



Photo: ASUDEC

From farmer to businesswoman: Ms Bohonté's small chicken enterprise brought the necessary income for, among other things, building her family's new house.

## Helping credit do its job

**Providing financial services is one of the key elements that can help farmers put their ideas into practice. Various organisations are involved in finance programmes, providing credit.**

**Many of them, however, find it difficult to operate in distant villages, and to provide these services to small-scale farmers.**

**Experience has shown that the provision of credit needs to be complemented with additional efforts – such as training on**

**how to efficiently use the money which is made available. But**

**the provision of credit can have very positive results, even if on a small scale. Some encouraging results have been seen in**

**Burkina Faso, that may work in other settings as well.**

### Salibo Some

Located in central West Africa, Burkina Faso has a population of 14 million people. It is ranked as one of the world's poorest countries, with almost three quarters of the population earning less than US\$ 2 per day. Approximately 85 percent of the population depend on agriculture and livestock production. Population growth has led to increased pressure on the land, in turn leading to soil infertility, environmental degradation and food insecurity. These issues have all had negative effects on poverty levels. Climate change is also expected to have a serious impact.

Together with various governmental agencies, many private organisations are working to improve this situation in Burkina Faso. As part of their efforts, such organisations are frequently

interested in providing financial services. These services are seen as a tool that can help farmers improve yields and outputs, while at the same time helping them put their ideas into practice – for example, in terms of crop diversification or access to new markets. Rural finance, however, faces many difficulties. Many institutions find it hard to reach distant villages. And those who do reach these villages soon find out that farmers are not always capable of using the money available in an efficient way. Because of soil constraints and unpredictable rainfall, agricultural activities cannot be easily planned, so farmers tend to use the funds available for food and health security, making repayment difficult. Without measures to ensure that loans are paid back, many compare credit to a donation, making it impossible to continue providing credit in the long run. In addition, evaluations carried out in Burkina Faso and other countries show that the selection procedures of credit beneficiaries is often questionable, or that the interest rates are simply too high.

### Loans, higher incomes and empowerment

ASUDEC, the Africa Sustainable Development Council, is a local non-profit organisation founded in 1998. At the moment we work with almost 10 000 farmers, in more than one hundred villages in the South-west, Central and Central-southern regions of the country. Our aim is to assist the local population to find better ways of doing what they do, helping them improve their wellbeing while preserving the environment. One of our strategies is to provide financial services and thus help farmers help themselves. This goes together with what we call “instrumental interventions”, or the construction of basic infrastructure and the distribution of animals, equipment and materials, and also “transformative interventions”, focusing on awareness raising and technical training. As an outsider in the community, ASUDEC starts by learning about its values and traditions, the constraints it faces and the major threats. Additionally, we start on a very small scale,

growing with time in response to the needs and willingness of the beneficiaries. This has helped us build trust and reach a larger segment of the population.

Our financial services include saving accounts and the provision of credit. As most rural areas lack these services, farmers keep the little money they have at home, running the risk that it might be stolen or lost, and contributing very little to the local economy. Our intention is to provide a service that will not only secure their money and assure food and health security, but that can also help the poor to intensify and/or diversify their income generating activities. In turn, this will contribute to empowering them further and promoting the local economy. Aiming at a higher efficiency, our credit funds are targeted at women. This discrimination is justified by the fact that (a) women are more vulnerable than men; (b) they are also more trustworthy with respect to credit reimbursement; and (c) because with women, the income generated as a result of the loan is more likely to benefit all members of the family, particularly the children.

In order to get a loan, the women of a given village are encouraged to request it as a group (and to form such a group when necessary). The application has to be approved by a special council formed in each village, which in turn transmits it to ASUDEC for final approval and funding. If the application is approved, the group is to pay an application fee of 500 CFA francs (or approximately US\$ 1), which is meant to cover the paperwork and thus goes to ASUDEC and the council. The solidarity bond between all group members is the only guarantee required. More specifically, in the advent of one member of the group not being able to pay back, the group takes full responsibility for her credit. A maximum of 15 000 francs (US\$ 30) is lent to new participants, while previous participants can request up to 50 000 francs (US\$ 100). A fixed interest rate of 10 percent is applied, half of which is to cover the management costs and the other half is shared between the women's groups (for group needs) and the council (for community expenditures).

