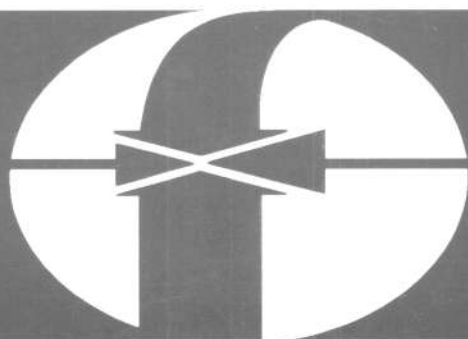


# **Savings and Development**



**"GIORDANO DELL'AMORE" FOUNDATION**

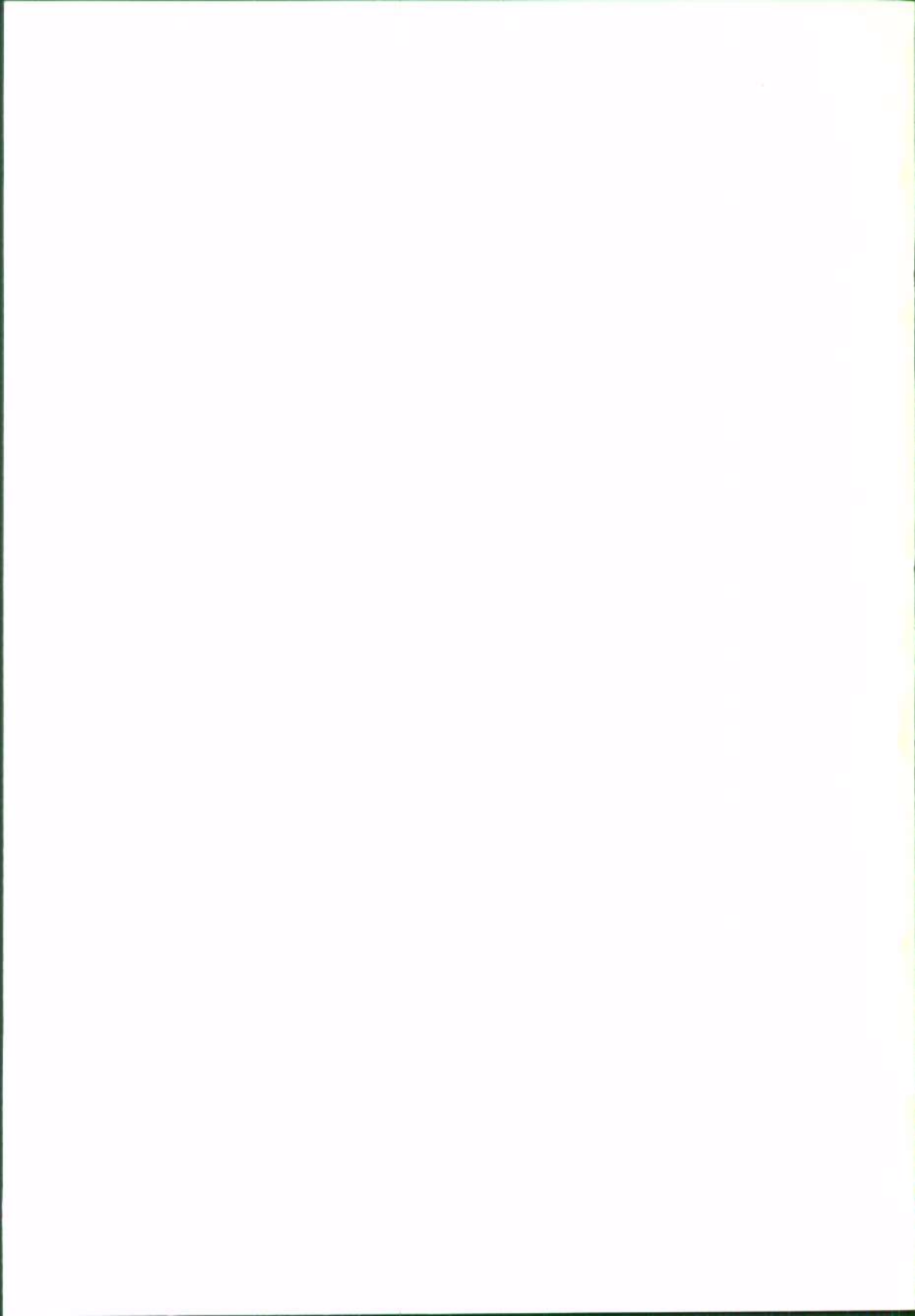
Centre for Assistance to Financial and Credit Institutions of Transitional Countries

Established by



Milan - Italy

Quarterly Review - No. 2 - 1996 - XX



# **Savings and Development**

Editor

**Arnaldo Mauri**

*Università di Milano*

Co-editors

**Oscar Garavello**

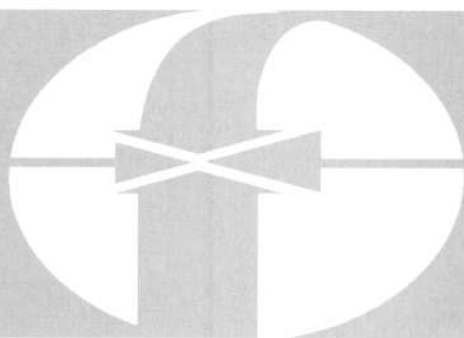
*Università di Milano*

**Mario Masini**

*Università di Bergamo*

Publisher

**Felice Tambussi**



**"GIORDANO DELL'AMORE" FOUNDATION**

Centre for Assistance to Financial and Credit Institutions of Transitional Countries

Established by

 **CARIPLO**

Milan - Italy

Quarterly Review - No. 2 - 1996 - XX

# "Giordano Dell'Amore" Foundation

## BOARD OF DIRECTORS

Angelo Miglietta	Chairman
Roberto Artoni	Director
Giovanni Azzaretti	Director
Lorenzo Gaidella	Director
Mario Miscali	Director
Alessandro Penati	Director
Stefano Preda	Director
Bruno Rinaldi	Director
Ezio Riva	Director
Felice Tambussi	Secretary General

## BOARD OF AUDITORS

Renzo Colombo	Member
Maurizio Maffei	Member
Camillo Pietra	Member

"GIORDANO DELL'AMORE" FOUNDATION is a non-profit institution established by CARIPLO, its goal being to provide professional and managerial training, assistance and advisory services in the fields of economics, finance, and credit to developing countries or to countries where institutional and economic changes require an international support action.

La FONDATION "GIORDANO DELL'AMORE" est une institution sans but lucratif créée par CARIPLO qui se propose d'offrir une formation technique, professionnelle et managériale et ses services d'assistance et consultation en matière d'économie, de finance et de crédit aux pays en voie de développement et aux pays qu'à la suite de changements institutionnels et économiques nécessitent d'une action de soutien internationale.

Via S. Vigilio 10 - 20142 Milano - Italy  
Tel. 8135341 - Telex 313223 FINAFRI



## Savings and Development

---

### EDITORIAL BOARD

André Babeau	Université Paris Dauphine
Dale W Adams	Ohio State University
Sergio Bortolani	Università di Torino
Peter J. Drake	Australian Catholic University
David T. Edwards	University of Bradford
Maxwell J. Fry	University of Birmingham
Jack M. Guttentag	University of Pennsylvania
Sándor Ligeti	University of Budapest
Ronald I. McKinnon	Stanford University
Paolo Mottura	University Bocconi
Hugh Patrick	Columbia University
K. Puttaswamaiah	Bangalore
J.D. Von Pischke	Washington, D.C.

### ADVISORY BOARD

Louis Emmerij	President, Organisation for Economic Co-operation and Development
Douglas A. Forno	The World Bank
David Forbes Watt	Director Investment Centre FAO
Göran Ohlin	Assistant Secretary General, United Nations
Roberto Ruozì	Secrétaire Général de la Confédération Internationale de Crédit Agricole
Ariffin Siregar	Governor, Bank of Indonesia
U Tun Wal	Senior Consultant, IMF Institute

---

## Contents

RURAL FINANCE INSTITUTIONS IN SUB-SAHARAN AFRICA: THEIR OUTREACH AND SUSTAINABILITY <i>by Marc Gurgand, Glenn Pederson, Jacob Yaron</i> .....	129
FINANCIAL LIBERALIZATION AND BANK LENDING BEHAVIOR IN TURKEY <i>by Hatice Pehlivan</i> .....	167
DEVELOPMENT OF SHORT-TERM MONEY MARKETS IN AFRICA: OVERVIEW OF ISSUES <i>by Philippe Callier</i> .....	185
A CONTINUUM OF INFORMALITY OF CREDIT: WHAT CAN INFORMAL LENDERS TEACH US? <i>by Hari Srinivas, Yoichiro Higuchi</i> .....	203
THE PREDICTION OF CORPORATE FINANCIAL DISTRESS AND BANK CREDIT DECISIONS: HONG KONG EMPIRICAL EVIDENCE <i>by Ron Yiu Wah Ho</i> .....	221
RURAL CREDIT MARKETS AND IMPERFECT INFORMATION: A NEW PERSPECTIVE <i>by Gamini Herath</i> .....	237

---

## Sommaire

PERFORMANCES ET RENTABILITÉ DE SIX INSTITUTIONS FINANCIÈRES RURALES EN AFRIQUE SUBSAHARIENNE <i>par Marc Gurgand, Glenn Pederson, Jacob Yaron</i> .....	129
LA LIBÉRALISATION FINANCIÈRE ET LE COMPORTEMENT DES BANQUES RELATIF AUX PRÊTS EN TURQUIE <i>par Hatice Pehlivan</i> .....	167
LE DÉVELOPPEMENT DES MARCHÉS MONÉTAIRES EN AFRIQUE <i>par Philippe Callier</i> .....	185
UN CONTINUUM DE CRÉDITS INFORMELS: QUE PEUT-ON APPRENDRE DES PRÊTEURS INFORMELS? <i>par Hari Srinivas, Yoichiro Higuchi</i> .....	203
LA PRÉDICTION DE LA DÉTRESSE FINANCIÈRE DES ENTREPRISES ET LES DÉCISIONS DE CRÉDIT DE LA BANQUE: L'EXPÉRIENCE DE HONG KONG <i>par Ron Yiu Wah Ho</i> .....	221
LES MARCHÉS DE CRÉDIT RURAL ET L'IMPERFECTION DE L'INFORMATION: UNE NOUVELLE PERSPECTIVE <i>par Gamini Herath</i> .....	237

---

# RURAL FINANCE INSTITUTIONS IN SUB-SAHARAN AFRICA: THEIR OUTREACH AND SUSTAINABILITY\*

Marc Gurgand, Ecole Normale Supérieure, France

Glenn Pederson, University of Minnesota,

Jacob Yaron, World Bank

---

## 1. Introduction

During recent decades the establishment of rural finance programs and institutions in developing countries was aimed primarily at resolving perceived market failures. These failures are commonly indicated by shortages of short- and long-term credit at interest rates low enough to encourage economic development, especially in the agricultural sector. The programs were also often aimed at poverty alleviation. In many instances, private sector financial institutions were weak, in large part due to distorted macroeconomic and financial sector policies which adversely affected their emergence and performance. Thus, private rural financial institutions were not promoted due to the financial environment and the high level of transactions costs associated with the delivery of financial services in rural areas. In their place, state-owned development finance institutions or cooperatives were introduced and heavily subsidized under the authority of the state. The rationale for intervention in financial markets shifted from resolving a general shortage of investment financing to channeling subsidized credit to what were believed to be under-served priority sectors and targeted clientele.

