

THE MALIAN EXPERIENCE IN FINANCING THE CEREALS TRADE*

Jonathan Coulter

Natural Resources Institute, Chatham, UK

1. Introduction

The last decade has witnessed numerous moves to liberalise cereals markets in African countries. Notwithstanding the manifest failure of most state-controlled marketing systems, uncertainty about the nature of the successor system which would emerge has made politicians and their advisers nervous and hesitant about reform. It is often feared that, if the Government ceases to have a major stockholding role, prices will become chaotic and fluctuate widely between harvest time and the lean season, with deleterious effects on the welfare of producers and on the food-security of consuming households. Such fluctuations are expected to be particularly wide in view of the poor state of financial systems in most African countries and scarcity of capital with which to trade in and store cereals.

In order to minimize such problems donor-supported credit schemes are sometimes proposed to increase the flow of bank credit to the private trade. Mali is the only country known by the author to have implemented such schemes, and having some six years' experience, can be considered a test-case. Mali began liberalising under the auspices of the Cereals Market Restructuring Programme (PRMC), which was set up by a group of donors with the Government of Mali in 1981. The pace of liberalisation was greatly accelerated from 1987 when the commercial role of the Marketing Board, the Office des Produits Agricoles du Mali (OPAM), was drastically reduced to one of holding a modest food security reserve (58,000 tonnes), distributing food aid and supplying certain remote outlying districts.

In a Sahelian country where harvests fluctuate widely according to rainfall (see Figure 1), the food security reserve was designed principally to cushion the country against harvest failure in the time needed to arrange for imports or for food aid to cover the deficit. However it was not a buffer-stock and could not be expected to prevent wide inter-seasonal price swings. For this purpose the PRMC decided to fund credit schemes so that private traders and farmers could carry out the buffer-stock function themselves, by purchasing and storing cereals to be released onto the market in the lean season.

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2. Implementation of the Lending Programme

Since 1987, donor funds have been channelled through the banks to create the following credit schemes for traders and *Associations Villageoises* (AVs) of farmers wishing to engage in the procurement and interseasonal storage of millet, sorghum, maize and rice:

- * A guarantee fund designed to make the *Credit de Campagne* (marketing credit), formerly available only to parastatal companies, more widely available to wholesale cereals traders.
- * The *wholesaler* line of credit, to assist larger traders handling over 1,000 tonnes of cereals per annum.
- * The *semi-wholesaler* line of credit, to assist traders handling less than 1,000 tonnes per annum.
- * A special fund to guarantee 60-90 day credits to private traders marketing rice purchased from the parastatal Office du Niger (*traites avalisés*).
- * A line of credit for *Associations Villageoises* (AVs), cooperatives and other organised groups of farmers.

With the *traites avalisés*, the objective was not so much to support the traders as to help the parastatal rice miller to market its rice, and for this reason will not be discussed further here.

Further details of the other four schemes are given in Appendix 1. Under these schemes, loans were for a fixed one year term and various mechanisms were used to ensure repayment, as described in Appendix 1. With the *Credit de Campagne* banks tended to use their traditional criteria of credit-worthiness, measured by their knowledge of the client, ability to provide accounts and cash flow forecasts. Wholesaler and semi-wholesaler loans were made available to traders who did not keep accounts, and other guarantees had to be used, i.e.:

- (a) A pledging system whereby the trader would place his cereals in a warehouse belonging to a licensed operator (*tiers détenteur*), as a guarantee for a loan. This was the main system by which repayment was guaranteed. Credits were provided in tranches against presentation of warehouse certificates (*certificats de nantissement*) proving that the grain had been deposited. Grain was also released in tranches against proof (*certificat de main-levée*) that the trader had reimbursed the bank.
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- (b) The trader would purchase a cash bond, equivalent to a certain proportion of the value of the loan, prior to obtaining the loan. This system was mainly used with semi-wholesalers.
 - (c) Semi-wholesalers were required to associate into groups (*Groupements d'Intérêt Economique* or GIE) to receive a credit, making each member individually and jointly responsible.

With the AVs, cereals did not have to be pledged, but loans were made after a development organisation (*Organisme d'Encadrement*) had provided a moral guarantee (*caution*). In many cases the same organisation supervised the loan. Moreover, by lending to a single AV for the entire village, the village power structure was to a significant extent committed to recovering the loan.

