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# MADAGASCAR

## LVM (mutual hire purchase) Leasing in rural areas



Procedures and innovative products

FARM SYMPOSIUM  
4, 5 and 6 December 2007

# PRESENTATION PLAN

– CECAM Network

– Product: LVM (mutual hire purchase):

- I - DEFINITION
- II - CHARACTERISTICS
- III - TERMS
- IV - ACTIVITIES
- V - STRENGTHS
- VI - CONSTRAINTS

# MADAGASCAR

## Island in the Indian Ocean

- Surface area: 592 000 km<sup>2</sup>
- Population: 18 million inhabitants (over 75% in rural areas)
- Demographic growth: + 2.7 % (PNUD, 2001-2015)
- Economic growth: 4.7% (2006, MEFB)
- GDP: 5610 billion US\$ (2005, FMI)
- GDP by inhabitant: 309 US\$ (2005, FMI)

Share of principle activity by sector by GDP in 2006, (MEFB):

Primary	:	25%
Secondary	:	14%
Tertiary	:	61%



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- **Mutual Financial Institution, founded in 1993**
- **103 000 member families (80% in rural areas)**
- **166 Village credit cooperatives: □□□□□ / Rural community**
- **9 Regional Units: □□□□□□□□**
- **1 Inter-regional Unit: □□□□□□□□□□**
- **1 Finance centre: □□□□□□□□□□□□ □□**
- **3 savings products**
- **14 credit products**

## I- DEFINITION

LVM (mutual hire purchase) is a leasing product that allows members to acquire materials and equipment to develop their activities, usually over a period of 6 to 36 months dependent on payment of rent.

## OPERATION

CECAM, finance organisation, remains the owner of the financed goods until they have been entirely paid for by the beneficiary (possibility to recover goods in the case of unpaid debts).

## II- CHARACTERISTICS

Purpose	Monthly rate	Repayment terms	Length	Self-financing	Guarantees <i>(depending on capital)</i>
<b>Agricultural materials</b>	2.5%	Quarterly (maximum)	6 to 36 months	10%	- Bovines: 100% - Other: 50%
<b>Vehicles</b>	3%			- new: 20% - used: 30%	100%
<b>Other materials</b>	2.5%			10%	50%

### III- TERMS

#### Purchase:

- The choice of material is up the beneficiary of the loan. CECAM accepts used materials;
- The purchase is always made in the presence of the beneficiary, **a member of the Management Committee** and a CECAM technician;

#### Transfer of property to the beneficiary:

- After the last payment.

## IV- PERFORMANCE: LOANS GRANTED

*Amount in millions of Ariary*

	2005				2006				30-Sept-07			
	NUMBER		AMOUNT		NUMBER		AMOUNT		NUMBER		AMOUNT	
		%		%		%		%		%		%
LVM	2 843	8	3 824	17	2 422	7	3 364	16	1 649	5	2 280	10
GCV STOCKAGE	13 505	37	9 086	40	11 843	33	7 029	34	12 836	42	12 052	53
PRODUCTIF	15 847	44	6 216	28	18 612	52	8 405	40	13 922	45	6 505	28
SOCIAL	2 645	7	171	1	1 616	5	107	1	894	3	51	0
OTHER	1 318	4	3 244	14	1 339	4	1 947	9	1 351	4	1 947	9
<b>TOTAL</b>	<b>36 158</b>	<b>100</b>	<b>22 541</b>	<b>83</b>	<b>35 832</b>	<b>100</b>	<b>20 852</b>	<b>84</b>	<b>30 652</b>	<b>100</b>	<b>22 835</b>	<b>100</b>

*1 euro = 2 500 Ariary*



- LVM, PRODUCTIF and GCV (cooperative village granary), are very important: 92% (number of beneficiaries) and 90% (amount), in 2006;
- The combination of these three products plus the Social credit are very popular with borrower-members\* and encourage the development of entrepreneurialism

\* Study on the impact of the CECAM network, [www.intercecam.mg](http://www.intercecam.mg)

## For prosperous households,

- **LVM is considered as a “PROJECT ACCELERATOR”**
- **LVM is crucial in the investment strategies of households, especially for multiple assets\*.**
- **LVM is a factor in accumulating assets.**

\* *Study on the impact of the CECAM network, [www.intercecam.mg](http://www.intercecam.mg)*

## For medium income households: **LVM is a primary accumulation motor\***

- LVM makes activities possible that would not be otherwise achievable without CECAM: lack of alternative access to finance, riskier saving;
- Usually, these households use GCV + PRO during several years, then an LVM
- Repayment can be a drain on treasuries but the combination of activities gives security.

\* *Study on the impact of the CECAM network, [www.intercecam.mg](http://www.intercecam.mg)*

# Goods financed by LVM

## 2006 Breakdown

*Amount in millions of Ariary*

<b>LVM</b>	<b>Number</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Draught oxen and dairy cows	847	35%	574	17%
Carts	390	16%	126	4%
Husker- Straw remover – Grinder169	89	4%	281	8%
Rotivators	169	7%	545	16%
<b>SUB-TOTAL « AGRICULTURAL »</b>	<b>1 495</b>	<b>62%</b>	<b>1 526</b>	<b>45%</b>
Other vehicles	102	4%	632	19%
Other	825	34%	1 206	36%
<b>SUB-TOTAL « OTHER »</b>	<b>927</b>	<b>38%</b>	<b>1 838</b>	<b>55%</b>
<b>TOTAL</b>	<b>2 422</b>	<b>100%</b>	<b>3 364</b>	<b>100%</b>

*(1 euro = 2 500 Ariary)*

## V- STRENGTHS

- Rare opportunity to access funding for agricultural material in rural areas.
- Length: medium term.
- Strengthening means of production.
- Decreasing the precariousness of households

## VI- CONSTRAINTS

- Self-financing.
- Guarantees.
- Cost.

## CONCLUSION

- Innovative product, LVM is mainly developed at the level of the CECAM network. It is strengthened through its combination with other flagship products: GCV, Productif and Social
- Although prosperous and middle income households are the main users of LVM, poor households also have access.