Despite initially optimistic expectations, the results of these programs have been disappointing. Low, subsidized interest rates resulted in regressive income distribution, credit rationing, and unsustainable institutions. As a result, directed credit policies have failed and the development of viable rural financial sectors have been impeded.<sup>1</sup> These features are found in all developing countries, but their consequences have been aggravated in Sub-Saharan Africa by poor macroeconomic conditions, weak development of financial markets (and the associated deficiencies in the legal framework and enforcement mechanisms), heavy state intervention, under-developed agriculture, deficient physical infrastructure and lack of well-trained personnel.<sup>2</sup>

Although failure of rural financial institutions (RFIs) has been widespread in Sub-Saharan Africa, there have also been institutions which provided important financial services to rural areas and achieved significant growth in the process. Furthermore, in recent years there has been a tendency to move away from inadequate rural finance policies toward policies that enhance the performance of RFIs. Meyer, Graham and

---

\* The views expressed in this paper are the authors' own, and should not be attributed to the World Bank and its affiliated organizations. Any errors are the sole responsibility of the authors.

1. The term "rural financial sector" encompasses agricultural credit, deposit mobilization and financial services provided to farm and nonfarm rural enterprises.

2. See Adams, Graham and Von Pischke (1984).

---



---

Cuevas (1992) conclude that recent reforms in many Sub-Saharan African countries have reduced or eliminated several pre-existing problems. Therefore, it is constructive at this time to evaluate the performance and the modes of operation of several of these institutions.

This paper documents and reviews the performance of six RFIs in Sub-Saharan Africa: the *Coopératives d'épargne et de crédit* in Togo, the Credit Unions in Cameroon, the Smallholder Agricultural Credit Administration (SACA) in Malawi, the *Banques populaires* in Rwanda, the *Caisses de crédit agricole mutuel* in Benin, and the *Crédit solidaire* in Burkina Faso. These institutions are selected because, in the context of widespread failure of rural finance institutions, they demonstrated successful performance according to at least one criterion. The broader selection criteria are: each RFI illustrated modes of operation or institutional characteristics that are worth reporting and/or are potentially helpful in designing RFIs and data on financial and operational characteristics of each RFI were consistently available and reasonably reliable. There was no attempt to select for specific institutional types (e.g., banks, credit unions, or private instead of public institutions). This performance review draws from numerous documents and available data, including World Bank reports and audited financial statements of the institutions.

Our objective is to assess the degree of successful performance of RFIs according to two primary criteria - the level of outreach and the degree of self-sustainability achieved. None of the six RFIs which were selected can be considered fully successful, since all of them exhibit weaknesses according to these two performance criteria. However, their success in terms of outreach has been significant. Credit unions in Cameroon, Togo and Rwanda have achieved impressive, long-term growth in savings deposits mobilized and loans extended, and their domestic market shares have increased significantly. The recently restructured *Caisses mutuelles* in Benin exhibit less impressive performance, but their improvement is notable. SACA has managed to reach about 25 percent of the smallholder farmers in Malawi. *Crédit solidaire* in Burkina Faso has been particularly successful in reaching women.

Generally, these RFIs have extended financial services to clients that are usually excluded from formal financing: smallholder farmers, women and the poor. They have done this by employing a variety of operating modes such as improved savings mobilization and flexibility in service delivery. Both mandatory and voluntary savings schemes have been effectively used by RFIs where savings play a significant role in gaining access to credit.

Our assessment of sustainability reveals varied performance outcomes. In Burkina



---

Faso, Benin and Malawi high rates of loan collection have been achieved. Only recently has loan repayment in Malawi significantly declined. In contrast, the credit unions in Cameroon, Togo and Rwanda have accumulated high arrears on loans. In Rwanda arrears increased as a result of increased short-term lending to farmers and bad weather conditions. By raising funds independently through savings mobilization and keeping administrative costs in check, these institutions have managed to avoid direct government interference in their management and operations, though they remain subject to the general financial and interest rate policies of their countries.

There is evidence that sustainability is also affected by the levels of interest rates paid on loans and deposits. Low loan rates are especially a problem in countries experiencing high, volatile inflation rates. The RFIs in Burkina Faso, Benin and Togo have charged relatively higher nominal loan rates. As a consequence of recent low inflation rates, their real interest rates have ranged between 19 - 21 percent. In the remaining three RFIs loan interest rates have been lower or even negative in real terms as a result of government decisions, legal ceilings on interest rates, or voluntary management decisions. While high inflation rates have not been a recent problem in most of these countries, the RFIs did not generally demonstrate the flexibility to adjust their interest rates. Also during this period, administrative costs in Cameroon, Togo and Rwanda were maintained at relatively low levels (from 2 to 6 percent of either assets or deposits)<sup>3</sup>. Thus, the picture is quite mixed and leaves open the question concerning what relative contributions larger interest rate spreads have made versus effective management of administrative costs towards achieving improved self-sustainability.

Our findings indicate that selective public intervention is often needed during the establishment phase of an RFI, if the institution is expected to become financially self-sustainable. Nonetheless, even when intervention is warranted, it should not lead to subsidized lending interest rates. Rather, public assistance should be focused on institution-building.

This paper is organized as follows: Section 2 describes the analytical framework, Section 3 presents our findings on outreach performance, Section 4 is a summary of our results on sustainability, and Section 5 contains our conclusions and recommendations.

---

3. Since detailed data on the financial support provided by governments and donors for these administrative expenses were not available, we can only suggest that the administrative expense estimates represent lower bounds on the true situations.

---

## 2. Analytical Framework

Since there is neither an agreed upon nor a widespread definition of a successful rural finance institution, we adopt the approach of applying the performance criteria introduced by Yaron (1992a). The assessment of these financial institutions is based on two primary criteria - the level of **outreach** and the degree of **self-sustainability** achieved. We characterize success by focusing on the modes of operation which can be evaluated using one or both of these performance criteria.

Outreach is usually defined relative to the target clientele of the RFI. It may be the rural population as a whole or a particularly underprivileged segment of it. Some primary indicators of outreach performance are changes in: the value of total savings deposits, the number and average value of savings accounts, the value of the outstanding loan portfolio, the number and average value of loans extended, the annual growth of RFI assets, the number of branches or units established, the proportion of the target rural population served, and the rates of participation by women.

Self-sustainability of an RFI is achieved when the return on equity (net of any subsidy received) equals or exceeds the opportunity cost of the RFI's equity. One can think of subsidy dependence as the inverse of self-sustainability. Traditionally, RFIs have been sustained financially by various types of implicit or explicit subsidies. The most common subsidies given to RFIs have taken forms of: interest rate differences between the market rate and rates paid on concessional borrowed funds; foreign exchange losses on foreign currency-denominated loans assumed by the state rather than the RFI; obligatory deposits by other financial institutions or other public institutions in the RFI at below-market interest rates; direct reimbursement by the state or donor of some or all operating costs incurred by the RFI; exemption from reserve requirements, forced investments and taxes; and direct financial or nonfinancial transfers.

When a subsidy is extended to an RFI, the value of the subsidy should be measured against the volume of business. Given the relatively high initial costs which are involved in starting RFI operations, progress made over time toward decreasing the reliance on concessional funds should be compared to interest earned on the outstanding loan volume. More generally, the degree to which an RFI is dependent on subsidies can be measured by the Subsidy Dependence Index (SDI).<sup>4</sup>

The SDI quantifies subsidy dependence of an institution. It is a ratio which measures

---

4. The subsidy dependence index is presented in Yaron (1992 b).

---

the percentage increase in the average on-lending interest rate required to compensate an RFI for the elimination of subsidies in a given year while keeping the return on equity equal to the approximate nonconcessional borrowing cost. When computing the SDI it is assumed that an increase in the on-lending interest rate is the only change made to compensate for loss of the subsidy. Although removal of subsidies received by an RFI is not always politically feasible or desirable, measurement of any subsidy is warranted both economically and politically.

Calculating the SDI involves aggregating all the subsidies received by an RFI. The total amount of the subsidy is then measured against the RFI's on-lending interest rate multiplied by its average annual loan portfolio. Measuring an RFI's annual subsidies as a percentage of its interest income yields the percentage by which interest income would have to increase to replace the subsidies and provides data on the percentage points by which the RFI's on-lending interest rate would have to increase to eliminate subsidies.

The SDI by itself does not clarify how the subsidy was used and whether most benefits were accrued to clients or were consumed by an inefficient bureaucracy. The latter question, though important, requires far more detailed data and even then is often subject to interpretation. The advantage of the SDI is its simplicity, and as such it focuses exclusively on the intake subsidy, i.e., the value of subsidy received by the RFI. The SDI should be seen in some instances as a lower bound because full financing of RFI activities is likely to be difficult at current market borrowing rates if an RFI's financial performance is dismal. However, calculating this lower bound is vital for ascertaining either the RFI's progress toward self-sustainability or the social desirability of its continued subsidy dependence.<sup>5</sup>

An SDI of zero means that a RFI achieved full self-sustainability. An SDI of 100 percent indicates that a doubling of the average on-lending interest rate is required if subsidies are to be eliminated. Similarly, an SDI of 200 percent indicates that a threefold increase in the on-lending interest rate is required to compensate for the subsidy elimination. A negative SDI indicates that a RFI not only fully achieved self-sustainability, but that its annual profits, minus its capital (equity) charged at the approximate market interest rate, exceeded the total annual value of subsidies, if subsidies were received by the RFI. A negative SDI also implies that the RFI could have lowered its average on-lending interest rate while simultaneously eliminating any subsidies received in the same year.

---

5. Its assessment and calculation require the application of certain procedures as well as judgment, and consistency from period to period is more important than the absolute accuracy of the figures included in the SDI computation.

---

The SDI methodology identifies the following conditions as important in eliminating subsidy dependence:

- positive interest rates on loans that are high enough to cover nonsubsidized financial costs as well as administrative costs and maintain the value of equity in real terms,
- an active policy which ensures that voluntary savings become an increasingly significant factor in financing the loan portfolio,
- a high rate of loan repayment and low loan losses, and
- low administrative costs through the implementation of efficient techniques and procedures in lending operations and the mobilization of savings.

### 3. Outreach

All six RFIs have the common objective of increasing the availability of financial services to rural clients (clients that formal financial institutions have been generally reluctant to serve) who are typically poor and live in more remote areas. Moreover, when evaluated within traditional modes of operation, they are considered costly to reach and their loans are thought to be particularly risky. The outreach activities of each RFI are described in Table 1.

#### 3.1. Barriers to Outreach

In addition to *poor macroeconomic* environments, these RFIs have suffered from the low level of development of their national financial systems. Their financial systems have been impaired to various degrees by fiscal imbalance, volatile inflation, financial repression and weak legal and regulatory frameworks. For example, the 1987 financial crisis in Benin illustrates the weaknesses of the financial sector in Sub-Saharan Africa, the lack of public confidence in the institutions, and the adverse effects on the outreach activities of RFIs. The rural financial sectors are particularly underdeveloped, resulting in low levels of competition among service providers.