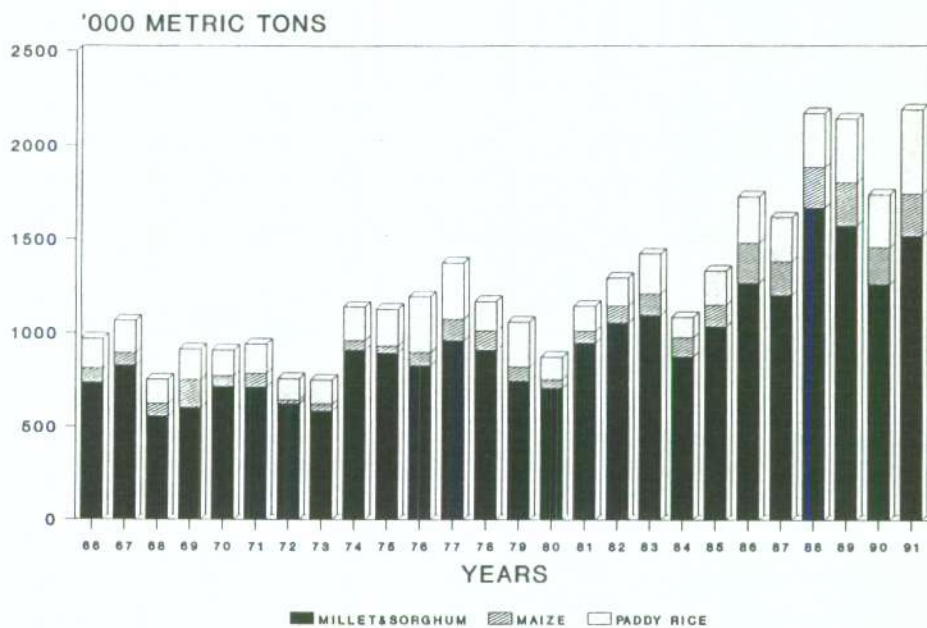
3. Progress and Impact of the Lending Programme

Of the five schemes, only the loans to AVs and semi-wholesalers remained by 1992. The guarantee fund for the *crédit de campagne* was terminated in 1990 because of (a) heavy unpaid loans after the 1988/89 season, and (b) because the scheme was no longer needed, as the only remaining beneficiaries were two large importer-wholesalers who already enjoyed access to bank credit. They continue to use *crédit de campagne* but without the PRMC guarantee. The wholesaler scheme was terminated in 1991, due to reimbursement problems, a decline in the number of borrowers, and the PRMC's belief that they had access to other forms of credit.

Only in one year (1988/89) did the amounts loaned for grain purchase have a major impact on aggregate supply and demand. In that surplus year, the PRMC estimates that 71,000 tonnes of grain were stored under PRMC-supported loans, amounting to 12% of the marketable grain surplus. However the impact was not altogether as intended. The extra purchasing power injected into the market held post-harvest prices at a level which could not be sustained for the following 18 months, and made it difficult for the borrowers to sell their stocks and repay (see Figure 2). In addition many AVs experienced serious storage problems as their communal stores were not adequate for holding stock through the rainy season. Some traders also experienced storage problems due to poor warehouse management.

There have been major delays in repayments, and up to 31 January 1992, the overall

Figure 1: CEREAL PRODUCTION, MALI 1966 - 1991



SOURCE: CILSS based on Mali Statistics.

level of repayment was 85% for loans to wholesale and semi-wholesale traders and 77% for loans to the AVs (source: PRMC monitoring data). Such a level is high compared to many agricultural credit programmes but, given that the loans were made after the harvest against stock which already existed, the performance is not impressive.

There have however been some significant achievements. In certain areas, farmers have benefited from the credits in substantially higher post-harvest prices, and this has been particularly beneficial in monoculture surplus producing areas where farmers have traditionally experienced serious cash-flow problems (Cebron and Sanogo, 1991). In Ségou and Niono, the Agricultural Development Bank (BNDA) is now funding AVs entirely with its own funds, though PRMC covers 20% of the risk in Ségou.