With the support of Heifer-Netherlands, our activities started with a loan fund capital of one and a half million francs (or US\$ 3000) in 2000, reaching 33 women in only 2 groups. Eight years later we were working with 2003 women in 67 groups, in three different regions of the country. The 2003 women benefitted from loans totalling 130 million francs (almost US\$ 275 000). Group members have been using this money to start and run small businesses, including street restaurants, trading agricultural products or selling local beer. These small businesses keep them busy earning an income all day long, particularly during the 7-8 month dry season. With the income raised they buy food and medicines for their families, and they also send their children to school. In Gampela, for instance, a village about 20 km from Ouagadougou, women used to spend long days standing in the sun, separating the gravel and sand in the soil, which they would sell to buy food. The loans meant that they could start activities from which they can earn a better income, and which are also more environmentally friendly.

Perhaps more importantly, by receiving and efficiently managing their loans, many women have earned respect from their husbands, and thus feel empowered. When asked if the micro credit project was helping them, one woman made us all laugh: "This is not a question for us: in fact you should ask our husbands. Before this project, many of us used to stay at home. But when my husband is there, we are fighting all the time. Now, when I am in the house and he calls me in some disrespectful way, I just let him burn up a little bit, and then I tell him to wait. 'Can't you hold on? I am counting my money!' All of us can confirm it: our husbands

know that we are their saviours, and the heat is over in many households." Many similar stories have been recorded.

### Trying out an innovative approach

On top of the very positive results, we can also say that practically all women pay their debts: all loans have been reimbursed on time and redistributed almost immediately. However, some important weaknesses made us think we had to improve our work, to make it more efficient and sustainable. This became necessary as we experienced increasing demand for credit (and most women started asking for larger sums of money), while our own resources did not change. We noticed that the 5 percent interest rate which went back to ASUDEC was not enough to cover all our management costs, while at the same time we realised that the whole system could not be sustainable if it continued being highly dependent on foreign donors. Above all, ASUDEC had no legal authority to operate in the area of microfinance, so immediate change was necessary.

In addition to these considerations, we also felt that the implementation of our vision was incomplete. Farmers need more than money in order to truly be entrepreneurs, and many of these requirements need to be satisfied beforehand so that when credit arrives, it can be effective. A broader perspective is necessary, focusing on those aspects which can be tackled. Farmers, for example, need access to markets, but ASUDEC cannot build roads. We could, however, train farmers so that they develop marketing capacities, and we could also help them develop storing facilities and thus wait for the appropriate time to sell. We realised that, in this way, credit can be much more effective.

After extensive consideration, ASUDEC decided to create the ASUDEC Farmers' Savings and Credit Mutual (MECRA). We believe that as income raising projects help the poor to meet their basic needs, they no longer need to use the credit funds for these needs (and be unable to reimburse the loan later). MECRA is expected to form a strong and long-lasting partnership with ASUDEC, sharing both the office and the field facilities to minimise operational costs. As a result, MECRA will apply interest rates that will be lower than those applied by ordinary finance institutions. By prioritising women and farmers who have been successful with subsidised projects, MECRA will also reduce risks, and the credit funds will be used to contribute to real development instead of subsistence alone. Being a legal institution, MECRA is in a better position to raise funds for rural finance activities.

MECRA was officially registered as an independent microfinance institution in September 2008. It started to operate in 2009 with a Governing Board, a Credit Committee and an Internal Audit Committee, following official standards. Because most of the farmers adhering to MECRA are illiterate, a convention ties MECRA and ASUDEC together, engaging the latter to serve as a technical and financial partner. The collaboration between the two organisations bears important advantages: ASUDEC assists MECRA in selecting trustworthy credit applicants; orients the latter toward more interesting (and profitable) options, and also trains them in various areas, helping them make better use of the funds and of their profits.

This close collaboration is seen as critical for reducing risks. It will allow both organisations to assess their joint impacts at the family and community levels. While this concept seems to be unique in Burkina Faso, and is still in its early stages, our challenge is now to show that it works.

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