*Low population density* adds to the difficulties faced by RFIs, especially in view of the poor transportation and communications infrastructure. Population density in Sub-Saharan Africa is 21 inhabitants per square kilometer compared with more than 200 in some low- and medium-income Asian countries. The relevance of demographics is demonstrated by the impressive network the Banques populaires have been able to establish in Rwanda, a country with very high population density (276 inhabitants per square kilometer in 1991). With a Banque in 111 of the 143 municipalities, it is estimated that they have a

**Table 1:** General Characteristics of the Institutions Selected

Country Institution	Year of Establishment	Type of Institution	Services Provided and Clientele	Outstanding Loan Portfolio <sup>1</sup> (in 1990 US\$ mill.-equiv.)	Indicators of number of Clients
<b>CAMEROON</b> Credit Unions	1968	Credit Unions	Saving deposits and loans Rural population	(b) 21.0 7.1 23,104	49,037 (members) (rural CUs) (rural)
<b>TOGO</b> Coopératives d'épargne et de crédit (COOPECs)	1967	Credit Unions	Saving deposits and loans Rural population	(a) 4.9 0.6 8,587	23,109 (members) (rural CUs) (rural)
<b>RWANDA</b> Banques populaires (members)	1975	Credit Unions	Savings deposits and loans Rural population	(b) 13.6	323,943
<b>BENIN</b> Caisses de crédit agricole mutuel (CRCAMs/CLCAMs)	1975 <sup>2</sup>	Savings and loan cooperatives	Saving deposits and loans Rural population	(c) 1.9 <sup>3</sup>	72,931 (deposits) 39,236 (members)
<b>MALAWI</b> Smallholder Agricultural Credit Administration (SACA)	1968 <sup>4</sup>	Government department	Agr. production loans Smallholder farmers (seasonal loans only)	(a) 20.5	315,170 (loans)
<b>BURKINA FASO</b> Crédit solidaire	1988	Nongovernment scheme	Loans to the very poor Some savings deposits	0.1 (loans granted in 1990/91)	2,051 (loans)

<sup>1</sup> Most recent figures available are: (a) 1990, (b) 1991 and (c) 1992.<sup>2</sup> Rehabilitated after the 1987 financial crisis.<sup>3</sup> The provisions for bad loans are not netted out in this number.<sup>4</sup> SACA took over the responsibilities for programs from NRDP in 1988.

depositor in one out of every four households in the country. As will be shown later in this paper, the result of this extensive network of Banques is that administrative expenses are relatively higher than in the other five RFIs (using either volume of assets or deposits as the normalizing factor). It is expected that the RFIs in the five other countries in this study, which have population densities ranging from 25 to 72 inhabitants per square kilometer, would not be able to reach such a significant proportion of the population without



substantial additional costs.

### 3.2. Financial Services

Both savings and loan services are highly valuable to rural populations. Savings services are already provided by widespread informal systems such as rotating savings and credit associations (ROSCAs), which serve to protect money from theft or family influence (Servet, 1985). Formal institutions can provide complementary and sometimes more flexible and secure service. Also, they offer a greater variety of savings instruments with a choice of term, liquidity and remuneration.<sup>6</sup> As summarized in Table 2, the RFIs selected for this study differ in characteristics such as: type of financial services offered, target population and type of projects financed. We designate the RFIs by their country of origin.

**Table 2:** Outreach Characteristics

SAVINGS MOBILIZATION		
VOLUNTARY	COMPULSORY	NO SAVINGS MOBILIZATION
CAMEROON, TOGO, RWANDA, BENIN	BURKINA FASO (CAMEROON, TOGO, RWANDA, BENIN) <sup>11</sup>	MALAWI
CREDIT		
INVESTING IN INCOME-GENERATING ASSETS ONLY	ANY PURPOSE	
IN-KIND	CASH	Diversified Financial Products
MALAWI	BURKINA FASO	CAMEROON, TOGO, RWANDA, BENIN
TARGETED CLIENTELE		
THE POOR (Mostly women)	SMALLHOLDER FARMERS	GEOGRAPHICAL RESTRICTION
BURKINA FASO	MALAWI	CAMEROON, TOGO, RWANDA, BENIN
ALL RFIs PROVIDE SERVICES TO CLIENTS USUALLY EXCLUDED FROM THE FORMAL FINANCIAL SECTOR		

<sup>11</sup> Members' shares are sometimes regarded as compulsory savings.

6. A comparison of formal and informal finance institutions may reveal that the latter (ROSCAs for example) provide the services required by rudimentary economies that are not highly monetized.

### 3.2.1. Savings Mobilization

Neglect of savings can be largely attributed to the incorrect assumption that most of the rural population has no savings capacity<sup>7</sup>. In Africa, informal ROSCAs provide evidence that the rural population saves. Savings collection benefits the rural population as more clients seek savings services rather than credit. Savings mobilization also benefits RFLs in several ways. It brings a continual source of funds that are independent of government and international donor policies, and provides information on clients and potential borrowers. Thus, savings mobilization is the basis for a developed financial market that can bring about improved resource allocation and allow financial institutions to perform their role of intermediation.

All the institutions, except SACA in Malawi, provide savings deposit services.<sup>8</sup> In Burkina Faso, *Crédit solidaire*'s voluntary deposit mobilization is marginal in both number of deposits and amounts. A compulsory deposit equal to 12 percent of the loan value was required of all borrowers, and the accumulated funds were used to repay loans of borrowers who experience repayment difficulties.<sup>9</sup> The clients of the CLCAMs in Benin can choose between savings deposits that earn a 3 percent interest rate and demand deposits that earn no interest. In Cameroon, the Credit Unions pay an average 3.5 percent interest rate on passbook savings and no interest on deposit accounts. The *Banques populaires* in Rwanda offer term deposits and passbook savings that allow immediate withdrawal while carrying a 3 percent interest rate. Although the interest rates on deposits have been low, and often negative in real terms, they compare favorably with informal institutions that do not pay interest on deposits.<sup>10</sup>

A striking characteristic of all four savings and loan cooperatives is the low interest rates paid on savings deposits (the highest nominal rate was reportedly 3.5 percent). In real terms, these rates have sometimes even been negative. Their performance leads us to question the importance of interest rate incentives in attracting deposits. Our central point is that low deposit interest rates are not likely to impede significant growth of deposits,

7. The importance of voluntary savings mobilization is strongly emphasized by Vogel (1984).

8. SACA is a department within the Ministry of Agriculture and is not allowed to mobilize savings. Thus, it is a pure supply-led credit institution.

9. This practice further familiarizes the clients with financial instruments. It is similar to the one applied in the Grameen Bank in Bangladesh.

10. In contrast, some informal mobile bankers charge a fee for visiting their clients and handling their deposits (Miracle, Miracle and Cohen, 1980).



while increases in deposit rates may not necessarily be an efficient means of stimulating additional growth.

To mobilize savings, these RFIs have employed modes of operations that should be examined. First, the cooperatives have collected savings on a regular basis. This service in remote rural areas is of great value, particularly when an extended network is developed - as in Rwanda. In a low inflation environment, regular financial savings are superior to nonmonetized forms because they are less prone to losses, theft and depletion of value, and may actually provide greater liquidity due to lower costs associated with converting to cash.<sup>11</sup> Second, the members are required to save for a given period of time (in Rwanda) or accumulate a significant amount of savings (in Cameroon and Togo) to be eligible for a loan. This is a strong incentive to save and provides a partial explanation for the continuation of savings mobilization in those RFIs, despite low (or even negative) real interest rates on saving deposits (see the matrix in Part B). These modes of operation build the confidence of savers in the RFI.

Savings mobilization has been highly successful as evidenced by the growth of savings in the form of both demand and savings deposits.<sup>12</sup> In Cameroon the increase in the real value of deposits was steady between 1975 and 1990, with an average yearly growth rate of 15 percent.<sup>13</sup> This can be compared with the stronger, more sporadic increases in Togo and Rwanda. The average annual deposit growth rates have been 27 percent for the COOPECs in Togo (during 1976-1990), and 39 percent for the Banques populaires in Rwanda (during 1975-1990). Growth of savings deposits has slowed in recent years. Between 1988 and 1991, the average rate of increase dropped to 4 percent in the Cameroon credit unions. A net decrease occurred also in Rwanda.<sup>14</sup> In Togo the rate of deposit growth has remained unchanged. In Cameroon the credit union movement has been strongly based on employee membership. In 1989 approximately one-third of all savings and assets were from the Cameroon Development Corporation, where large savings withdrawals have occurred.

11. In high inflation environments, holding savings in the form of value-appreciating real assets may provide superior returns to those of fixed rate financial assets, since real assets are a more effective hedge against inflation.

12. For Cameroon and Togo, long-term figures separating urban from rural credit unions are not available. Our graphs apply to the entire networks.

13. Although our analysis usually concentrates on credit unions as opposed to discussion, the only long-term figures available are aggregated for the two kinds of societies.

14. Discussion groups are now excluded from our analysis of Cameroon's credit unions unless otherwise specified.

### 3.2.2. Credit

Over the past 15 years, the growth of outstanding loan portfolios has been impressive. In Cameroon's Credit Unions, Togo's COOPECs and Rwanda's Banques populaires, the average annual, nominal growth rates for aggregate loan volume were 15 percent, 32 percent and 36 percent, respectively.<sup>15</sup> The volume of seasonal loans granted each year by SACA in Malawi is a good proxy for the size of its loan portfolio since medium-term loans represent a small and decreasing share of its overall lending activity. The average annual increase was 14 percent per year, but decreases occurred in 1982 and 1987, and a sharp increase followed in 1988. In Benin, a decrease in loan volume took place in 1991.<sup>16</sup> In spite of this one-time drop, loans have increased by 172 percent between 1989 and 1992. This indicates a dynamic improvement in the newly restructured network. The Cr dit solidaire scheme in Burkina Faso is on a smaller scale with just CFAF 33.4 million granted between 1988 and 1991.

In order to analyze intermediation, we relate loan volume to the volume of savings mobilized (see Table 3).

**Table 3:** Loan-to-Deposit Ratios

Year	CAMEROON		TOGO		RWANDA	BENIN
	Rural	All	Rural	All		
1985	n.a. <sup>1</sup>	n.a.	56%	93%	n.a.	n.a.
1986	n.a.	n.a.	56%	87%	43%	n.a.
1987	n.a.	n.a.	73%	94%	48%	n.a.
1988	70%	73%	86%	89%	53%	n.a.
1989	73%	75%	88%	89%	57%	8%
1990	67%	64%	80%	87%	38%	18%
1991	62%	60%	n.a.	n.a.	35%	15%
1992	n.a.	n.a.	n.a.	n.a.	39%	18%

1. N.a. means 'Not available'.

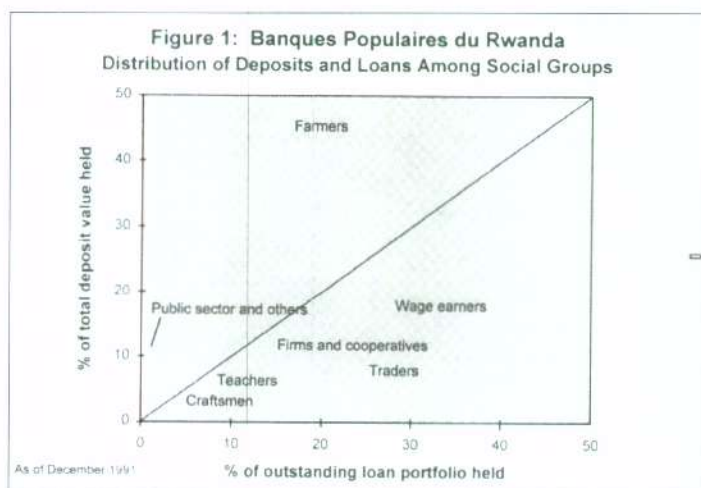
Note: Ratios in Cameroon, Togo and Rwanda are based on financial statements and the loan portfolios are net of provisions for bad loans. In Cameroon, only Credit Unions are taken into account. (The figures would hardly differ if discussion groups were included.) For Benin, the ratio is a proxy. For example, the amount of loans delivered in the 1989-90 season is divided by the amount of deposits as of September 1989, and similarly for the following years.

