic members of the committee on behalf of my suggestions. I shall obtain support from the co-operative bank for my suggestions so that they will advance us further funds for on-lending in such a way that the larger-scale members will still receive what they need and extra funds will be available for the new package scheme.

3) If time allows divide the trainees into groups of three. Each trainee should be given a minimum of thirty minutes for him to describe his problem and suggest his solution to the other two members and for them to comment on and suggest improvements to it.

4) Regardless of whether the group discussions have been possible or not, each trainee should be given a minimum of fifteen minutes in which to present his problem and solutions to all the other trainees under the four headings outlined in 2). Within these fifteen minutes some time should be allowed for comments and discussion.

Trainees who are managers of a society may feel it is unnecessary for them to 'sell' their ideas within their own society but they should be warned that it is as necessary to persuade subordinates to do something new as it is to persuade superiors to allow it. People who do things they do not believe in because they have been ordered to do so are not likely to do them effectively.

5) Trainees should be encouraged to meet one another at work after the course, and the instructor should also attempt to visit or otherwise contact each trainee around the time he or she has specified as that by which a certain measurable stage in the action commitment will have been achieved. If possible a reunion of all trainees may be arranged at which trainees can describe how far they have succeeded in implementing their plans, and may share problems they may have experienced.