At the time of the authors' visit to Mali (March 1992), the semi-wholesaler scheme was starting to show some good signs, notwithstanding the repayment problems which still existed. There was increased activity around a warehouse operator in Southern Mali, with cereals being bulked up for inter-regional shipment or export. In 1991/92, the banks assumed 20% of the lending risk, which had formerly been borne exclusively by the PRMC, for coarse grain loans. Nevertheless the PRMC was considering the possibility of eliminating the semi-wholesaler scheme as it had done with the other schemes.

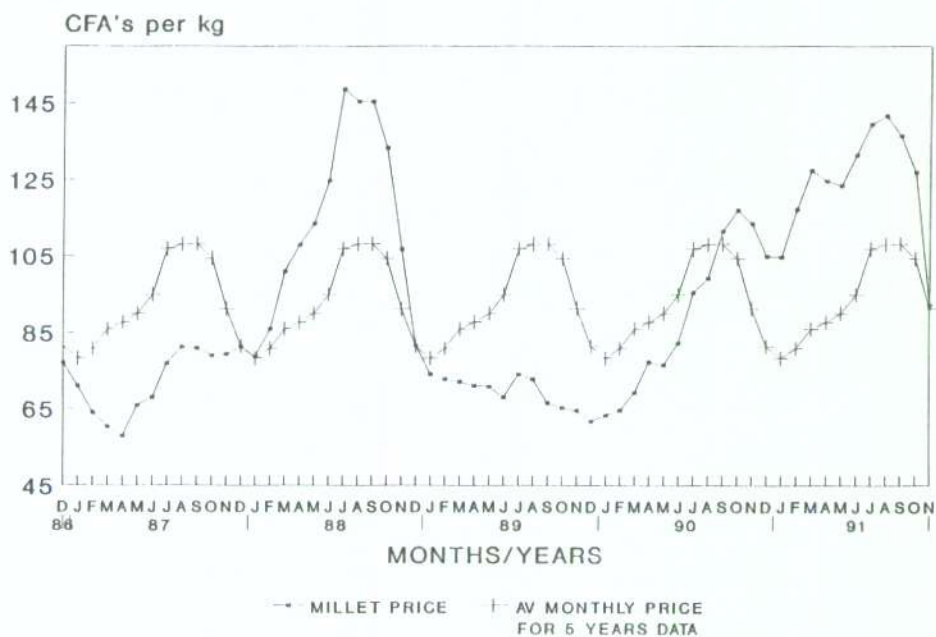
4. Difficulties Encountered in Administering the Schemes

There have been delays in the disbursement of loans. Firstly, negotiation of loan agreements has proved very time-consuming, with a long process involving the PRMC, the Ministry of the Economy and the banks themselves. The situation improved in 1991 and a pluriannual agreement was negotiated for the AVs. Secondly, the banks' approval mechanisms have often been very slow, with limited delegation to managers of local branches. Thirdly, traders have been adversely affected by the PRMC's policy of ensuring that the AVs are funded before the traders, to "prevent farmers from overselling their produce at low prices imposed by the traders".

Attempts to target credit at "semi-wholesalers" have not always been successful. According to PRMC, 77.6% of the credit provided in 1988/89 was lent to pseudo-GIEs whose members were wholesalers outside the targeted group, but who were able to meet the cost of the cash bond.

In years of both good and bad harvests, there have been considerable difficulties in

Figure 2: AVERAGE MILLET PRICES (RETAIL) MALI 1986-91



SOURCE: PRMC

getting traders to market the grain once it has been pledged in guarantee. Many traders are reported to be unconcerned about selling, since once they had delivered to the warehouse they have usually realized a profit in cash terms. Moreover, sale is complicated by the trader's need to raise ready cash before the bank would authorise release of the stock. Certain measures have been taken to encourage sale and thereby ensure the reimbursement of credits, including official incentives to export, exclusion of traders who have failed to reimburse their credits, and easing the rules governing removal of stock from the warehouses. However, the banks have never foreclosed on a delinquent debtor or seized stock.

The misappropriation of the last tranche of credit for uses other than the procurement and storage of cereals has been a notorious problem, particularly during the 1990/91 season. This resulted in traders often avoiding the payment of interest and commissions on their credits. A solution finally adopted has been to make each tranche equal in value to the cash bond. Failure to pledge the value of the last tranche would simply result in confiscation of the bond.