15. The loan portfolio of the Banques populaires in 1975 was negligible with three loans outstanding. Therefore, the average growth rate was computed for the period 1976-1990.

16. As with SACA, new loans are a proxy of the outstanding portfolio.

### 3.2.3. Member Participation

Members make use of different services and some groups may be more interested in borrowing than in saving. This is illustrated for the Banques populaires (see Figure 1). The share of total value of deposits for each group of clients is reported on one axis with each group's share of the outstanding loan portfolio on the other. Clients that would benefit from the two services in the same proportion stand on the 45° line. As can be seen, farmers make greater use of savings services than credit. Traders and wage earners (mostly civil servants) borrow in a far larger proportion than they save.<sup>17</sup> In Togo and Cameroon, the constraint that a member cannot borrow more than two or three times their deposits limits the divergence between amounts saved and amounts borrowed, but no data are available.<sup>18</sup>



17. Although no data are available, it is expected that traders provide a significant amount of onlending to farmers through their trading activities. Thus, the "imbalance" between saving and borrowing is quite logical.

18. In Cameroon, loans are also secured by co-signers. Loans over three times the amount of savings can be granted through special procedures (USAID, 1989).

---

### 3.3. *Clientele and Flow of Funds*

If the presence of a rural financial institution only induces shifts of clients from one formal financial institution to another, there may be little contribution to intermediation from the RFI. Secondly, some RFIs have established urban and rural branches (see Table 4). In this case, their activity may result in a net transfer of funds out of the rural sector. These are some of the issues that reflect the net financial impact of RFI outreach activities on the rural population.

#### 3.3.1. Targeted Clients

Several of these institutions have defined objectives and targeted clientele (see Table 4). SACA in Malawi concentrates on smallholder farmers. It has been estimated that 25 percent of smallholder farmers in the country were served by the program (World Bank, 1992c). The *Crédit solidaire* project in Burkina Faso targets its financial services for poor people in the rural Sahel that suffer from a lack of capital. The emphasis is on rural women. Its activities are concentrated in a few small areas and it has established a modest client base: 2,311 loans have been granted during its first three years. Women now account for 85 percent of the members. The other institutions have no such well-defined target populations.

#### 3.3.2. Rural-Urban Flow of Funds

Only two of the six institutions operate exclusively in rural environments. SACA in Malawi deals only with farmers and provides loans for agricultural investments. *Crédit solidaire* is active only in rural areas in Burkina Faso. The remaining institutions have varying proportions of rural and urban branches. The CRCAMs/CLCAMs have local branches in each of the six provinces of Benin. Information is not available on the actual clientele of the Caisses. The *Banques populaires* in Rwanda view themselves as primarily rural banks, yet their network is widespread in urban areas as well. In particular, five banks are located in Kigali and one bank is located in the military. Data was not available to evaluate the proportion of rural to non-rural branches, but the proportion is expected to be large in a country with 92 percent of its population living in rural areas.

## 4. Sustainability

Sustainability of RFIs depends generally on four elements: administrative expenses,

---

loan collection, structure of interest rates, and cost of financial resources. We analyze these elements and the resulting levels of profitability and subsidy dependence in the six RFIs.

#### 4.1. Administrative Expenses<sup>19</sup>

Data with which to analyze the administrative costs of RFIs are not always available. In Malawi, SACA was assigned Ministry of Agriculture staff and used the Ministry's field facilities, and its budget was not completely segregated from that of the Ministry until 1992. This makes an accurate financial analysis impossible and is SACA's main shortcoming. The data of *Crédit solidaire* in Burkina Faso provide only sketchy accounting information and do not allow for a through analysis of administrative costs.

Table 4: Clientele of Selected RFIs

	CAMEROON	TOGO	RWANDA	MALAWI	BURKINA FASO	BENIN
	Credit Unions	COOPECS	Banques populaires	SACA	Crédit solidaire	CRCAMs/CLCAMs
Number of members	49,037 23,104 (rural)	23,109 8,587 (rural)	323,943	n.a. <sup>1</sup>	n.a.	39,236
Number of saving/deposit accounts	(same as members)	(same as members)	329,237	n.a.	n.a.	72,931
Number of loans outstanding	20,655 10,444 (rural)	n.a.	45,233	n.a.	n.a.	n.a.
Number of loans granted (last available year)	23,172 9,008 (rural)	10,801 1,715 (rural)	17,664	315,170	2,051	11,011
% population served	1 member/240 inhabitants (1/300 rural)	1 member/150 inhabitants (1/300 rural)	1 member/25 inhabitants	25% of smallholder farmers	n.a.	1 member/30 rural inhabitants
women as percentage of total members	21% 22% (rural)	23% 35% (rural)	n.a.	30%	85%	n.a.

1. N.a. means 'Not available'.

19. Administrative expenses do not include provisions for loan losses.



---

Data are available for the four remaining institutions, although in Benin there is only partial information about administrative costs.

Volunteer management is a prominent feature of the credit unions in Cameroon, the COOPECs in Togo, the Banques populaires in Rwanda and the CRCAMs/CLCAMs in Benin. Usually a manager, and sometimes a bookkeeper, are hired to handle day-to-day activities. This unpaid participation results in low personnel costs for the credit unions. The Board and committees define general policy, examine and approve loan applications, appoint and monitor the manager, supervise important operations (such as transfers of funds), represent the credit union and speak before the general assembly. The federations (and the regional offices in Benin and Rwanda) follow the same organizational principle, but they have a higher number of paid employees.

When taking into account paid staff alone (including staff of the federation) and assuming that every local bank has only two staff, the number of savings accounts per staff member is high at 493 in Benin and 1,050 in Rwanda (see Table 5). As a result, the percentages of personnel expenses to annual average total assets are low: 2.8 percent in the Banques populaires in Rwanda (1992), 1.6 percent in the rural COOPECs in Togo (1990), and 1.7 percent in the rural credit unions in Cameroon (1991). The figure for the Banques populaires in Rwanda is higher because it is a consolidated measure which includes the costs of the federation. This is not the case in Togo and Cameroon. Although FUCEC in Togo and CamCCUL in Cameroon provide significant services to their credit unions, these costs are not reflected in the personnel expenses of the local societies. Personnel expenses as a percentage of the annual average loan portfolio are small in rural areas of Cameroon and Togo (1.7 percent and 2.9 percent, respectively). By comparison, these expenses are high in Rwanda, since the Banques populaires have a relatively small and decreasing loan portfolio. While low personnel costs are an advantage, the corresponding disadvantages are the low skill level of unpaid management and the inadequate knowledge of accounting procedures. For this reason, the WOCCU's policy is to encourage credit unions to hire qualified staff.

Because their networks are widespread and their local societies are small, these three RFLs incur high operating costs. They have attempted to reduce their administrative costs through the use of mobile banking where credit union staff visit neighboring villages on a regular basis using inexpensive forms of transportation. In Cameroon, Togo and Burkina Faso, the institutions have been able to extend their geographical outreach with few staff and little additional cost.

There are several alternative ways in which to measure how effectively administrative

---

costs have been managed in these RFIs. When measured against average total assets, the Banques in Rwanda had the highest annual average administrative expense at 5.5 percent (see Table 6). When the annual average loan portfolio is used to compare administrative expenses, they are higher for all the RFIs, especially Rwanda at 17.3 percent where loans comprise a relatively smaller proportion of total assets. As an alternative to loan volume (as the deflator of administrative expenses), total deposits could be used. The resulting measures of administrative expense shown in Table 6 are more appropriate than total assets and not biased upward by the proportion of loans in the asset portfolio. The administrative expense percentages are once again highest in Rwanda at 6.1 percent. We note that the rural COOPECs in Togo and the rural Credit Unions in Cameroon have slightly higher administrative expense percentages regardless of which measure is used. A large part of these higher costs in the rural units is attributed to the dominant activity of savings collection.

The different administrative expense percentages calculated for these RFIs are reasonably low and generally follow encouraging trends. However, a portion of these costs may have been assumed by donor agencies. Therefore, these percentages indicate lower-bound estimates of the level of administrative expenses compared to what they would be if the subsidy granted by the donor agencies were removed.

Because their networks are widespread and their local societies are small, these three RFIs incur high operating costs. They have attempted to reduce their administrative costs through the use of mobile banking where credit union staff visit neighboring villages on a regular basis using inexpensive forms of transportation. In Cameroon, Togo and Burkina Faso, the institutions have been able to extend their geographical outreach with few staff and little additional cost.<sup>20</sup>

#### *4.2. Loan Collection*

Loan collection is usually the main weakness of RFIs, and Sub-Saharan Africa is no exception. Several of the institutions studied here showed remarkable performance, while others needed to improve. The reporting on arrears is generally poor and greatly limits the extent of our analysis. A further complication is that alternative definitions of loan collection performance are possible. This makes reported measures difficult to interpret and to compare.

---

20. In Cameroon, staff benefit from interest-free loans to purchase motorcycles for both business and private use. These purchases reduce the cost of mobile banking compared to traditional banking strategies.



**Table 5:** Number and Amount of Deposits and Loans per Staff Member

Item	CAMEROON Credit Unions	TOGO COOPECs	RWANDA Banques populaires	BENIN CRCAMs/ CLCAMs
(values are expressed in 1990 US\$ equivalent)				
Number of saving accounts per intermediary employee	190	82	1,050	493
Rural areas only	163	56	n.r.*	n.r.
Number of loans per employee	80	n.a.**	158	74
Rural areas only	74	n.a.	n.r.	n.r.
Value of savings per employee	US\$ 135,000	US\$ 20,000	US\$ 136,900	US\$ 74,500
Rural areas only	US\$ 75,000	US\$ 5,000	n.r.	n.r.
Value of loans per employee	US\$ 78,000	US\$ 17,500	US\$ 47,500	US\$ 13,100
Rural areas only	US\$ 45,000	US\$ 4,000	n.r.	n.r.

\* N.r. means 'Not relevant'.

\*\* N.a. means 'Not available'.

Note: With the exception of Benin where the total number of employees is known, the number of staff has been computed assuming that there were two employees in each local credit union and adding the staff of the federation. For "rural only" figures, the staff of the rural local credit unions alone has been taken into account. The resulting number is interpreted as an upper bound. For Cameroon, the average value and number of loans have been computed using a source that is slightly different from that of the financial statements. In Cameroon and Rwanda, the outstanding loan volume has been used. In Togo and Benin, data was available on new loans granted only. Data are from: 1992 for Benin, 1991 for Cameroon and Rwanda, and 1990 for Togo.

**Table 6:** Average Administrative Expenses as Percentages of Average Assets, Loans and Deposits

Country/ Institution	Period Covered	Administrative Expenses/ Total Assets**	Administrative Expenses/ Total Loans**	Administrative Expenses/ Total Deposits
Togo: all COOPECs	1985-90	1.6%	2.3%	2.1%
rural COOPECs		3.5%	7.0%	5.2%
Cameroon: all Credit Unions	1988-91	2.9%	4.9%	3.2%
rural Credit Unions		3.3%	7.0%	5.2%
Rwanda: Banques populaires	1986-92	5.5%	17.3%	6.1%

\* Administrative expenses include personnel expenses.

\*\* Total assets and total loans have been reduced by the provision for loan losses. Total loans include interest receivable.

#### 4.2.1. Collection Performance

Available data provide some loan collection information (see Table 7). Documents on *Crédit solidaire* do not define the measure of loan collection which is used. SACA reports loan repayments for a given season as a percentage of the cost of inputs plus interest (since loans are disbursed in-kind). SACA includes repayments received after the due date. The CRCAMs and CLCAMs in Benin report loan collections of 100 percent for each year in the data period, since they enforce a full repayment rule on their borrowers. Additional data is not available from which to evaluate their actual success in achieving that level of repayment. In the *Banques populaires* in Rwanda, all loan amounts that have not been repaid on schedule are reported as arrears (including old arrears). We examine the ratio of these arrears to the outstanding loan portfolio.

In the credit unions of Cameroon and the COOPECs in Togo, once a loan becomes delinquent, the entire loan is considered delinquent. In other words, they report as arrears the full value of the loans "contaminated" by arrears. By definition, old arrears are included. The data for these two institutions show three types of outstanding loans: loans not affected by arrears, loans affected by arrears (more than two months in Cameroon), and loans with no information on whether arrears are included. In Cameroon, the share of the loan portfolio for which information on arrears was unknown amounted to 12 percent for rural credit unions in 1988. This dropped in the following years. In Togo, fully 92.5 percent of the loan portfolio was reported as "unknown status" in 1986. This figure decreased to 47 percent in 1989, and 6.3 percent in 1990. In the rural credit unions, it dropped to 1.5 percent in 1988. These figures indicate a significant improvement in the assessment of the loan portfolio's quality and bookkeeping procedures. In the rural credit unions, that share dropped to 1.5% as soon as 1988. These figures indicate a significant improvement in assessment of loan portfolio's quality and bookkeeping procedures.

We computed two measures of loan collection for the RFIs in Togo and Cameroon. The first measure is based on the subset of outstanding loans for which information on arrears is available. It is total loans that are known to be in arrears divided by the volume of outstanding loans, net of the amounts on which information is missing. The second ratio is total loan volume (minus the amounts that are known not to be affected by arrears) divided by total loan volume.<sup>21</sup> This second ratio is an upper bound if one assumes that the loans on which information is missing are actually in arrears.

21. Formally, the loan portfolio (LP) can be broken down as:

$$LP = \text{current} + \text{arrears} + \text{unknown} - \text{provisions}.$$

The "subset" portfolio is (current + arrears - provisions). Therefore, the first ratio (R1) is:

$$R1 = \text{arrears} / (\text{current} + \text{arrears} - \text{provisions}).$$

In the second ratio (R2), the unknown part is assumed to be in arrears is:

$$R2 = (LP - \text{current}) / LP.$$

R1 and R2 are presented together in the graphs. R1 is "loans for which information is available". R2 is the "upper bound", since unknown not equal to zero implies that R2 is greater than R1.

#### 4.2.2. Provisions for Loan Losses

Although comparisons of loan losses are not straightforward (due to inconsistent reporting), it can be said that the institutions in Cameroon, Togo and Rwanda have accumulated significant arrears. Also, there have been inconsistent provisions for loan losses, particularly in Cameroon and Togo. Loan loss provisions accounted for only 14 percent of the loan amounts affected by arrears in the rural credit unions in Cameroon during 1991, and less than 1 percent in Togo during 1990. The Banques populaires in Rwanda have also been cautious in making provisions for loan losses. For example, in 1992 the provisions for loan losses in the Banques was 25.2 percent of loan volume.

**Table 7:** Methods of Reporting on Loan Collection

Country/ Institution(s)	Ratio	Definition of Arrears	Part of the Loan Portfolio in "Unknown Arrears Status"
RWANDA Banques populaires	Amount in arrears / Loan portfolio (net of provisions for loan losses)	Amounts falling due that have not been repaid according to the schedule	NO
CAMEROON Credit Unions	Amount contaminated by arrears / Loan portfolio (net of provisions for loan losses)	Full value of loans contaminated by arrears exceeding 2 months	YES
TOGO Coopecs	Amount contaminated by arrears / Loan portfolio (net of provisions for loan losses)	Full value of the loans contaminated by arrears (as of due date)	YES
MALAWI SACA	Collection ratio*	not available**	NO
BURKINA FASO Crédit solidaire	Collection ratio**	n.a.	NO
BENIN CLCAMS/CRCAMs	Collection ratio***	n.a.	NO

\* Percentage of cost of inputs disbursed for a given credit season (plus interest) that has been recovered, including repayments received after the due date.

\*\* No definition available.

\*\*\* A Caisse cannot grant new loans unless it has recovered 100% of the previous season's loans.

#### 4.2.3. Management, Accounting and Auditing

The scarcity and low quality of educational opportunities in Sub-Saharan Africa are often cited as a major handicap for formal institutions in the region, particularly in rural areas. It appears to be difficult for local savings and loan cooperatives to attract qualified staff with the necessary skills and experience to effectively manage these RFLs. The

---

federations have developed training programs for their member institutions. In Cameroon, the training by CAMCCUL of local credit union staff is considered effective and is highly rated by the credit unions. Training has also been an important component in SACA's institution-building strategy in Malawi. Thus, while there is evidence that training has contributed to the improved performance of these RFIs, there is still much work to be done.

Efficient management of costs of these institutions is hampered by deficiencies in accounting and auditing practices. An assessment of SACA's costs was not possible because its accounts are not completely separated from that of the Malawi Ministry of Agriculture. Financial statements of individual credit unions in Togo and Cameroon contain unknown assets, liabilities, and revenue (expense) items that resulted from bookkeeping errors. Ledger differences arise when the credit union's collective accounts for deposits or loans do not correspond with the individual records of the members. Recording of arrears on loans is a major concern because there is no information on the status of a significant share of the outstanding loan portfolio, and write-offs resulting from loan losses are not routinely made. As a result, it is not possible to perform an evaluation of costs relative to assets in the credit unions. In this situation there is need for an independent auditor of the institution to resolve the serious discrepancies that arise in the accounts and to prepare an unbiased opinion on the quality of the portfolio.

#### 4.3. Profitability and Subsidy Dependence

An important instrument to assess the self-sustainability of an RFI is the Subsidy Dependence Index (SDI) developed by Yaron. Yet, due to the lack of financial data, the SDI could only be computed for the Banques populaires in Rwanda, and only general remarks can be made regarding the self-sustainability of RFIs in Cameroon and Togo. Given the moderate administrative costs recorded by the credit unions in Cameroon and Togo, the two major impediments to their sustainability have been the limits imposed on interest rates and poor loan collection.

##### 4.3.1. Cost Structure

The financial costs in Cameroon are high compared to the operating costs associated with administration and loan losses. These features characterize financial institutions with no access to concessionary funds, lack of good control over their administrative costs, and small provisions for loan losses. The rural COOPECs in Togo exhibit increasing operating costs, in part because they increased the number of paid staff and the provisions for loan

---

losses. Their cost structure approaches that of the Banques populaires in Rwanda, which has high operating costs relative to financial costs (Figure 3.13). Administrative costs are high in the extended network of the Banques populaires. Moreover, the Caisse centrale plays an active and costly role, since it accounted for more than half of the total administrative costs of the system in 1991. The provisions for bad loans also contributed to high operating costs, and thus, have had a major impact on profitability.

#### 4.3.2. Interest Rates

Intervention in rural financial markets and restrictions on loan interest rates (to levels that do not generate a margin sufficient for the RFI to cover financial and administrative costs) may create unnecessary rationing of credit and lead to an undesirable distribution of income. Additionally, governmental restrictions on interest rates may block the development of self-sustaining institutions and financial markets because of the suppression of financial spreads of the RFIs.

Several of the RFIs have applied high interest rates (e.g., a 24.7 percent effective rate in Burkina Faso and a 24 percent rate in Benin).<sup>22</sup> A 24 percent interest rate is recommended by the FUCEC-Togo federation and is applied in the majority of the credit unions. In real terms, interest rates were 21.1 percent in Burkina Faso in 1991, 20.6 percent in Benin in 1992, and 19.2 percent in Togo in 1991. High nominal rates also appeared in Malawi (16-25 percent on SACA's group lending). After adjusting for inflation, the result was 3-11 percent real interest rates.

Lower nominal interest rates were charged by the Banques populaires in Rwanda (13 to 17 percent) depending on the type of project, and by the credit unions in Cameroon (12 percent as recommended by CamCCUL). However, the interest rate in Cameroon was increased to 18 percent in 1993. In real terms these rates have been low or negative (for example, -2.2 to 1.2 percent in Rwanda and 7.3 percent in Cameroon) during 1991. The rates applied by these two institutions are lower than the prevailing loan rates in the country (see Table 8), although the comparative rates reported by the International Monetary Fund (IMF) do not reflect the alternative cost of borrowed funds for clients in rural areas where informal lending rates are extremely high.

---

22. The effective rate applied by the Crédit solidaire takes the compulsory "compensating balance" of 12% of the loan amount into account. Although the loan is repaid in weekly installments, the interest is computed on the original amount of the loan.



**Table 8: Interest Rates, Spreads and Operating Costs**

Item	RWANDA Banques populaires	CAMEROON rural Credit Unions	TOGO rural COOPECS	MALAWI SACA	BURKINA FASO/ Crédit solidaire	BENIN CLCAMS/ CRCAMS
(annualized interest rates in the most recent year available)						
<b>Interest Rates:</b>						
Nominal interest rates on loans	13% to 17%	12% <sup>1</sup>	24% <sup>1</sup>	16.3 to 25.4%	24.7%	24%
Real interest rates on loans	-2.2% to 1.2%	7.3%	19.2%	3.2 to 11.3%	21.1%	20.6%
Reported nominal loan rate in the country <sup>2</sup>	19%	14% (1989)	16%	21%	16%	17%
<b>Financial Spread:</b>						
Nominal Income from loans/ Annual average loan portfolio						
(nominal) (a)	13.5%	9.1%	13.2%	n.a. <sup>3</sup>	n.a.	n.a.
(real)	-2.1%	5.1%	8.9%			
Interest expense/Annual average borrowings						
(nominal) (b)	2.5%	4.3%	3.3%	n.a.	n.a.	n.a.
(real)	-11.3%	0.5%	0.7%			
Financial Spread (nominal) (a)-(b)	10.7%	4.8%	9.9%	n.a.	n.a.	n.a.
<b>Operating Costs:</b>						
Administrative costs/Annual average loan volume	18.1%	5.5%	7.8%	n.a.	n.a.	n.a.
Annual provisions for loan losses/ Annual average loan volume <sup>4</sup>	9.8%	0.9%	6.0%	n.a.	n.a.	n.a.

1. This rate is recommended by the federation. In Cameroon it was raised to 18% in 1993.

2. These rates may be only somewhat representative, since they reflect formal sector lending by commercial banks to a relatively small percentage of all borrowers, reported by the International Monetary Fund (1992).