Banks lending to traders have been generally negligent in fulfilling their commitments under their loan agreements with the PRMC. A USAID-funded evaluation in 1990 concluded that the banks' performance had been unsatisfactory, particularly with regard to increasing the number of beneficiaries and loans, the level of reimbursement, and reporting to PRMC. Certain financial anomalies were also noted. Nevertheless PRMC staff who have been monitoring the credit lines note some improvement in 1991/92.

Finding a responsible warehouse operator has proved very difficult. Warehouses operators (*tiers détenteurs*) have to be approved by the Ministry of Commerce. Initially there was only one approved operator, the Malian Chamber of Commerce (CCIM), but other operators were authorised in 1990. The CCIM performed poorly and various evaluations pointed to shortcomings including poor storage and handling practices, infestation, mixing of lots belonging to different traders, and absenteeism. At the time of the authors' visit (March 1992), another operator based in Sikasso had taken over the warehousing function and was performing considerably better. Warehouses in Sikasso were well managed.

Some regions have experienced major problems in recovery of loans to AVs, and there have been frequent cases of misappropriation. PRMC has now stationed four credit supervisors (*conseillers-évaluateurs*) to follow up on the use of loans.

In purchasing cereals from their own members, AVs often adopt a short-sighted ap-

proach, by bidding up prices to levels which force them to accept financial losses on disposal. Storage problems during the wet season have adversely affected village storage, and it is worth noting that collective storage efforts have been much more susceptible to problems than individual on-farm storage.

In these difficulties, several underlying problems can be identified, particularly:

(a) There was not an adequate system for managing the lending risk. Mali has a thin grain market, and having poor communications with surrounding countries export opportunities are limited. Forecasting price movements is made difficult by a lack of market information, especially on the subject of stock-holding which is mainly carried out on the farm, and by the complexity of on-farm storage behaviour. Unlike the situation in international grain trade, one cannot offset one's risks by hedging on a futures market.

Managing the lending risk is also made difficult by a weak legal framework, where the courts cannot be relied upon in the pursuit of unpaid debts. The purpose of pledging is to cover most of these risks, but even this measure failed to work satisfactorily. The banks did not adequately monitor market developments and make sure that funds were invested according to sound business criteria, and in no cases did they proceed to the seizure of stocks.

There is a scheme for lending to rice millers in the Philippines which has been underwritten by Government, but given the socio-political situation and problems in the banking sector in Mali, the PRMC appears to have been wise in avoiding such an approach. In the Malian case it was the banks who should have logically managed the risk, but they did not do so. They were not sufficiently committed to the activity or adequately involved in the lending risk. For the main part they have simply administered on behalf of the PRMC.

According to some authoritative commentators, traders have often perceived the funds as political money which might not have to be repaid, particularly in the early stages of the programme. A USAID-funded evaluation in 1989 found this assertion to be untrue but the fact that many loans were only repaid after the *coup d'état* in 1991 suggests that the programme was indeed seen in a political light by traders who were well connected with the outgoing régime.

If the banks' own funds are committed they are more likely to take steps to manage the risk. For example in situations of high risk, they may offer credit based on a low valuation of the stock, giving them a margin of security if the price drops. Some PRMC staff believe that even if the banks' own money were invested they would still make

inappropriate loans, this being a reflection of the immense political power of the large traders over all Malian institutions, including the banks. They state that:

Les commerçants constituent un puissant lobby au Mali que les institutions financières, juridiques et réglementaires n'ont pas encore réussi à maîtriser.

While acknowledging the power of the major importer-wholesalers, the authors believe that greater involvement of the banks' own funds would have lessened the scale of the problem. If on the other hand the banks had been unwilling to invest their own funds at the outset, this would have been a signal that Mali was not ready for such loan schemes.

(b) Finding reliable warehouse operators, in whom the banks have full confidence has proved difficult. This is reflected in bankers' comments like: "What if he forgets to renew his insurance premium?" Until this problem is solved (possibly through the involvement of operators of international repute), the banks will not contemplate major lending against pledged collateral e.g. loans for FCFA 1 billion or more.