3. N.a. means 'Not available'.

4. Provisions for loan losses presented in the income statement.

#### 4.3.3. Subsidy Dependence

None of the three institutions in Rwanda, Cameroon or Togo receives subsidies in the form of concessionary loans. All of their lending activity is based on deposits collected by the local societies.<sup>23</sup> However, they do receive subsidies from international donors in the form of grants aimed at institution-building. With the exception of the amounts designated for the federations, the subsidies assigned to the local credit unions are granted on a short-term, decreasing basis. The funds are directed either to the banks that have just been created (as in Rwanda) or to selected credit unions where it is deemed necessary to encourage financial policy reforms (as in Togo where the standard duration of the subsidy is three years).<sup>24</sup>

Based on profits alone, one cannot infer that the credit unions in Cameroon and Togo were sustainable while the Banques in Rwanda were not. Differences in performance can be attributed to several factors. First, the costs presented in income statements do not provide comprehensive information on administrative costs. Some operational subsidies were not shown in the financial statements (e.g. the salary of the CamCCUL manager, the salary of expatriates, or training financed by donors). Second, the provisions for doubtful loans are expected to be low in the Cameroon and Togo institutions, while careful provisions are made by the Banques populaires. This practice artificially raises the net income of the first two institutions. A full accounting of the annual losses on loans would probably reveal significant operating losses. In fact, the rural COOPECs in Togo had a 15.9 percent return on equity in 1989. Following a change in policy, they increased annual provisions for loan losses to six times the 1989 amount, and posted a deficit in 1990.

Due to the absence of consolidated data, the SDI could not be computed for Cameroon and Togo. In view of the large amount of equity, however, it is likely that CamCCUL is subsidy dependent. Based on the prevailing deposit rate reported by the IMF in Cameroon (plus three percentage points to account for the administrative expenses associated with deposit collection), the opportunity cost of CamCCUL's equity was higher than its profits in 1987 and 1989.<sup>25</sup>

23. The same is true for the CRCAMs/CLCAMs, but some Caisses have benefitted from a concessional line of credit from an international donor.

24. The subsidies received by the Cameroon rural credit unions have been extremely small.

25. In 1988 and 1991, the profits were also positive but higher than the opportunity cost of equity. Yet, this is only a sketchy indicator aimed at emphasizing that CamCCUL's self-sustainability is an issue. A computation of the SDI based on the consolidated data of the whole network would be required to form a judgment.



The SDI for the Banques populaires in Rwanda indicates a high degree of subsidy dependence that increased with the growing economic and political crisis (see Table 9). In 1992, the Banques populaires would have had to raise the average lending rate by 86 percent, *ceteris paribus*, in order to ensure self-sustainability.<sup>26</sup> There are other ways to reduce subsidy dependence, such as achieving high rates of loan collection, containing administrative costs or increasing lending activity. While the SDI in Rwanda declined between 1987 and 1988, the increase between 1988 and 1991 is probably a result of Rwanda's economic crisis aggravated by civil war. We have no information to explain the decline of the SDI in 1992. Both the fact that the subsidy could be measured and that resources were largely devoted to institution-building are noteworthy. The SDI does not shed light on how the subsidy was used, but it could be argued that subsidies benefited borrowers, in particular those with agricultural projects who paid low interest rates. Subsidies also assisted institution-building and generally increased equity, although the subsidy was eventually depleted by loan losses.

**Table 9:** Subsidy Dependence Index for the Banques Populaires of Rwanda

Item	1987	1988	1989	1990	1991	1992
1. "Market (reference) interest rate" = M	9.3%	9.3%	9.3%	9.9%	11.8%	10.7%
2. Subsidy on concessional rate borrowing	No concessional borrowing occurred					
3. Annual average equity = E (RWF in millions)	308	362	419	466	518	569
4. Subsidy on equity = (E·M) (RWF in millions)	29	34	39	46	61	61
5. Reserve requirement	No reserve requirement prevails in the country					
6. Miscellaneous grants and benefits (RWF in millions)	23	20	28	8	80	77
7. Profit = P (losses) (RWF in millions)	-58	-35	-62	-75	-53	-39
8. Total subsidy = (2)+(4)+(5)+(6)-(7) (RWF in millions)	110	88	129	129	193	177
9. Interest income = LP* (RWF in millions)	105	145	192	185	176	205
10. <b>Subsidy Dependence Index = (8)/(9)</b>	<b>105%</b>	<b>61%</b>	<b>67%</b>	<b>70%</b>	<b>110%</b>	<b>86%</b>

Technical notes:

1. The Banques populaires have a provisioning policy where they overestimate the annual provisions for loan losses. They recapture part of these provisions during following years. As a result, the exact annual cost of loan losses is not accurately measured, and the net income may require an adjustment. We can assume that the effect of this issue on the SDI calculations is not significant.
2. Since 1984, the Banques are to receive an annual subsidy from the government amounting to 6% of their loans to agriculture. In fact, this subsidy is almost never paid (except in 1986 and 1990). As of 1992, the amounts that should have been received were fully provisioned. However, based on the available financial statements, we were unable to check if the full provision had been provided yearly. It is possible that the Banques under-provisioned in some years and over-provisioned in other years, while the full amounts of the expected subsidy were included in the income every year. As a result, the posted net income may reflect this deficiency.

26. This would raise their interest rates from the 13-17% range to 24-32% p.a.

---

Generally, subsidization of the credit unions in Rwanda, Togo and Cameroon is following a commendable course. Donor subsidies are targeted at new branches and are scheduled to decline gradually. The high SDI of the Banques populaires indicates the need to raise the range of loan interest rates from 13-17 percent to 24-32 percent if immediate subsidy elimination is pursued. These rates would be above the interest rate ceiling imposed in 1991. It is unclear what impact the raising of interest rates would have on loan defaults and the demand for credit. Also, achieving economies of size through network expansion and significant reductions in loan delinquency may not be sufficient to fully eliminate subsidy dependence. The Banques populaires may not be able to reach self-sustainability without an increase in interest rates on loans, such as was eventually decided upon by the credit unions in Cameroon.

## 5. Conclusions

Outreach of these RFIs has been significant. Credit unions in Cameroon, Togo and Rwanda have achieved impressive long-term growth in the number and volume of deposits and loans.<sup>27</sup> They have extended a network that is unique in rural areas and is still growing, particularly in Rwanda and English-speaking provinces in Cameroon. The restructured Caisses mutuelles in Benin have exhibited less impressive performance, but improvements in their performance are notable. Crédit solidaire in Burkina Faso operates on a more modest scale but has been efficient in reaching the poor, especially women. SACA in Malawi has performed reasonably well in terms of reaching smallholder farmers and, until recently, achieved high rates of loan collection.

These six RFIs have serviced clients usually excluded from formal financing: the rural poor, smallholder farmers and women. They have done this by employing a variety of operating modes such as improved savings mobilization and flexibility in service delivery. In Burkina Faso, mobile banking is being effectively practiced to extend financial services to the village-level. In the credit unions of Togo, Cameroon, Rwanda and Benin, where there are generally no membership restrictions, all kinds of social groups are represented. Because clients are allowed to make small transactions, these institutions have appealed to poor people. Savings programs of these RFIs incorporate either mandatory deposit requirements (in Burkina Faso) or voluntary deposits (in Rwanda, Cameroon, and Togo)

---

27. The credit performance of the Banques populaires has been relatively modest. In contrast, their performance in collecting deposits has been exceptional.

---

where savings play a significant role in gaining access to credit. The cooperative RFIs in Togo, Cameroon, Rwanda and Benin have employed deposit collection on a regular basis with good success. Also, by being present in rural areas and providing this clientele with savings services and loans, these institutions have contributed to more efficient financial intermediation. In this regard, credit unions appear to be one channel through which part of the funds raised in the rural sector are reallocated in the economy through the financial sector.

These RFIs have operated without an efficient legal framework for credit operations. While legal systems usually allow loan foreclosure and collection of loan collateral, it has not been practical to use collateral as security against borrower nonpayment. Either the mechanisms for enforcing collateral claims are inefficient or the amount of credit is too small to merit aggressive foreclosure. Moreover, rural borrowers do not necessarily possess adequate assets, and solidarity among the population can make legal enforcement of collateral claims difficult or impossible. In the case of smallholder farmers, property rights are not always formally or individually defined. Moreover, weaknesses in the legal system have resulted in slow and costly procedures, particularly when measured against the average value of loans granted. More successful alternatives used by these RFIs have been based on reciprocity, confidence and guaranteed access to future credit, rather than tangible collateral.

The success of these RFIs has depended heavily on the emphasis and care given to institution-building. This constitutes the difference between an institution that can eventually become self-sustainable and an institution that will need permanent subsidies. The inadequate emphasis on institution-building is a common characteristic of supply-led institutions, but may also occur in RFIs that initially pursue a savings mobilization strategy. These deficiencies are variously reflected by irregularities in financial reporting, violations of internal lending policies of the institution, etc. It is also an important issue for international donors, since it is often the case that too few resources are devoted to adequate training, efficient managerial information systems, staff incentives and savings mobilization. These six institutions have made substantial efforts in that direction, and the federations in Togo and Rwanda have been instrumental in providing guidance.

Our assessment of self-sustainability indicates that there is a large degree of variability between institutions. The performance of RFIs in Burkina Faso, Benin and Malawi indicates that high rates of loan collection can be achieved in Sub-Saharan Africa. In contrast, the credit unions in Cameroon, Togo and Rwanda have accumulated high levels of arrears in their loan portfolios. By raising funds through savings collection, they have

---

---

been able to remain as independent institutions which are free from outside interference. They have also managed to keep administrative costs in check.

Several of the institutions have implemented interest rate policies which are likely to improve their sustainability. In Burkina Faso, Benin and Togo, real interest rates on loans have ranged between 19.2 and 21.1 percent. However, interest rates in Malawi, Cameroon and Rwanda have been lower, between -2.2 and 11.3 percent in real terms, as a result of direct government decisions, regulatory constraints or deliberate management choices. In countries with volatile inflation, interest rates have not been sufficiently flexible to allow RFLs to effectively manage the implied interest rate risk.

With the exception of the Banques populaires in Rwanda, we found that financial reporting and accounting practices are inadequate. In particular, data on loans in arrears are not reliable and information about provisions for loan losses is insufficient. Under such conditions, an analysis of self-sustainability is not possible.

There are numerous examples where governments, international donors and NGOs have been involved in establishing, assisting and managing RFLs. This pattern was observed to some extent in all six of the selected institutions. We found that when states and donors intervened, the intervention was often instrumental in establishing the institutions. This reinforces the argument for providing resources to RFLs during the initial stage of their development. None of the RFLs had reached maturity and self-sustainability. Clearly, public assistance in Sub-Saharan Africa should focus on institution-building, not on subsidizing lending interest rates. In the case of credit cooperatives, public assistance needs to be carefully designed so as not to weaken participation of members.

Macroeconomic conditions and political events have accounted in great part for the deterioration in performance of the institutions in Rwanda and Cameroon in recent years. Overall, these six RFLs do not appear to be severely influenced by distorted agricultural policies because they depend little and only indirectly on agriculture. This provides some evidence that the portfolios of RFLs should be appropriately diversified also to limit exposure to policy risk. The credit unions in Cameroon, Togo, Rwanda and Benin provide loans for various activities including consumption. Agricultural loans constitute only small shares of their overall loan portfolios. This is also the case in Burkina Faso where the *Crédit solidaire* primarily finances investments in activities other than crop production. Only SACA in Malawi depends exclusively on agricultural production, and SACA's lending policies are unique among these RFLs.

## 6. Recommendations

We make the following policy recommendations for improving the performance of rural

---



---

financial markets and institutions in Sub-Saharan Africa. They are distilled primarily from the findings of this study, but also from the broader body of literature on RFI's reflected in the bibliography section of this report. We consider that literature to be, in many instances, consistent with our findings in Sub-Saharan Africa.

1. When designing an RFI's mode of operations, attention should be given to macroeconomic conditions, the financial environment (including the role of informal financial institutions), and the likelihood that needed economic and financial sector reforms would be implemented in order to ensure adequate institutional performance.
2. Instead of compensating a small part of the rural sector with subsidized credit (specifically those who can obtain access to formal credit), the distortions generated by urban-biased economic policies should be removed in order to broaden the distribution of benefits within the sector and to enhance overall economic efficiency.
3. Because it is access to financial services (not cheap credit) that matters, ceilings on loan interest rates should be removed and financial institutions should be allowed to determine their rates based on market conditions and borrower characteristics. This would introduce the necessary flexibility for RFIs to adjust their interest rates in line with price level fluctuations. In that policy framework, institutions should be encouraged to voluntarily adjust interest rates to levels that will enable them to progress towards financial self-sustainability. Also, RFIs should be encouraged to control their operating costs so that the benefits of increased operating efficiency are passed on to their clientele.
4. Government intervention in the management of private RFIs should be avoided. Public financing entities should have their accounts separated from those of the government and their managements should be encouraged to implement sound banking policies. Governmental authority should be used to initiate adequate legal frameworks, prudential regulation and external auditing practices. In some countries, a clear legal status should be developed for savings and loan cooperatives.
5. Significant resources should be allocated to the long-term process of institution-building with particular emphasis on training of staff, clients and members. Donors and NGOs that intend to support the establishment and performance of RFIs should recognize the long-term nature of efforts to build up those institutions. A sporadic, inconsistent approach towards providing RFIs with assistance could be counterproductive, even though the intent is (correctly) to support this evolution towards self-sustainability. In the context of credit unions, these efforts should be made at all levels, not only at the federation level.

- 
6. Adequate accounting procedures, management information systems, internal and external auditing and financial reporting should be developed in RFLs to ensure reliable information on earnings and asset quality. If subsidies are to be given, they should be targeted to activities whose outcomes can be measured. Standard performance indicators and the SDI should be introduced as routine tools for annual assessment of institutional performance. The fact that the SDI could not be computed from available financial reports of five of the six RFLs should be regarded as an unambiguous indicator of serious inadequacies in their current accounting practices and management information systems.
  7. Capital adequacy should be a focus in building the financial and risk-bearing capacity of RFLs. Appropriate measures of capital adequacy should be used to assess RFL financial strength based on prudent, uniform capital standards and appropriate risk classifications of the asset portfolio. Basic capital adequacy measures could be computed for three of the RFLs in this study, but it is difficult to make meaningful comparisons internally with the actual lending risks they face, and externally with their peer institutions. Reliable data is frequently lacking and capital adequacy measures are not routinely computed or reported.
  8. The SDI methodology should be used to assess the self-sustainability of RFLs, to assess the justification for prevailing subsidies, and to monitor their progress toward becoming subsidy independent. It provides more meaningful information on RFL financial performance than do traditional, routinely-used financial profitability ratios.
  9. Savings mobilization should be the basis for self-sustainability and independence from governmental interference. This should be achieved by providing an array of financial instruments that are accessible to the rural population through an extended service network, and by promoting depositor confidence in the institution.
  10. Under selected circumstances group-lending is a recommended mode of credit operations. In many instances, formal credit systems cannot ensure that high rates of loan collection will occur, and foreclosure actions are often difficult and costly to enforce. Since it is difficult to guarantee the full value of a loan with borrower and co-signer savings alone when lending to poor clients, group-lending is a preferable and potentially low-cost alternative for achieving high rates of loan repayment. Group-lending schemes should be carefully designed and implemented if they are to be effective in improving loan performance.
-

---

## Bibliography

- Adams, D. and Fitchett, D., *Informal Finance in Low-Income Countries*, Westview Press, 1992.
- Adams, D.W., Donald, G. and von Pischke, J.D., "Rural Financial Markets in Developing Countries," John Hopkins University Press, 1983.
- Aeschliman, C., "Mid-term Internal Evaluation of the ADF/Fucec-Togo Rural Credit Union Viabilization project in Togo: A Case Study," World Council of Credit Unions, 1989.
- Balassa, B., "Effects of Interest Rates on Savings in Developing Countries," Policy Research Working Paper No. 56, World Bank, 1989.
- Baydas, M.M. and Cuevas, C.E., "The Demand For Funds from Rural Credit Unions in Togo," *Savings and Development*, Vol. 14, No. 4, 1990.
- Besley, T., "How do Market Failures Justify Interventions in Rural Credit Markets," Princeton University, processed, May 1993.
- Bolnick, B., "Moneylenders and Informal Financial Markets in Malawi," *World Development*, Vol. 20, No. 1, 1992.
- Bortolani, S., "Mobilisation de l'épargne et équilibre financier des Banques populaires du Rwanda," Coopération Française, 1992a.
- Bortolani, S., "Mobilisation de l'épargne et credit décentralisé au Burkina Faso," Rapport Banque Mondiale et Coopération Française, 1992b.
- Bouyer, J.B., "Le crédit brouette ou la collaboration d'une banque et d'un projet," République Rwandaise/Coopération Française, 1989.
- Braverman, A. and Guasch, J.L., "Rural Credit Markets and Institutions in Developing Countries: Lessons for Policy Analysis from Practice and Modern Theory," *World Development*, Vol. 14, No. 10/11, October/November 1986.
- Braverman, A. and Guasch, J.L., "Institutional Analysis of Credit Cooperatives," in P. Bardhan (Ed.), *The Economic Theory of Agrarian Institutions*, Oxford University Press, 1989a.
- Braverman, A. and Guasch, J.L., "Rural Credit in Developing Countries," Policy Research Working Paper No. 219, World Bank, 1989b.
- Braverman, A., Guasch, J.L., Huppi, M. and Pohlmeier, L., "Promoting Rural Cooperatives in Developing Countries," World Bank Discussion Paper No. 121, 1991.
- CamCCUL, Annual Reports, CamCCUL, various issues.



- 
- Causse, J., "Nécessité et limite de l'emploi local de l'épargne collectée localement," in Kessler and Ullmo (Eds.), *Epargne et Développement*, Economica, Paris, 1985.
- Chandavarkar, A.G., "Monetization of Developing Countries," in Coats, W. Jr. and Khatkhate, D., (Eds.), *Money and Monetary Policy in Less Developed Countries, A Survey of Issues and Evidence*, Pergamon Press, 1980.
- Chaves, R. and Gonzales-Vega, C., "The design of Successful Rural Financial Intermediaries: Evidence From Indonesia," Economics and Sociology Occasional Paper No. 2059, Ohio State University, 1993.
- Collier, P., "Contractual constraints on labour exchange in rural Kenya," *International Labour Review*, Vol. 128, No. 6, 1989.
- Cuevas, C., "Baseline Study of the Togo Credit Union Movement," Department of Agricultural Economics and Rural Sociology, Ohio State University, September 1987.
- Cuevas, C., "Savings and Loans Cooperatives in Rural Areas of Developing Countries: Recent Performance and Potential," *Savings and Development*, Vol. 12, No. 1, 1988.
- Cuevas, C., "Rural Finance Profile of Togo," in Masini, M. (Ed.), *Rural Finance Profiles in African Countries*, Vol. 1 and 2, Finafrica, Milan, 1989a.
- Cuevas, C., "Loan Transactions and Borrowing Costs in Developing Countries," *American Journal of Agricultural Economics*, Vol. 71, No. 5, December 1989b.
- Cuevas, C., "Informal Financial Intermediation in Developing Countries," processed, January 1992a.
- Cuevas, C., "Rural Finance Experiences in Sub-Saharan Africa and Latin America: A Comparative Assessment," Study on Financial Markets in Sub-Saharan Africa, World Bank, AFTAG, 1992b.
- DARUDEC (Danish Rural Development Consultants), "Rural Financial Project. Project Preparation Exercise," Government of Malawi, 1992.
- Dauban, S., "Evaluation du projet de promotion du petit crédit rural, Ouahigouya, Burkina Faso," Rapport de Mission, AGRAL Consultants International, 1991.
- De la Croix, D. and Humbert, L., "Projet de promotion du petit crédit rural, 2ème phase 1992-1995, rapport d'évaluation," CCCE, 1992.
- De Lancey, M.W., "The US Peace Corps Program for Credit Union and Cooperative Development in Cameroon, 1969-1976," *Studies in Comparative International Development*, No. 17, 92-123, Fall/Winter 1982.
- Ellsasser, K. and Diop, M., "La Banque expérimentale de Banh : une démarche de recherche-développement sur le crédit en milieu rural sahélien," CIRAD, 1990.
- Enders, C. and Kasch, B., "Some notes on the agricultural Credit system in Malawi : Case Study in the Ntcheu-Rural-Development-Project," *African Review of Money, Finance and Banking*, No. 11, 15-25, 1987.
-

- 
- Fournier, Y. and Gentil, D., "Cooperatives d'épargne et de crédit et voies alternatives au financement rural en Afrique francophone," *Notes et Etudes*, No. 18, CCCE, 1988.
- Fry, M., "Financial Instruments and Markets," in *Conferencia Internacional sobre Economia Portuguesa*, Lisbon, German Marshall Fund and Fundação Calouste Gulbenkian, Vol. II, 191-208, 1977.
- Fry, M., "The Cost of Financial Repression in Turkey," *Savings and Development*, Vol. 3, No. 3, 1977.
- Fry, M., *Money, Interest and Banking in Economic Development*, John Hopkins University Press, 1988.
- Gardner, M. J. and Mills, D. L., *Managing Financial Institutions: An Asset/Liability Approach*, Second Edition, Chicago: The Dryden Press, 1991.
- Giovannini A., "Saving and the Real Interest Rate in LDCs," *Journal of Development Economics*, No. 18, 197-217, 1985.
- Ghanem, H., "Cameroon: Policies to Mobilize Financial Savings," CPD Discussion Paper No. 1985-49, World Bank, 1985.
- GTZ, "Cameroon Agricultural Sector Review: Rural Finance," GTZ, 1988.
- Heidhues, F. and Weinschenck, G., "Rural Finance Profile of Cameroon," in Masini, M. (Ed.), *Rural Finance Profiles in African Countries*, Vol. 1 and 2, Finafica, Milan, 1989.
- Hoff, K. and Stiglitz, J., "Introduction: Imperfect Information and Rural Credit Markets - Puzzles and Policy Perspectives," *World Bank Economic Review*, Vol. 4, No. 3, September 1990.
- Hoff, K., Braverman, A., and Stiglitz, J., *The Economics of Rural Organization, Theory, Practice and Policy*, Oxford University Press, New York, 1993.
- Huppi, M. and Feder, G., "The Role of Groups and Credit Cooperatives in Rural Lending," *World Bank Research Observer*, Vol. 5, No. 2, July 1990.
- Hussi, P., Murphy, J., Lindberg, O. and Brenneman, L., "The Development of Cooperatives and Other Rural Organizations, The Role of the World Bank," World Bank Technical Paper No. 119, Africa Technical Department Series, 1993.
- International Monetary Fund, "International Financial Statistics," International Monetary Fund, July 1989.
- International Monetary Fund, "International Financial Statistics," International Monetary Fund, July 1992.
- Jaeger, W.K., "The Effects of Economic Policies on African Agriculture," World Bank Discussion Paper No. 147, 1992.
- Kessler, D. and Ullmo P.A. (Eds.), *Epargne et Développement*, Economica, Paris, 1985.
- Krueger, A., Schiff, M. and Valdes, A., *The political Economy of Agricultural Pricing Policy*, John Hopkins University Press, 1991.
-