(c) With some notable exceptions the AVs are generally weak organisations, due to the heterogeneity of their all-village membership and the diversity of the interests which have to be represented. According to well-informed sources, members are typically apathetic and are poorly informed by their leaders. One bank manager described them in the following terms: *On accorde aux AV une valeur morale et technique qu'elles ne méritent pas.* They have performed relatively well in the Ségou area but at the cost of heavy and probably unsustainable supervision by development organisations.

5. Lessons Learnt

Setting up such schemes is clearly a difficult task, but with the benefit of hindsight some valuable lessons may be drawn for the benefit of those trying to organise similar schemes.

(a) *Support for farmer storage is desirable in some cases, but it should not be a generalised prescription*

The fact that most cereal storage is carried out on the farm suggests that farmers have a comparative advantage over private traders in interseasonal storage of grain. Firstly, grain surplus to domestic requirements is often stored as an emergency reserve and to provide a source of income to satisfy cash needs throughout the year. Secondly, the opportunity cost of capital tied up in grains is probably less for farmers than for

traders, who have more alternative investment opportunities.

In many areas farmers have adequate incentive to store individually using their traditional *greniers*. Losses are minimal, and it avoids the organisational and storage problems which can occur with collective storage. However in some areas, farmers are prevented from storing by cash flow problems, and there is some logic in supporting communal storage through group loans. However, even in these areas, one should consider alternative ways of easing the farmers cash-flow problems, e.g. by forming credit unions, by lending to individuals through solidarity groups of the Grameen Bank type, or by improving the links between the formal and informal financial sectors from which farmers gain access to credit.

If the group storage and marketing is selected as the best option, one requires well-organised groups. However building successful grass-roots organisations is difficult, and depends upon the will and cohesion of the members, which vary from group to group. Attempts to force the pace of this process, by over-generous or indiscriminate provision of outside funding, risks fostering the growth of weak organisations always in need of outside assistance. Indeed the experience of failure may deter farmers from further cooperative endeavours.

It is being increasingly recognised by experts working for the PRMC that the groups most likely to succeed will have a common purpose e.g. in marketing surplus produce, rather than village-wide organisations whose members have a variety of interests. This will minimize the impact of "free-rider" problems, where members who do not contribute to the success of an activity benefit from those who do.

A case can also be made for funding farmers' groups on an equal footing to traders, avoiding subsidies and preferential treatment. Given comparative advantage in assembly and storage of grain, well organised groups should be able to compete.

(b) Financing traders calls for a full commitment to the trader's role, within a competitive marketing framework

Successful operation of such schemes is vitally dependent upon a supportive policy framework. Traders and banks which lend to them must be sure that they will not be the object of arbitrary seizures, price control etc., or the unforeseen introduction of food aid that will depress market prices. In this respect the Malian authorities and the PRMC have performed very well.

At the same time it is evident from the decision to hold back bank funds to the traders

until after the AVs had been funded, that the PRMC harboured some reservations about the role of the private trader. The conditional nature of PRMC's support may have diminished the effectiveness of the scheme.

(c) One should have realistic expectations about the role of trader credit

Trader credit programmes are generally predicated upon the fear of the consequences of State abandonment of its price stabilisation role. However there is evidence from other countries e.g. Tanzania (Coulter and Golob, 1991) and Madagascar (Berg, 1989) that the provision of formal credit to private actors is not an indispensable precondition for liberalisation to proceed. With or without credit, it is usually farmers who are the main players in interseasonal storage of food staples, and many farmers are sensitive to expected price variations in timing their sales. In Mali, some large wholesale traders in Bamako already had access to bank credit and were engaged in interseasonal storage (Mehta, 1989). One should therefore be wary of implementing panic measures, by which trade credit systems are instituted to stop the market "collapsing" in the wake of liberalisation.

Even with the availability of formal credit, many traders are likely to be hesitant in assuming a major role in the interseasonal storage of staple grains. As previously noted, grain storage tends to be risky and, lacking subsidised inputs or the prospect of being rescued by the State, they cannot afford a high level of risk. On the contrary the provision of credit should be seen as part of a gradual process of enhancing the performance of private sector marketing, along with other measures like the improvement of roads and the broadcasting of market information. Evidence of such gradual improvement is suggested by the recent increase in demand for semi-wholesaler loans in southern Mali.

(d) The need for committed banks

The key to successful marketing credit is in gaining the commitment of the banks and other financial intermediaries involved, so that they are prepared to invest their own funds. They should see it as a profitable activity by which they can increase their lending operations, not as a public-service function they perform on behalf of Government. Indeed it is better to find one or two forward looking banks seriously committed to the activity. In Mali we found notable differences in the approaches of the banks, ranging from one bank that was actively trying to identify serious cereal traders, including those with no banking experience, to another whose stated policy was simply to lend to its existing customers. If no such banks can be found it is preferable not to implement such a programme.

(e) The need for reliable warehouse operators and efficient pledging systems

Pledging allows banks to reduce their lending risk, a very important consideration in Mali, where unpaid debts are authoritatively reported to represent upwards of 20% of bank lending. In this regard it is worth noting that the banks are showing increasing interest in pledging systems as a way of providing security for loans to traders. Stocks of imported commodities like sugar or tea are to be financed in this way.

In order for pledging systems to be of real value it is important that they should result in very fast lending decisions and obviate the need for most other guarantees, e.g. that the borrower be an established client of the bank or that he purchases a cash bond. The advantage of early decisions and speedy disbursement was underlined in discussions held with semi-wholesale traders in three towns (Niono, Ségou and Koutiala). The traders were asked to compare the existing system to an alternative pledging scheme:

	Existing Scheme	Alternative Scheme
Percentage of stock value covered by loan	100%	80%
Cash bond	required	not required
Loan limits	3 to 7 times the bond	no limit
Speed of approval	slow, can take months	fast, max. 1 week

In the alternative scheme, the trader would be required to make their initial investment in stock out of his own funds. The bank would then lend up to a given percentage of the value of the stock (e.g. 80%), to provide a margin of security in case of default.

All the traders interviewed expressed preference for the alternative scheme, because the advantage of fast approval greatly outweighed any disadvantage resulting from the lower valuation of the stock and of having to finance their initial purchase from their own resources.

However banks will only commit themselves to such a fast system of disbursement if they have full confidence in the warehouse operator.

(f) One should involve the private operators in the design of the system

While the private operators were clearly consulted in the design of the system, there is scope for doing so on a wider scale. Consultation with traders would have revealed speed of decision-making to be a key requirement. Above all, banks should be involved,

and as it is their money which is ultimately at stake, they should have a key role in selecting suitable warehouse operator.

One should try to avoid complex system of targeting, such as the creation of separate lines of credit for wholesalers and semi-wholesalers. Trying to enforce the rules efficiently adds to administrative overheads and slows decision-making, and as already noted traders can find loopholes. As far as possible, the terms of loans should be designed to facilitate "self-targeting" of those traders who cannot obtain funds from other sources. To achieve this, interest rates and bank charges should not be subsidised in any way. Indeed if costs exceed those with other forms of lending, this should be reflected in the rates and charges. In this way large well-connected traders may prefer to store in their own warehouses and use their traditional sources of lending (unsecured overdrafts etc.), and thereby avoid additional expense.

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APPENDIX 1: CREDIT SUPPORT FOR PRIVATE CEREALS MARKETING; KEY FACTS

1.1: GUARANTEE FUND FOR THE "CREDIT DE CAMPAGNE"

Size of fund:

1987/88 — FCFA 300 million

1988/89 — FCFA 500 million

1989/90 — FCFA 42.6 million

Maximum value of loans which could be guaranteed: 5 times the guarantee fund.

Terms: annual loans for cereal purchase, with interest at 8%, raised to 13% in 1989/90.

Guarantees of repayment: Borrower's reputation with the bank, acceptable financial statements and cash-flow forecasts.

Maximum amount loaned in any year: FCFA 1,000 million in 1988/89. Assuming a whole-sale price of FCFA 50 per kg, this was equivalent to about 20,000 tonnes of cereals.

Reasons for termination:

(a) FCFA 200 million of loans remained unpaid from 1988/89 season;

(b) Only large importer-wholesalers with access to other sources of bank credit continued to participate.

Impact of fund on bank lending: Banks now provide *crédit de campagne* to cereals traders as well as parastatals (at own risk), but only to very large traders with proper accounting systems, and whose balance sheets and cash-flow forecasts provide the lender with an acceptable degree of security. Only two large traders are funded in this way, and these had access to other forms of bank credit prior to the creation of the guarantee fund.