- 
- Leite, S. and Makonnen, D., "Savings and Interest Rates in the BCEAO Countries: An Empirical Analysis," *Savings and Development*, Vol. 10, No. 3, 1986.
- L'Héritau, M.F., "L'Union des Banques populaires du Rwanda," CCCE, 1992.
- Mahon, D. and Smith, H.E., "Evaluation of Project No. 693-0220 Development of Togo Credit Union Movement," Office of AID Representative, Lome, Togo, 1982.
- Masini, M. (Ed.), "Rural Finance Profiles in African Countries," Vol. 1 and 2, Finafrica, Milan, 1989.
- Mauri, A., "The Potential for Savings and Financial Innovation in Africa," *Savings and Development*, Vol. 7, No. 4, 1983.
- McKinnon, R., *Money and Capital in Economic Development*, Brooking Institution, Washington, D.C., 1973.
- Meyer, R., Graham, D. and Cuevas, C., "A Review of the Literature on Financial Markets and Agribusiness Development in Sub-Saharan Africa: Lessons Learned and Suggestions for an Analytical Agenda," Economics and Sociology Occasional Paper No. 2008, Ohio State University, 1992.
- Miracle, M., Miracle, D. and Cohen, L., "Informal Savings Mobilization in Africa," *Economic Development and Cultural Change*, 701-724, 1980.
- Mittendorf, H.J., "Mobilization of personal savings for agricultural and rural development in Africa," *Mondes en Développement*, No. 50-51, 275-291, 1985.
- Mittendorf, H.J., "Promotion of viable rural financial systems for agricultural development," *Quarterly Journal of International Agriculture*, No. 26, 6-27, January-March 1987.
- Moody, J.C. and Fite, G.C., *The Credit Union Movement, Origins and Development, 1850-1970*, University of Nebraska Press, Lincoln, 1971.
- MUCIA/WID, "MUCIA/WID Cameroon Credit Union Development Project, Final Report," 1990.
- Nowak, M., "Nouvelles approches en matière d'épargne et de crédit rural pour l'Afrique au sud du Sahara," *Notes et Etudes*, CCCE, 1986.
- Nowak, M., "Le Crédit solidaire, ou l'expérience du transfert de l'approche de la Grameen Bank en Afrique de l'Ouest," CCCE, 1990.
- Okidegbe, N., "Malawi Rural Financial Markets : Strategic Options for Economic Development," preliminary, 1992.
- Padmanabhan, K.P., "Rural Credit, Lessons for Rural Bankers and Policy Makers," Intermediate Technology Publications, London, 1988.
- Price Waterhouse-Cdm Consultants, "Rapport de l'audit financier de l'exercice 1989/1990, Caisses Régionales et Caisses Locales de Crédit Agricole Mutuel du Bénin," Price Waterhouse-Cdm Consultants, 1991.
-

- 
- Schaefer-Kehnert, W., "Success with Group Lending in Malawi," in Adams, D.W., Graham, D.H. and von Pischke, J.D., "Rural Financial Markets in Developing Countries," John Hopkins University Press, 1983.
- Servet, J.M., "Un système alternatif d'épargne et de prêt: les tontines africaines," *Reflets et Perspectives de la Vie Economique*, No. 24, February 1985.
- de Stemper, G.A., "The Role of Credit in Development projects: the Credit Union Movement in Togo," *African review of Money, Finance and Banking*, No. 11, 27-44, 1-1987.
- Stiglitz, J., "Peer Monitoring and Credit Markets," *World Bank Economic Review*, Vol. 4, No. 3, September 1990.
- Stiglitz, J., "The Role of the State in Financial Markets," Annual Bank Conference on Development Economics, World Bank, 1993.
- Turtiainen, T. and Von Pischke, J.D., "Financing of Agricultural Cooperatives," Finance and Development, International Monetary Fund and World Bank, Vol. 19, No. 3, 18-21, September 1982.
- Union des Banques populaires du Rwanda, Rapports Annuels, 1987, 1989, 1990, 1991.
- USAID, "Microenterprise Stocktaking: The CamCCUL Experience," USAID, 1988.
- USAID, "Impact Evaluation of the Cameroon Credit Union Development Project," USAID, DAI, IDA, February 1989.
- Vogel, R., "Savings Mobilization: The Forgotten Half of Rural Finance," in Adams, D.W., Graham, D.H. and von Pischke, J.D., "Undermining Rural Development with Cheap Credit," Westview Press Inc., 1984.
- Vogel, R., "The Role of Groups, Credit Unions and Other Cooperatives in Rural Lending," World Bank, processed, 1988.
- Von Pischke, J.D., Adams, D.W., "Fungibility and the Design and Evaluation of Agricultural Credit Projects," in Von Pischke, J.D., Adams, D.W. and Graham, D.H., "Undermining Rural Development with Cheap Credit," Westview Press Inc., 1984.
- Von Pischke, J.D., Adams, D.W. and Graham, D.H., "Undermining Rural Development with Cheap Credit," Westview Press Inc., 1984.
- Von Pischke, J.D. and Rouse, J., "Selected Successful Experiences in Agricultural Credit and Rural Finance in Africa," *Savings and Development*, Vol. 7, No. 1, 1983.
- Wilmington, M., "Aspects of Moneylending in Northern Sudan," in Von Pischke, J.D., Adams, D.W. and Graham, D.H., "Undermining Rural Development with Cheap Credit," Westview Press Inc., 1984.
- World Bank, "World Development Report," World Bank, various issues.
- World Bank, "Rural Savings and Loans Rehabilitation Project," World Bank, Staff Appraisal Report, January 1990.
-

- 
- World Bank, "Rwanda Financial Sector Review," World Bank, May 1991.
- World Bank, "World Tables," World Bank, 1992a.
- World Bank, "Malawi Financial Policies for Sustainable Growth," World Bank, February 1992c.
- World Bank, "Financial Deepening in Sub-Saharan Africa: Theory and Innovations," World Bank, 1992d.
- World Bank, "Development of Rural Financial Markets in Sub-Saharan Africa," Africa Technical Department, processed, 1993a.
- World Bank, "Second Rural Savings and Loans Rehabilitation Project," World Bank, Staff Appraisal Report, June 1993b.
- World Bank, "Malawi Rural Financial Services Project," Staff Appraisal Report, May 1993c.
- World Council of Credit Unions, "Mobilization of Rural Savings Through Savings and Credit Cooperative Institutions for Investment in Local Development; Case Study : Cameroon," WOCCU, 1985.
- World Council of Credit Unions, "Report of the Institutional Analysis of the Federation des Unions Coopératives d'Epargne et de Crédit (FUCEC-Togo)," World Council of Credit Unions, 1990a.
- World Council of Credit Unions, "Report of the Institutional Analysis of the Cameroon Cooperative Credit Union League," WOCCU, 1990b.
- World Council of Credit Unions, "Report on the institutional Analysis of the Union des Banques populaires du Rwanda," World Council of Credit Unions, 1991a.
- World Council of Credit Unions and Canadian Cooperative Association, "The Need for Economic Empowerment: an Assessment of the Cameroon Credit Union Development Project," WOCCU, 1991b.
- World Council of Credit Unions, "Statistical Report," WOCCU, various issues.
- Yaron, J., "Successful Rural Finance Institutions," World Bank Discussion Paper No. 150, 1992a.
- Yaron, J., "Rural Finance in Developing Countries," Policy Research Working Paper No. 875, World Bank, 1992b.
- Yaron, J., "Assessing Development Finance Institutions, A Public Interest Analysis," World Bank Discussion Paper No. 174, 1992c.
- Yaron, J., "Note: India - Rural Finance", mimeo. 1992d.
-



---

## Abstract

*This paper reviews the performance of six rural finance institutions (RFIs) in Sub-Saharan Africa.*

*Two performance criteria are used to evaluate these RFIs - the level of outreach and the degree of self-sustainability achieved. Each of the RFIs exhibits some weaknesses according to the identified performance criteria and crucial information on their performance is often missing. However, outreach of all six RFIs has been significant.*

*Generally, the selected RFIs in Cameroon, Togo, Rwanda, Benin, Malawi and Burkina Faso have extended financial services to rural clients that are usually excluded from formal financing - smallholder farmers, woman and the poor. No single model for successful rural financial intermediation emerged from the study. Rather, these RFIs have employed a variety of operating modes to improve savings mobilization, provide credit, and increase their flexibility in service delivery.*

*Our assessment of sustainability reveals more varied performance. Loan collection rates are quite different across the institutions and there has been a build-up of arrears in Cameroon, Togo and Rwanda. Since full information is not available, it is not possible to discern the relative contributions of larger interest rate spreads versus more effective management of administrative costs towards achieving improved self-sustainability in these RFIs. The subsidy dependence index could be computed for only one of the RFIs (Banques populaires in Rwanda), since the other five RFIs had seriously inadequate financial reporting systems. This is an aspect of institution-building in the region which may provide a high pay-off to state and-or donor support. While public intervention is often needed during the establishment phase of these RFIs, it should be focussed on institution-building and not lead to subsidized interest rates on loans.*

---

## PERFORMANCES ET RENTABILITE DE SIX INSTITUTIONS FINANCIERES RURALES EN AFRIQUE SUBSAHARIENNE

### Résumé

*Les performances de six institutions financières rurales opérant en Afrique subsaharienne sont analysées selon deux types de critères: volume et qualité des services d'une part et degré de rentabilité d'autre part. Bien que leur développement ait été dans l'ensemble appréciable, elles présentent diverses faiblesses et leurs systèmes d'information sont souvent déficients.*

*En général, les institutions sélectionnées au Cameroun, au Togo, au Rwanda, au Bénin, au Malawi, et au Burkina Faso ont proposé des services bancaires à des clients qui, en milieu rural, sont le plus souvent exclus des systèmes financiers formels: les petits fermiers, les femmes et les pauvres. Aucun modèle unique n'apparaît, et les institutions utilisent des moyens variés pour collecter l'épargne, fournir des crédits et accroître la flexibilité de leurs services.*

*La rentabilité des institutions est inégale. Les taux de remboursement des prêts sont très variables et les arriérés se sont accumulés au Cameroun, au Togo et au Rwanda. En raison du manque d'information, il est difficile de savoir si une amélioration de la rentabilité passe en priorité par la mise en place de marges plus élevées sur les taux d'intérêt ou par une réduction des coûts administratifs. Un indice de dépendance vis-à-vis des subventions ne peut être calculé que pour les Banques populaires du Rwanda, car les autres institutions présentent une comptabilité déficiente. L'intervention publique, qui est souvent nécessaire durant les premières années d'existence de ces intermédiaires financiers, devrait donc se concentrer sur le développement institutionnel et non permettre le recours aux taux d'intérêt subventionnés sur les prêts. L'aide de l'Etat ou des pourvoyeurs de fonds dans cette région du monde serait alors véritablement utile.*