1.2: THE WHOLESALERS' CREDIT LINE

Number of participating banks: Between 2 and 4 each year.

Eligibility: traders handling 1,000 tonnes or more of cereals per annum.

Terms: annual loans for cereal purchase, with interest at 8%, raised to 13% in 1989/90.

Source of funds: 100% from PRMC.

Valuation of stock for the loan: 100% of current wholesale market price, including transport to store, at the moment of pledging.

Guarantee of repayment to bank: A pledging document provided by a licensed ware-

house operator. In 1990/91 a borrower's bond of FCFA 5 million was also required. Bank remuneration: Commissions on the value of the funds deposited by the PRMC at the bank (1%), on the value of the loans authorized (between 2 and 3%) and on the value of the loans repaid (between 2 and 2.5%).

STATISTICAL RESUME OF ACTIVITIES:

	86/87	87/88	88/89	89/90	90/91
Number of beneficiaries	16	7	19	4	2
Funds made available to the banks, FCFA million	500	500	600	600	300
Funds disbursed, FCFA million	301	246	564	86	97
Disbursed from:	Mar '87	Apr '88	Dec '88	Feb '90	Mar '91
Quantity of grain stored (tonnes)	5,107	3,199	9,424	1,176	913
Percentage reimbursed:					
— by the due date	86%	6%	0%	0%	16%
— by 31 Jan '92	86%	90%	85%	96%	36%

Source: CIDA monitoring data, certain data for 1986/87 from Staatz et al. 1989.

Reasons for termination of wholesaler credit line (1991): (a) reimbursement problems; (b) decline in the number of borrowers; (c) PRMC's perception that traders had access to other forms of credit.

1.3: THE "SEMI-WHOLEALER" CREDIT LINE

Number of participating banks: Between 1 and 4 each year.

Eligibility: Traders handling less than 1,000 tonnes of cereals per annum, organised into *Groupements d'Intérêt Economique* (GIE), with between 3 and 10 traders per group.

Terms: annual loans for cereal purchase, with interest at 8%, raised to 13% in 1989/90.

Maximum value of the loan: 3 to 7 times the value of the borrower's bond.

Source of funds: Up to 1990/91, all loans were from funds and at risk of PRMC. In 1991/92, the banks were to bear 20% of the risk for coarse grain loans; banks were to provide rice loans entirely out of their own funds, but with PRMC providing a guarantee to cover the entire risk.

1.4: LOANS TO AVs AND OTHER FARMERS' GROUPS

Participating bank: the *Banque Nationale de Développement Agricole* (BNDA).

Eligibility: AVs, farmer cooperatives, pre-cooperative producer groups. In practice almost all credit has been channelled to AVs and village-wide farmer cooperatives (*Tons Villageois*).

Terms: annual loans for cereal purchase, with interest at 8%, raised to 13% in 1990/91 (a series of new multiannual loans were introduced in 1991/92).

Maximum value of loans: FCFA 3 million.

Guarantee: Moral guarantee (*caution morale*) by the relevant extensionist of an organisation providing technical assistance (*organisme d'encadrement*); implicit guarantee from the village authorities, since close relationship with AVs tends to ensure repayment of individual debts.

Source of loans: PRMC has funded all loans up to 1990/91, but in 1991/92 loans were made out of BNDA's own funds.

STATISTICAL RESUME:

Branch	Disbursement in FCFA millions Percentage Unpaid to 31 January 1992 in Parentheses			
	1988/89	1989/90	1990/91	1991/92
CMDT Zone	333 (16.4)	40 (15.3)	130 (41.1)	175
Bamako	232 (17.5)	153 (29.3)	334 (38.2)	126
Kita				2
Ségou	36 (33.7)	116 (7.9)	7 (13.9)	196*
Niono	133 (0.6)		5 (0)	258*
Mopti	32 (49.8)		60 (20.8)	122**
Head Office			5 (0)	39**
Total	766 (15.7)	309 (19.7)	610 (34.4)	918

* Annual storage loans in Ségou and Niono were made out of BNDA funds.

** Loans from Mopti branch and Head Office include substantial multi-annual loan components.